

Why layoffs may be just what the tech sector needs

The 2020s have been a strange time for tech companies and this current course correction could prove to be needed bitter medicine

Ng Wei-ji

Recent layoffs by technology giants worldwide may seem unsettling yet the reality is this wave is only getting started.

The most disconcerting thing is how rapidly hiring sentiments have soured. It was barely a year ago when local behemoths Sea and Grab announced aggressive hiring plans and barely nine months since recruitment firms in Singapore reported the outlook for job seekers, fuelled by the technology and media sectors, was the best in over a decade.

Yet now we face a growing chain of layoffs around the world and in Singapore. What started with layoffs in the smaller start-ups of Shopify and Snap have now spread to titans like Meta, Amazon and Salesforce.

The picture at home seems equally grim. In September, nine months after raising record investments, Shopee, a subsidiary of Sea, announced a round of layoffs, the first of three in 2022 thus far. The warning signs were there when the e-commerce company had rescinded zones of offers at its Singapore headquarters in June. Staff from its food delivery arm ShopeeFood, online payments ShopeePay, human resources and teams in Mexico, Argentina and Chile were let go.

And just this past week, Indonesian behemoth GoTo

announced a 12 per cent reduction of its workforce of 1,300 to curb costs.

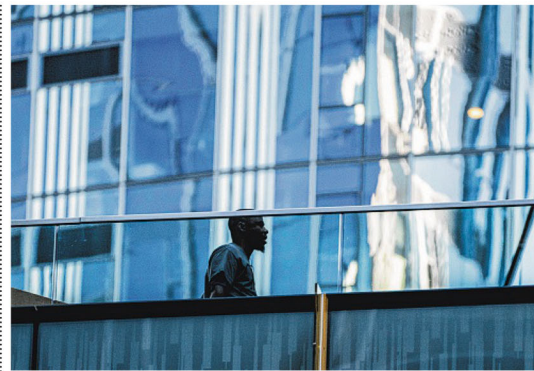
We can expect more bad news from the tech sector with the collapse of FTX. Already, crypto-related layoffs have begun as established companies scrap their Web3 initiatives. The situation is so dire, analysts are warning of an impending collapse given the systemic risks.

STRANGE TIMES FOR THE TECH SECTOR

The 2020s have been strange times for the tech sector. As people stayed home and spent more money online during the coronavirus pandemic, demand for e-commerce, logistics and IT platforms surged and, coupled with the Web3 hype, sparked an exuberance which enticed investors to throw cheap money at big, sexy ideas.

The bubble grew to epic proportions and powered hiring. Web3, hailed as the “next big thing”, saw a boom in technology hiring, with posts on crypto and virtual estate-related jobs growing by almost four times on LinkedIn from 2020 to 2021.

Global venture dollars saw a steady increase, peaking out at almost US\$200 billion (S\$276 billion) in the fourth quarter of 2021. Web3 builders, crypto start-ups and blockchain developers alone raised a huge US\$30 billion chunk of this pie in 2021.



The headquarters of Amazon.com in Seattle, Washington. What started with layoffs in the smaller start-ups of Shopify and Snap have now spread to tech titans such as Meta, Amazon and Salesforce. PHOTO: AFP

Mind-boggling sums were thrown around in Singapore too. Sea raised US\$6 billion in equity and convertible notes at the end of 2021. Jungle Ventures, one of the most prominent VC firms in the region, closed an incredible US\$600 million in Fund IV just six months ago.

And in this money mania, as tech firms scrambled to gain first-mover advantage, acquire customers and push up their valuations in the short run, investors scrambled to grab onto tech firms that could deliver massive returns.

In this grow-at-all-cost push, sometimes the focus on due diligence and corporate governance got lost in the mayhem, and fraud went undetected, as was the case with FTX. Sometimes, caught up in the waft of a hiring fever, young tech

companies forget they still don't have a pathway to profitability yet continue to dump billions into newfangled disruptive segments thinking this will prop up market valuations if they can convince naive investors to focus on the far-away potential of market dominance.

And sometimes, the world economy decides to go into a tailspin, with Russia's invasion of Ukraine worsening global supply chain shocks at the same time that the US Federal Reserve decided to raise interest rates. Suddenly money was no longer cheap, and it was better to pull away from risky investment in stocks and venture capital into government bonds.

Crunchbase, an industry observer, quipped: “The big global venture pullback we were all expecting is truly here.” Global

venture funding almost halved this past quarter.

A NECESSARY CORRECTION

Still, this overdue shake-up could be the needed course correction that sets the tech sector on a stronger, more sustainable path. For platform companies, the current turmoil has underscored the importance of building companies on strong fundamentals rather than the assumption of limitless demand and pursuit of short-term returns. This is a reminder of the need for intellectual honesty in growth projections and corporate governance controls.

Tech sectors like e-commerce, media and IT that are embattled but have otherwise strong fundamentals and a verified value proposition are due for a reckoning that will lead to the survival of the fittest. Newer fields like Web3 with shakier foundations and dubious value propositions may be in for a reckoning.

We are also likely to see stronger regulatory oversight, less speculative investing and a fresh dose of scepticism before venture capitalists and retail investors throw good money after bad.

Meanwhile, the high interest rates will impose healthy, financial discipline on all firms across the broader economy, incentivising them to focus on profitability and phasing out unsustainable business models that relied on market liquidity and risky moonshots. Sea CEO Forrest Li was handsomely rewarded by shareholders when he emphasised Sea's new focus on profitability over the next 12 to 18

months – with a jump of over 40 per cent in its stock price.

For those still despairing, let's not forget that this wave of technological innovation was only enabled after a winnowing of the weakest firms during the dotcom bubble burst. Most of the underlying infrastructure laid before the dotcom bubble burst laid the foundations for modern telecommunications – the expansion of broadband capacities and the mass adoption of the Internet.

A focus on fundamentals reveals yet another silver lining in these grey, gathering skies.

The shortage of tech talent has been cited as the key obstacle preventing the broader economy from embracing digitalisation. In these stormy times, companies in sectors that are seeing a strong outlook – whether banks because of rising interest rates, or tourism with revenge travel in full swing – now have a golden opportunity. OCBC Bank has nearly doubled its tech team.

The chillier investor sentiments notwithstanding, the outlook for tech companies and the macroeconomic fundamentals of the digital economy here remain strong, with significant headroom for growth. South-east Asia has an emerging digital economy projected to see record growth, with recent research released by Temasek, Google and Bain finding one in five Internet users in the region to have come online only three years ago.

A reality check was always needed to calm the sugar rush. The only trouble is the human collateral – white-collar workers in the supposedly fastest-growing sector, with the largest pay and greatest transferability of skills being given the boot and often unceremoniously too.

All this is cold comfort for the laid-off employee facing serious career repercussions.

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