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# IMPACT OF GLOBAL FINANCIAL CRISIS ON EMPLOYMENT IN IT INDUSTRY AND EMPLOYMENT MULTIPLIER

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## Abstract

*The Indian economy looked to be relatively insulated from the global financial crisis that started in August 2007 when the 'sub-prime mortgage' crisis first surfaced in the US. In fact the RBI was raising interest rates until July 2008 with the view to cooling the growth rate and contain inflationary pressures. But as the financial meltdown, morphed in to a global economic downturn with the collapse of Lehman Brothers on 23 September 2008, the impact on the Indian economy was almost immediate. Credit flows suddenly dried-up and, overnight, money market interest rate spiked to above 20 percent and remained high for the next month. It is, perhaps, judicious to assume that the impacts of the global economic downturn, the first in the center of global capitalism since the Great Depression, on the Indian economy are still unfolding. The severity and suddenness of the crisis can be judged from the IMF's forecast for the global economy. For the first time in 60 years, the IMF is now forecasting a global recession with negative growth for world GDP in 2009-10. The IMF has revised its forecasts downwards thrice since July 2008, and it is not yet certain that this will be the last revision. The WTO has predicted that world trade, which has virtually collapsed in the second half of 2008 is likely to decline by as much as nine percent in 2009-10. We have already seen exports from world's major exporters, like Germany, Japan and China, plummeting by more than 35 percent in the last quarter of 2008. The sharp decline in economic activity is despite the large stimulus, estimated at more than USD3 trillion, that OECD economies have put in place. Yet the bad news does not stop. To conclude, total employment by top-10 IT services firms has slightly decreased in the first half of 2009 compared with 2008, but definitely not as strongly as in 2002, where employment dropped by up to 13%. In the first half of 2009, top-10 IT services firm employed more than 638 000 people, which is almost 4 000 employees less than in 2008 (-1% of total workforce). Compared to 2007, however, employment figure still show a 4% growth. Accenture, Cap Gemini, and AtoS Origin, who together account for more than half of total employment in 2008 among top-10 IT service companies, have significantly reduced the number of their employees in the first half of 2009 (Accenture: -9 000, -5%; Cap Gemini: -2 000, -2%; AtoS Origin: -1 500, -3%). Meanwhile, some IT services firms such as Affiliated Computer Services and Computer Sciences Corporation continued hiring in the first half of 2009, preventing a deeper decrease in employment.*

## Introduction

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## Employment Trend In The It Sector In The Period Of Post Global Financial Crisis (Restricted To 80 Global It Firms)

The IT service industry has been able to maintain growth throughout most of 2008 with demands for IT and Business Process Outsourcing (ITO/BPO) holding as executives continue to focus on reducing costs via (offshore) outsourcing. In the beginning of 2009, however, quarterly revenues of the top-10 services firms started to fall, partly due to small and short-term IT projects (with short amortisation periods) being favoured over high-value and long-term IT investments and Total Contract Value (TCV) falling in 2009 compared to 2008 (OECD, 2009d). Total employment by top-10 IT services firms has slightly decreased in the first half of 2009 compared with 2008, but definitely not as strongly as in 2002, where employment dropped by up to 13%. In the first half of 2009, top-10 IT services firm employed more than 638 000 people, which is almost 4 000 employees less than in 2008 (-1% of total workforce). Compared to 2007, however, employment figure still show a 4% growth. Accenture, Cap Gemini, and Atos Origin, who together account for more than half of total employment in 2008 among top-10 IT service companies, have significantly reduced the number of their employees in the first half of 2009 (Accenture: -9 000, -5%; Cap Gemini: -2 000, -2%; Atos Origin: -1 500, -3%). Meanwhile, some IT services firms such as Affiliated Computer Services and Computer Sciences Corporation continued hiring in the first half of 2009, preventing a deeper decrease in employment (Affiliated Computer Services: +4 000 employees, +6%; Computer Sciences Corporation: +3 000, +3%). Until now, no additional big layoffs have been announced by top-10 IT services firms, suggesting that employment will stay at almost the current level until the end of 2009. While not laying off employees, IT services firms

such as Cap Gemini have announced slower hiring for 2009. This is also the case for top Indian IT services firms such as Tata Consultancy Services (TCS) and Infosys, which despite the crisis still expect to grow, albeit in single digit.

1. The Total Contract Value (TCV) is the potential revenue associated with the outsourcing contract and estimated at the start of the contract.

### Offshore Outsourcing And Ict Employment

As is the case for all costs, the economic crisis has put IT services costs under pressure. This may benefit outsourcing due to increased internal cost-cutting and perceived benefits from more flexible external sourcing of IT and Business Process (BP) services. In terms of total IT budgets, forward looking surveys undertaken in 2008 for the year 2009 showed that many IT executives planned to increase their IT budget in 2009 but some were already planning to cut budgets as they had done in 2008. Recent quarterly data on the outsourcing market however indicate that, despite the number of outsourcing transactions still increasing, revenue growth through IT and BP outsourcing will probably decline in 2009, due to falling Total Contract Values (TCV) (OECD, 2009d). Contrary to the general trend, the Asia Pacific region is performing very well with TCV in the first half of 2009, increasing by more than 150% over the first half of 2008, although from a low base. Against this background, Indian firms providing outsourcing services have remained relatively optimistic as they change their service product mix to adapt to changing market demands. They are still increasing their number of employees, although recruitment is slowing. Tata Consultancy Services (TCS), for instance, employed almost 142 000 people in the first quarter of 2009. This is a year-on-year increase of 21%. Recruitments already started to slow in the beginning of 2008, when new hiring

**Table-2**  
Software sector – output multiplier and employment multiplier

State	Output Multiplier	Employment Multiplier
Delhi	1.41	2.35
Chandigarh	1.92	1.49
Maharashtra	3.22	0.32
Andhra	1.15	3.87
Karnataka	1.45	0.23
Kerala	1.64	2.56
Tamil Nadu	1.46	0.67
Punjab	1.11	2.27
Haryana	1.62	2
Rajasthan	1.42	5.4
Uttar	1.31	1.43
West	1.41	2.18
Orissa	1.38	4.34
Madhya	1.84	5.45
Gujarat	2.25	1.3

The Output Multiplier for the software sector varies from 1.11 to 3.22 including the unitary impact of the software sector. The Employment Multiplier for the software industry is in the range of 0.23 to 5.45 man-years per lakh of output at 2001-02 prices. In developing States like Orissa, Madhya Pradesh, Rajasthan, etc., the Employment Multiplier is high thus indicating the existence of low technical applications and high involvement of skilled labour in ITES. The “horizontal” diffusion level of ICT in these developing States would be far higher than the developed States where the Output Multiplier is high indicating higher “vertical” diffusion and the Employment Multiplier is low. In developed States like Maharashtra, Gujarat, etc., the vertical linkages are higher due to the use of high technical input. Thus, IT plays a unique role in both technically advanced as well as developing States.

To arrive at the ICT sector's Composite Output and Employment Multipliers, the weighted average of the Output Multiplier of the hardware and software sectors in key States was calculated. The weights being the ratio of national output of the hardware and the software sectors. For ICT as a whole, the Output Multiplier is 2.3, viz Rs 2.3 lakh

State	Output Multiplier	Employment Multiplier
Delhi	3.17	0.1
Maharashtra	2.71	0.36
Andhra	2.16	0.57
Karnataka	2.52	0.09
Kerala	2.67	1.46
Tamil Nadu	2.12	4.1
Haryana	2.84	0.24
Rajasthan	2.77	0.23
Uttar Pradesh	2.19	0.06
West Bengal	2.4	0.39
Gujarat	2.42	0.31

**TABLE-3**  
Hardware Sector –Output Multiplier and Employment Multiplier

increase in output of the economy for every Rs one lakh increase in output of the sector under consideration including the unitary impact of this sector. Similarly, ICT creates employment of 0.36 man-years for every Rs 1 lakh of output of the sector. For the software sector alone, the Output Multiplier is 2.2 and the Employment Multiplier is 0.38. For the hardware sector, the Output and Employment Multipliers are 2.5 and 0.18 respectively. In other words, increased output of one lakh in the software sector creates an additional employment of 0.38 man years. Similarly, an increase of one lakh of output of the hardware sector creates an employment of 0.18 man years. The sectors that exhibit strong backward-linkages with other sectors of the economy are presumed to have a higher Output Multiplier. Sectors having an Output Multiplier of two or more may be treated as key sectors for economic growth. The software and hardware sectors which have higher than average Output Multiplier (contrary to the popular perception that these sectors don't have strong backward linkages) may be eye-openers for India's policy planners. The increase in software and hardware sector outputs does have a significant Output Multiplier effect and should, therefore, be encouraged.

Thus, it shows that ICT can make leap-frogging possible. It does not accentuate differences but encourages economic