CHAPTER NO 5

CURRENT SLOWDOWN AND ITS IMPACT ON H.R. POLICIES IN IT INDUSTRY
Infosys co-chairman Mr. Nandan Nilkeni stated that Indian I.T. sector's compounded growth rate has slumped to 20% from 30% due to global meltdown. I.T sector is also going through unprecedented crises. The sector which grew at a phenomenal pace from mere $50 million in 1991 to over $40 billion currently is severely hampered by economic downturn. It has also impacted job buoyancy. To come out of the slump he advocated concerted efforts and greater investment on improving human capital.

Companies are looking at ways to realign their workforce. Given the declining number of clients, some companies have begun evaluating employees in a manner that would enable it to justify any possible manpower restructuring, including layoff. The companies are implementing procedures that reassess skill sets of existing software programmers and developers. The purpose of conducting such tests on existing employees raises doubts as such tests are conducted on freshers at the time of recruitment.

Of late various I.T. companies have taken steps to downsize owing to the sluggish demand. One company offered an option to 10% of its employees to either accept a salary cut or resign. Under such gloomy scenario, companies are keen to retain only productive employees.
H.R Directors are playing delicate and decisive role. They feel that companies should have a strong appraisal cycle and rely on performance based assessment. According to them this is best way of judging employees as it is done at regular intervals. Restructuring of the company to adopt to current economic environment could make some jobs redundant. With business situation being challenging now and clients’ demands increasing, the performance thresholds are bound to go up.

Currently software companies are delaying the recruitment process at the entry level by about 12 to 15 months to ensure that they do not over hire and needlessly increase their bench strength in an environment where project pipelines are under pressure. Till now, they hired engineering graduates a year before they passed out, but now they have decided to undertake recruitment only when the batch is about to pass out.

NASSCOM has written to 200 colleges, asking them to delay placement procedures from the final year. In many cases it has led to joining dates of the students getting staggered and deferred. This became necessary, as when project flow becomes slow companies still have to honor the offers given 16 to 18 months earlier and increase their bench costs. This will ensure better cost for the company and better hiring strategies.
The following chart shows the year wise growth in manpower in millions till the year 2007. (Source-NASSCOM). It may be noted that these figures include manpower employed in both IT and ITES.

<table>
<thead>
<tr>
<th>Year</th>
<th>Manpower in millions</th>
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</thead>
<tbody>
<tr>
<td>2000</td>
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</tr>
<tr>
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<td>2005</td>
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</tr>
<tr>
<td>2006</td>
<td>1.29</td>
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<td>2007</td>
<td>1.63</td>
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Table No. 5 Manpower in IT(NASSCOM)

However 2007 onwards records of the well known placement companies are indicating the reduced recruitment in the industry. According to India largest placement company "Teanlease," the average number of positions that company needed to fill up for its clients daily has come down from 9000 in the year 2007 to 5000 in 2008. Even EMA partner's international, a global H.R firm, has also
seen 50% to 60% decline in I.T and Information Technology Enabled Services (ITES) recruitments.

U.S. slowdown has impacted mid value IT and ITES companies which have cut down on hiring. Interestingly companies are now quoting slowdown as an excuse for lower salaries and job cuts. Employers are placing more focus on increasing efficiency and productivity of employees to remain competitive in the market rather than on increasing head count.

Organisations are using slow down as an excuse to make long awaited corrections in lofty salaries, and surplus hands. Salary deferrals are looming large. This situation will lead to weeding out of non performers. Numbers will have no meaning, only quality people will be retained.

As reported by reputed papers and journals the IBM in India was the first company to layoff seven hundred employees in India in early 2008. Around same time TCS had also taken same action. The company had earlier cut down its incentives to employees. Hiring for additional bench strength is being deferred as companies resort to just in time approach. Some companies are doing away with bench altogether. Others are delaying joining dates of selected candidates by more than six months to a year, thus creating a virtual bench for themselves.
Due to global slowdown, I.T sector is cutting manpower costs. The firms like Infosys, Wipro, cognizant, TCs have eased their stringent exit policies. They are also increasing work hours to get more out of the existing pool of employees. Many companies have asked its employees to strictly adhere to the duty hours. Some companies have stipulated 9.5 hours a day. Some are mooting five and half day week with no approvals given to new requests for assets required by employees.

A couple of organisations have become very strict on availability of the resource during working hours. Time sheets need to be approved by the managers have been mandatory at the end of the day. A few I.T companies are also advocating a ‘Zero Tolerance’ policy where an employee error leading to the highest level of breakdown in operations leads to employee being asked to leave, without a second chance, which was not the case earlier. Thus all existing employees are working under tremendous tension of possible job loss at any time.

Thus the attrition which was a nightmare till last year is no more so. Now reducing the number has become an issue. Normal attrition rate in I.T. which was 20 to 30% till year 2007 now has come down to a single digit.

According to H.R. executives, letting go of existing employees, who want to move faster, not only results in favorable cost impact, but
also ensures no negative impact on the morale of remaining employees. If there was ever a need to monitor efficiency and productivity, then this is the right time. Many I.T companies are cross training employees to quickly deploy them in new processes as and when the need arises.

Many companies have internally frozen the recruitment. The slow down started becoming evident since the beginning of January 2008, but the real impact was clear by the last quarter of 2008.

According to some experts salaries in I.T. industry were growing at 14 to 18% per annum for last many years. It created disparity in the industry and created lack of talent in other sectors. On the other hand it put pressure on industry itself. So a moderation in growth of salaries which is taking place now, may not be welcomed by employees, but is good for I.T industry and economy which will help India maintain its competitive edge. This will also help I.T companies to save their margins in the wake of rising rupee and increasing taxes.

Appreciation of rupee also forced the companies to slash the number of recruitments and at the same time posed a challenge of retaining the best of the talented employees. Even top companies reduced the wage bill. It forced the companies to reduce their employee related expenditure. The rise in rupee value was
challenging the I.T sector to have a re look at their H.R policies and practices and utilise it optimally to withstand the testing times.

More and more I.T companies are using bonds to deter fresher from jumping jobs. They are insisting on bonds from engineering graduates to ensure that investment made in training is safe, both in terms of money and time. Companies believe that freshers need at least a year to understand how the company works and if they fit into and if not they leave. This is why the necessity of bond. Earlier bonds were asked ensuring retention, and to check that once trained, employees do not join rival organisation. Now purpose is to ensure their full use after training.

Some companies ask to sign a contract, where employees do not have to pay any thing up front like bond, but it requires them to complete a year at work and if they quit before that, they have to pay companies few hundred rupees for every hour they clock in. On an average employees clock in nine hours every day.

Big companies of Indian I.T services set the tempo for sluggish hiring in 2007 when a strong rupee completely shook their bearings. Top six companies hired less as compared to the year 2006 – 07. Key reason was U.S market recession resulting in uncertainties on I.T spending and off shoring coupled with strong rupee.

For years, the pressure on top IT companies to recruit in India was going up. If they hired 100 people one year, they could safety
assume that they will have to hire 125 to 150 people next year. But in 2007 the scenario changed. None of the companies have been very enthusiastic on hiring fronts. It is evident from the fact that many engineering colleges are facing the pinch as far as campus recruitment is concerned. In top colleges campus offers have come down by almost 20%. In some middle level institution companies have not visited at all.

The observers attribute this scenario to appreciating rupee, sub prime crises in western financial markets, recession in U.S and as a result new focus by IT companies on optimum utilisation and efficiency of resources to preserve margins. The result is that I.T companies, instead of increasing fresh hires and struggling for minimizing attrition are now steeping up measures to leverage the existing ones.

HR managers for many years were under constant pressure on hiring, attracting and retaining the people. But now they will have to focus on maximum utilisation, efficiency, ways of reducing the number of employees on bench, and device safe and innovative ways of weeding out non performers.

Rupee Appreciation has also direct impact on H.R. management in Indian I.T industry. The Indian IT and ITES industry appear to be trailing due to impact of rupee appreciation against dollar. Even major IT companies are grappling with appreciating
rupee affecting adversely on their profitability. Same is the case with small and medium I.T firms. They are finding it hard to retain employees.

Since 1992, the time when Indian I.T sector started gaining prominence globally, the rupee to dollar graph had mostly shown only positive trend. The rupee rose from 25 to a dollar in 1992 to a 49 to a dollar in 2002. It made easy for the sector to report 25% plus year on year growth in revenues. This trend saw a flip over when the Indian economy started to strengthen in the past few years and simultaneously rupee started appreciating gradually since the year 2002. But that did not impact the earnings of the I.T companies much because, the appreciation was slow and by raising their billing rates while keeping their costs under check, Indian I.T companies managed the uptrend show. The first six months of 2007 and 2008 have been a nightmare for India’s dollar and other foreign exchange earners. Ever since the beginning of 2009 the rupee has appreciated by an unprecedented 9% against the dollar, making it worth 13% more than what it was a year ago. This means that dollars, Indian companies earned are fetching fewer rupees back home. The Indian software sector on an average earns more than 60% of its revenue in the U.S dollars mostly from Europe. Analysts say that every 1% appreciation in the rupee against the dollar can impact earnings before interest and tax between 3% to 5%. The local I.T companies
are considered globally competitive due to low price and high quality service, which helps the local firms grabbing deals away from their multinational counterparts. But now the global competitors of the Indian I.T companies are striking back. In the first quarter of 2007 due to rupee appreciation top four companies reported a slowest growth rate in revenue.

Infosys found, for first time in many years, an appreciating rupee had a 35% direct impact on its operating margins. Wipro's operating margins were hit by 15%, but Indian I.T global firms like IBM, Accenture, and EDS have not been impacted by the rupee rise as much given that they have only the fifth or less of their workforce in India.

Wages are one of the most significant cost components of an I.T company. Indian software industry is also reeling from higher wages as they fight to hire and retain talent, visa costs are also rising for employees sent abroad to work on site at client offices. Surveys suggest that I.T wages have been increasing by more than 15% a year for the past few years. The I.T companies are increasingly aware of the fact that, it is not easy any more to pass these costs to the clients. Now as orders have gone down, many companies have started calling back their employees from abroad.

Domestically many companies have started reducing the various facilities being offered to employees. To improve the
utilization of available talent, existing employees are being put constantly under pressure to perform better. Salary corrections are being done by companies as an advantage of low cost due to low level of salaries in India as compared to those prevailing in the west is no more available. Companies are reducing the idle manpower. Earlier they use to maintain a large talent pool.

**IMPACT OF CURRENT U.S. SLOWDOWN ON I.T. INDUSTRY IN INDIA**

The coming months will be quite challenging for the $40-billion IT services and BPO industry. The US financial market is undergoing a downturn, the dollar is on a dive, higher taxes and salaries are eroding margins and clients are reluctant to negotiate on higher price. All these factors will make life challenging for the IT companies, which have been used to fast growth and expansion over the past several years.

A general feeling amongst the IT industry is that growth may slowdown but will not stop altogether. Another argument is that there will be greater outsourcing and more deals. It visualizes a consolidation in vendor base as companies move towards financial restructuring and look towards cutting costs in the medium term. Critical outsourcing work like applications, maintenance and
picture management will continue. But as things subside we expect greater outsourcing.

While exchange rates are again expected to remain volatile and hurting margins in the IT industry domestically, companies are expected to move or expand operations in tier-II and tier-III cities. Migrating to smaller towns may help companies to fight rising salaries and reduce the impact of rising taxes and the fading away of the STPI clause next year.

More focus on domestic market will be seen and salary growth will mostly taper down to 10 – 12% per annum from 18% last year. The growth story may slow down a bit for the IT industry this year. Improved efficiency, less dependency on the dollar and services across geographies may still save their margins inward. But clearly, the days of 40 – 45% growth in top lines