



## Impact of Global Layoffs

**For Prelims:** Global Layoffs, Economic Recession, GDP, Employment, Russia-Ukraine Conflict, Covid-19.

**For Mains:** Impact of Global Layoffs on India.

### Why in News?

Recently, many of U.S. multinational companies has announced massive layoffs, which already crossed **60,000 in September and October 2022.**

- A layoff is the **temporary or permanent termination of employment** by an employer for reasons unrelated to the employee's performance.

### What are the Reasons for Layoffs?

- **Cost Cutting:**
  - With talks of global recession, technology companies, typically seen as big spenders, **are now resorting to cost-cutting.**
  - Cost-cutting is one of the main reasons for lay off because the companies are not making enough **profits to cover their expenses** or because they need **substantial extra cash to** address paying off debt.
    - Indian Startups have also faced this trouble with media reports saying that more than **ten thousand employees have been laid off by startups** in mainly edtech and ecommerce sectors in 2022.
- **Fear of Economic Recession:**
  - These companies are apprehensive of potential [economic recession](#), with [inflation soaring in most parts of the world.](#)
  - The [International Monetary Fund \(IMF\)](#) has cited forecasts for global [GDP \(Gross Domestic Product\)](#) growth in both 2022 and 2023 as gloomy, given the pandemic and ongoing [Russia-Ukraine Conflict.](#)
- **Decreasing Dependence on Online Platform:**
  - During the pandemic, there **was a surge in demand as people were in lockdown and they were spending** a lot of time on the internet. The overall consumption saw an upsurge following which the companies went to increase their output to meet the market requirements.
  - In order to meet the demands, many **tech companies went on a hiring spree anticipating the boom to continue** even after the pandemic.
  - However, as the curbs were eased and people started stepping out of their homes, consumption fell, resulting in heavy losses to these big tech companies. Some of these resources were hired at a higher cost because of the sudden upsurge in demand.

### What is the Outlook for the Indian Companies?

- The Indian IT services firms are **among the largest employers in the organised sector** and

- any global economic trend is bound to have **an impact on their growth projections.**
- Managements look at headcount numbers critically when they want to cut costs and protect profit margins as they are accountable to investors.
  - Though there isn't a discernible trend yet, **there are a few signs which may signal what is to be expected in the next few months.**
    - All top companies except Wipro saw a rise in revenue and net profit. Wipro's net profit **slid 9% from a year earlier for the quarter ended September.**
  - The attrition rates, or the number of employees per 100 quitting on their own, of the top two firms, TCS and Infosys, show that these rates are still high, which means that there is enough business for the sector for competitors to draw away employees with promise of higher salaries.
  - News of layoffs in the **Indian start-up front is predominantly in EDtech, or the educational technology front.**

## What can be the Impact of Layoffs?

- **Loss to the Workers:**
  - Layoffs can be damaging psychologically as well as financially to the affected workers as well as their families, communities, colleagues, and other businesses.
- **Loss of Prospects:**
  - Indian workers who have been laid-off have a big worry. If they are unable to find a new employer within 60 days, they are **faced with the prospect of leaving the U.S. and re-entering later.**
  - To make matters worse, the prospects of these Indian workers back home are also weak.
  - Most Indian IT companies have **frozen or slowed down hiring as recessionary fears** in the U.S. and high inflation in Europe have kept demand low.
- **Decreases Customer Prospect**
  - When a company lays off its employees it sends out a message to customers that it is undergoing some sort of crisis.
- **Emotional Distress:**
  - The person who is laid off suffers the most distress, but remaining employees suffer emotionally as well. The productivity level of employees who work in fear is likely to go down.

## What happened in India during earlier Global Recessions?

- During earlier global recessions, while companies seldom publicly announced layoffs, they would all **look to ease out staff who were lower down the performance ladder.**
- Companies that were in a particularly bad patch cut bench strength. Then again, if a person was about a month old on the bench (i.e., without projects), he or she may have **been asked to sign up for some training courses** etc.
- If the professional spent more than three months on the bench and had not landed a project, the system **itself would ease him or her out.**
- What happened in the aftermath of the 2008 recession that stretched well beyond 2-3 years is that **companies would start slowing down headcount addition.**
- Planned additions from campus would decline or offers **would be made but absorption into the company could well take 9-12 months** from the time of offer.

## Way Forward

- Indian startups grew at a faster pace than its neighboring regions. Just because a startup had touched a sky-high valuation did not immediately mean its employees' jobs were insured.
- Voluntary retirement programs can enable individuals to transition to retirement smoothly.

[Source: TH](#)

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