One month into 2009, job cuts by corporations have become a major news story around the world. In one week alone, almost 100,000 jobs were eliminated. These included 20,000 layoffs at NEC, 19,500 at Pfizer, 15,000 at Metro, 10,000 at Boeing and 8,000 at Sprint Nextel. Thousands more from Starbucks, Ericsson, Kodak, Philips, Microsoft, Caterpillar, Home Depot and others added to the total. According to an estimate by outplacement firm Challenger, Gray & Christmas, layoffs in January totaled 241,749, up 45% from December and the highest monthly number in seven years. In response to this situation, U.S. President Barack Obama pushed even harder for passage of an $819 billion economic stimulus plan. "The most important number for this recovery plan is how many jobs it produces," said Rahm Emanuel, Obama's chief of staff, "not how many votes it gets."

Unfortunately, more cuts are probably on the way, according to economists watching the situation. "From what we are seeing, the fourth quarter was breathtakingly weak for companies,' says Christopher Portman, a senior economist at Oxford Economics, which builds macroeconomic models for banks and governments around the world. "In terms of the global economy, 2009 will be the worst year since World War II and even since the 1930s. I don't know that the job losses we have seen so far show the full picture. Unemployment does lag [behind other indicators of economic performance], and even after we hit the bottom of this downturn, the job loss numbers will continue to rise.'

Beyond the individual trauma of lost jobs and wages amid a global economic crisis, the cuts are notable for their depth and breadth. Since September 2008, major companies world-wide have cut some half a million jobs -- and these numbers exclude the financial services firms that have been at the heart of the crisis. Almost every sector has been affected -- autos, airlines, consumer products, retail, chemicals, technology and pharmaceuticals, among others. For some companies, the layoffs are more of a cyclical experience, but others are going through layoffs for the first time. For many firms that have announced or will announce cuts, it is a dramatic turn of events given that they were doing relatively well just a short time ago. It is this all-encompassing aspect that has fueled talk among analysts and strategic planners of a fundamental change in business -- a restructuring of the global economic system.

But is that really the case? Experts at Wharton and elsewhere argue that what companies are experiencing now is neither an indication of a transformation nor a blanket prognosis for the rest of the economy. Instead, they say, the job announcements highlight operational weaknesses and strategic issues that have been lurking under the surface for years. In the past, these were effectively concealed in the same way that weakness and instability in the capital system were hidden by the apparent boom in asset values. Now, the downturn has brought them to the forefront.

What's Going On?

Peter Cappelli (http://www.wharton.upenn.edu/faculty/cappelli.html), director of the Center for Human Resources at Wharton, says the problem is that the crisis is forcing many managers to focus only on the short term. "At least in the U.S., companies don't seem to be thinking about much beside the immediate impact. To some extent, this could be because of the pressure to manage operations to conform to quarterly performance expectations. It could also result from the fact that the negative effects of layoffs -- such as the long-term costs associated with hiring again in upturns; delays in getting performance back up; and morale [issues] -- are hard to track. And it also may result from the implicit assumption that the workforce is really a just-in-time resource -- that it will be easy to bring in new workers when business picks up.'

Nevertheless, the track record of companies that have gone through job cuts is terrible. 'Virtually all studies show a decline in performance associated with layoffs,' Cappelli notes. 'But the caveat is that layoffs are a proxy for the fact that companies which decide to do them are already in trouble. It is hard to sort the effect of the layoffs, per se, from the proxy effect.'

This means that, for many of the companies which have announced or will soon announce layoffs, the current economic crisis is not necessarily the cause of their problems; it is simply what has exposed them. As intuitive as that argument may be, experts say that managers within the companies as well as analysts, investors and policymakers outside the business face the risk of putting too much, or even all, of the blame on the current economic crisis, rather than looking at deeper causes.

Jay Anand, professor of management and human resources at Ohio State University, says
Half-a-Million Job Cuts: Is There a Strategy Behind the Layoffs? - Knowledge@Wh...  

Challenging times like the present make differences between companies stand out in bold relief. "Looking at the strategic implications, not every company is feeling the impact [of the crisis] in the same way. Some companies have better buffers in place, better capabilities to withstand the pressures, better demand or loyalty for their products, cost structures that are a little more flexible, supply chains that are a little more adaptable, and so on."

Experts note that job cuts should be recognized as an indication of the change that is happening -- even accelerating -- within some industries. This is clearly the case in financial services and autos, for instance, but it is happening in technology as well. It's part of the reason why some of the IT industry's biggest names like Microsoft, Hewlett-Packard, EMC, Dell, SAP and others have been hit. Each of these companies, in some way, is facing a transition point in its evolution, forcing changes in its business models.

At Microsoft, for instance, its first-ever significant cuts are tied to the sharp decline in demand for traditional PCs, which have long been the company's core market. The company recently announced some 5,000 layoffs. Signs of the shift in Microsoft's market in recent years had already forced the company to begin looking for ways to further diversify its business -- as seen most notably in its failed bid for Yahoo last year. Now Microsoft must accelerate those efforts. According to company reports and analysts, this could happen in at least two ways: First, even as Microsoft sheds jobs in traditional businesses in order to cut costs, it plans to add up to 3,000 jobs in areas such as search, online services and cloud computing. The number of people hired for search will depend on what some analysts describe as a potential "wild card" -- the Yahoo factor. They believe that with Carol Bartz at the helm at Yahoo (http://knowledge.wharton.upenn.edu/article.cfm?articleid=2142), a future deal with Microsoft could still happen. In any event, the layoffs -- and hiring plans -- at Microsoft are driven by these strategic considerations rather than just the weak economy.

Similarly, at Caterpillar, the world's largest maker of construction and mining machines, the massive restructuring was primarily attributed to high operating costs in its manufacturing operations. These costs became unsustainable as capacity utilization plunged due to low demand. As a result, Caterpillar announced it would cut 20,000 jobs since the sales volume for construction equipment -- hit hard by the housing market's collapse -- has shrunk by 25%.

For both Microsoft and Caterpillar, and many other companies, the sudden drop in demand exposed inefficiencies in their operations.

As these examples reveal, the problems leading up to announcements being made now have been in motion for a long time. Job cuts, in fact, are trailing indicators, not just for the economy as a whole but also for the specific businesses involved. It takes time for them to be announced and hit the headlines because they are usually among the last steps companies want to take in response to challenging conditions. They also are extremely complex issues to handle, forcing management to make extremely difficult choices.

**Looking Ahead**

Now comes the hard part. For all the companies that have announced job cuts, operations will become significantly harder to manage in the months ahead, as they work through the process of notifying workers, supporting them and, not the least, finding ways to compensate for staffing changes through existing or new business processes. All these efforts will take a significant amount of management bandwidth, and at the same time many important projects will potentially be either understaffed or delayed. And all of this comes at a time when companies can least afford distraction.

Are any companies or management teams notably "good" at handling situations like this? Wharton's Cappelli says the key is to consider and pursue alternative arrangements (http://knowledge.wharton.upenn.edu/article.cfm?articleid=2106) first. It is difficult to believe that any company is really good at this process if they aren't also doing some other creative arrangements for cutting labor costs (wage cuts, job sharing, sabbaticals, mandatory vacations, etc.), he notes. "The reason is, it would be remarkable if, after careful analysis, the only option that made sense across a company was layoffs.'

Ohio State's Anand says it is critical, in the end, to maintain perspective. Specifically, he suggests that companies focus on the current crisis but also be prepared for a rebound. "When everybody agrees that times are wonderful, you need to hold on. Similarly, when everybody says times are awful, you should think things through in a balanced way. There will be regression to a mean in time, and it is very important that firms are prepared for that. Even though managers need to act now to respond to the situation, it is important to look ahead and keep open options for growth. You do not want to overreact in a way that causes a substantive reduction in competencies, and in turn fundamentally impinge on your future.'

The turn could come sooner than some expect. Portman at Oxford Economics points out that while previous recessions developed more slowly, and in a less global fashion, businesses are now seeing a fast transition of weakness from the U.S. to the rest of the world. But there is an upside, he says. "This crisis has come about very rapidly, but the converse is that the recovery in time will also come about much quicker than we have seen in the past. Today, the gloom and doom is being extrapolated without taking into account the dynamics that are present. The downturn shouldn't last as long as some people are expecting."
"We have received quite a big setback, and we will continue to be hampered over the next year or so," Portman continues. "But when things can start to move forward again, I don't see any reason to expect huge changes in how business operates -- I don't quite see how that will transpire. Businesses will adapt, and we are already seeing that. We are seeing improved labor productivity, improved competitiveness, and that will underpin and come to the fore when things pick up again. In two years, we will see things improving, and business will be able to focus again on growth."

The caveat, of course, is deciding which companies will be able to do so. The answers here are unclear. Without a doubt, firms that have approached layoffs -- or alternative solutions to preserving their talent during difficult economic times -- will be better positioned for the recovery than those that have adopted a knee-jerk approach to job cuts as a way of slashing costs for short-term gains. "Today, some companies are being forced to let go of their competencies, while others have not had to cut into any muscle," says Anand. "When the economy improves again, we will start to see the difference."

Additional Reading

Planned layoffs in January hit seven-year high (http://www.reuters.com/article/ousiv/idUSTRE51320Y20090204)
Reuters

Reuters on layoffs since September 1 2008 (http://uk.reuters.com/article/marketsNewsUS/idUKLR23807120090127)
Reuters

As layoffs spread, innovative alternatives may soften the blow (http://knowledge.wharton.upenn.edu/article.cfm?articleid=2106)
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