

Lay-Offs in the Global Information Technology Sector and Its Impact on the Indian Economy

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Abstract

The Indian service sector has been proven as the most crucial sector in the Indian economy as it contributes around 55% of the Indian GDP. This sector is quite diverse as it includes industries such as information technology, tourism, banking, healthcare, education, insurance, financial services, and others. The information technology industry has played a key role in revolutionizing our service sector. IT giants like Infosys, HCL, TCS, Accenture, Wipro, Cognizant, and others are the largest providers of employment opportunities along with becoming the catalyst behind the rapid growth of the Indian economy. These companies are the backbone of many other companies in India as technological solutions are being used by many production and service sector companies. However, in recent years, the IT industry has failed to meet expectations as many employees are losing their jobs due to layoffs in many IT companies. Generally, decisions regarding lay-offs are taken for strategic and economic reasons but this time, some unavoidable reasons are forcing companies to cut down the size of their workforce to retain their healthy positions.

This study is descriptive and qualitative which is based on secondary data. However, this paper is an endeavour to look into the reasons behind huge layoffs in the IT industry. Demonstration of available data is done through tables, bar diagrams, and pie charts. This research work is also intended to analyse the impact of such lay-offs on the Indian economy. After analysis, this research finds that the explanation of poor performance or incompatibility given by these IT companies behind these lay-offs is not completely true because the actual reasons are: excessive hiring during the boom phase of the post-pandemic period and forthcoming recession in the global economy. Lastly, this paper also provides some suggestions to restrain the situations of mass lay-offs and the trap of global recession.

Keywords: Indian service sector, IT giants, lay-offs, recession

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Introduction

The IT sector accounts for 9.3% of India's GDP and 56% of the global outsourcing market. India software exporters garner above \$100 billion in revenue, and employ above 41 lakh people through direct jobs, with more than 1.2 Cr. indirect jobs and a market capitalization of nearly \$350 billion. Several factors contribute to the expansion of the Indian IT industry. First, a technological revolution that began with Y2K, or the year 2000. Second, an increasing number of STEM graduates who provide a potential workforce for this sector. Thirdly, initiatives of the government which helped in the development of tech. cities like Bengaluru, Hyderabad, Chennai, Delhi etc., and tier-2 cities e.g. Indore, Mysore are also contributing to it. Fourthly, the BPO (Business Process Outsourcing)/ Outsourcing / Consultancy Model provided by Indian technology companies is a major reason for its growth. Recently, we all have seen mass layoffs worldwide which inculcates top information technology MNCs of India and foreign. India is emerging as an attraction point for digital talent employing more than 5 million workforces in the information technology sector. About 33 percent of IT employees are skilled in digital technologies and solutions. The talent reservoir is added annually with 1.6 million potential employees along with witnessing an annual growth CAGR of around 25 percent which shows the crucial role in our economic growth. This sector also gives opportunities for

further skill development i.e. reskilling as well as upskilling. The Indian IT industry has re-skilled around 2 lakh 80 thousand employees in the financial year 2022. The Indian IT sector also promotes gender diversity as it employs above 1.8 million female employees constituting around 36 percent of the IT workforce. It is one of the largest private-sector employment providers for women in our Indian economy. In the global scenario, more than 9 lakh 50 thousand employees of Indian origin work in the United States as software engineers and researchers. These Indian tech employees are a major portion of the 4.4 million employees of the US economy. An increase of around 85 percent in the US workforce IT industry during the period of FY 2003 to 2022.

As we talk about layoffs, it is visible on both firstly, to the employees who must lose their employment and secondly, on the organization. On the one hand, it may positively affect the profit position and functioning of the company but on the other hand, there is loss of trust and goodwill of the company. Organizational layoffs are adopted for economic purposes like to boost productivity, attaining economies in production, improve the overall competitiveness of the company and this measure is often seen as the easy way to recover a company from its loss-making position. The announcement of layoffs causes a huge disappointment among those people who are going to be directly impacted by this decision. Some companies are allowed to work in pre-pandemic ways of working. Employees are adopting hybrid work schedules by using technology in their work and some employees are adopting work-from-home full-time if they have this option. On the other hand, the normal conditions of the world after the pandemic has decreased the demand for services of technology as they are willing to spend their time in purchasing, traveling, and attending sporting events and concerts along with other outdoor activities. Such drop in demand of technological usage and solutions has forced the need of new workers in this sector.

Literature Review

Gibbons & Katz (1991), Fryer, et al. (2009) and Muhammed (2023) define layoff as a short-term or permanent suspension of employment by the policy makers or the management of the organization. In simple words, with or without notice employees are suspended or terminated from their jobs by the employer or managing body of any organization. Layoffs are resorted due to some unavoidable reasons like recession, shortage of raw materials, lack of funds or liquidity etc. and this is not related with any errors done by employees of the company. Savitha (2023) defines layoffs in terms of temporary or permanent suspension of employment of an employee or a group of employees by a company normally for economic purposes. Layoff reasons include a variety of factors e.g. downward movement of sales, measures to reduce costs, due to merger or reorganization etc.

Mujtaba & Senathip (2020) remarks that the term layoff has so many synonyms used for the same meaning like reduction of the workforce, downsizing or rightsizing of the workforce, termination, separation, firing, reengineering or restructuring of the workforce and so on when the relationship with a member or large number of members of an organization comes to an end. Anand (2022) gives an example of the Meta layoff of Himanshu, who has completed his graduation degree from India, specifically IIT Kharagpur. He had to leave the organization in just two days after his relocation to Canada to join his new job with Meta. It becomes important to mention that not only the Product-based organizations are being affected by this recent crisis of recession but major Indian top service-based companies are also facing the impact as well. Top Indian IT organizations have reduced the

size of their workforce after the pandemic of 2019 and these companies are resorting this way once again. Reddy (2018) remarks that organizations may reduce the size of employees to cut the cost of production or to control expenses during a time period of financial hardship. Ramlall (2014) & Shetty (2022) recommended in their research that with the up-gradation of technology, companies may opt to automate various functions of the organization or outsource such functions to other companies which may lead to layoffs in such companies.

Thaker (2023) depicts that from the early decade of the 1990s, the IT sector has evolved as an aspirational field for the middle class of Indian society. However, the latest turn is going away from the expectations of the many people working in this industry. We came to know through the findings of the Naukri Job Speak Report (2023), there has been a downfall of around 25% in recruitment of the IT sector employees in comparison to last year. In the third Quarter of 2022, the top four Indian IT giants have increased their workforce by a net total of 1,940 people and this is the lowest addition in the previous eight quarters. Staffing service provider Xpheno has published a report quoting that the IT industry has had a near about 50% reduction in active volumes of their workforce in recent years.

Madki (2021) remarks that the management body of companies sometimes thinks that a reduction in workforce size is adopted during difficult economic times or during a phase of performance below than normal expectations but in reality, many business organizations are adopting in a strategic way to enjoy the benefits of a minimal cost of production and to have a competitive edge of cost. Avornu, Wang, Solomon, & Nyedu (2021) describes that the usage of technology has gone up considerably during the peak time of Covid-19 as people became habitual of online functioning. IT companies have witnessed record-high earnings as a result of the shifting of most of the activities in online mode which also sparked a record-breaking hiring in this sector to meet the upsurge in demand of services. Helter (2023) states the findings of a report that the size of employees at Meta almost doubled in two years. Meta estimated in March 2020 of having 48,268 employees and it crossed the limit of 80,000 in September 2022 but the company has shown its decision to shorten the size of its workforce by 11,000 employees in November 2022.

Aggarwal & Dogra (2022) mention the fact that it becomes difficult for a country to remain separate from the conflict in an interconnected global economy. Inflation is visible due to crises at the international level like the wars between countries disrupting the worldwide supply and distribution channels. Now, the conflict between Russia and Ukraine is also one of the reasons behind the hardest damage to industries including the information technology (IT) industry. This war has continued the conditions of recession which started during the Covid-19 pandemic. Flanagan (2005) asserts that the impact of layoffs in the IT industry could be massive. The probable consequences of such layoffs are separation from talented employees, negative effects on the innovative approach of employees, and future growth of the company as well as the industry. There may be a wrong impact among potential candidates and investors of the company regarding the future of the industry.

Objectives of the Study

This study has the following objectives-

- To gather information regarding the recent trend of lay-offs in the IT industry.
- To analyse reasons behind mass lay-offs of the information technology industry.

- To look into the impact of such lay-offs on the Indian economy.

Hypothesis of the Study

This study formulates hypothesis-

H₀- The current recession in the world economy is not associated with mass lay-offs in the Information Technology industry.

H₁- The current recession in the world economy is associated with mass lay-offs in the Information Technology industry.

Research Methodology

This research is qualitative and descriptive. Secondary data has been used in this study and presentation is done through tables, bar diagrams, and pie charts. This year of 2023 has witnessed a dark phase for employees of the IT industry as huge layoffs are done by major IT giants like Microsoft, Yahoo, Facebook, Accenture, Amazon, and others. One of the major setbacks is visible in Google as it has cut down around six percent i.e. nearly 12000 members of its workforce. Dell has announced to lay off its 6,650 employees that’s nearly 5% of the total organizational manpower. Lay-offs in other IT giants is shown in a Table 1.

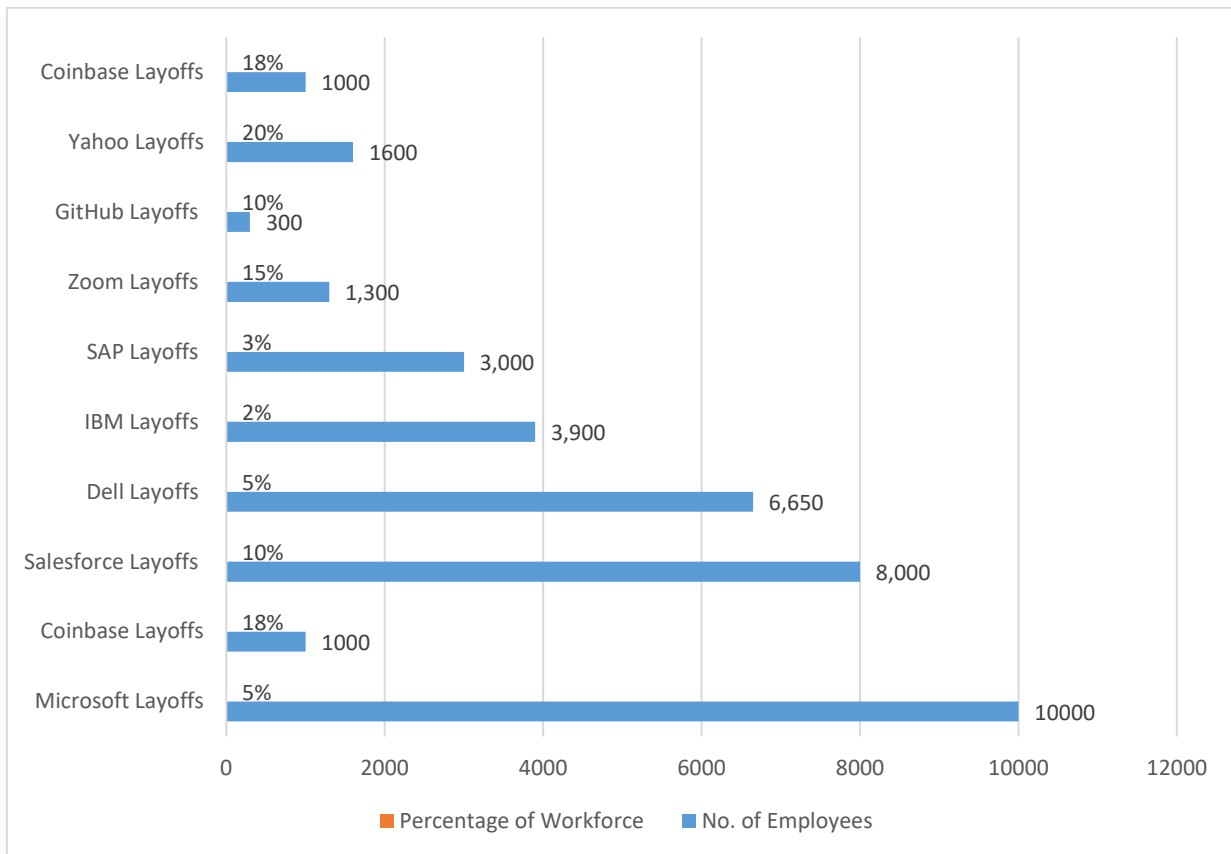
Table 1: Lay-offs by Major IT Companies in the Year 2023

Name of the Company	No. of Employees laid-off	Percentage of Lay-offs
Microsoft Layoffs	10000	5%
Amazon Layoffs	10000	3%
Salesforce Layoffs	8,000	10%
IBM Layoffs	3,900	2%
SAP Layoffs	3,000	3%
Zoom Layoffs	1,300	15%
GitHub Layoffs	300	10%
Yahoo Layoffs	1600	20%
Coinbase Layoffs	1000	18%

Source: Created by the researchers

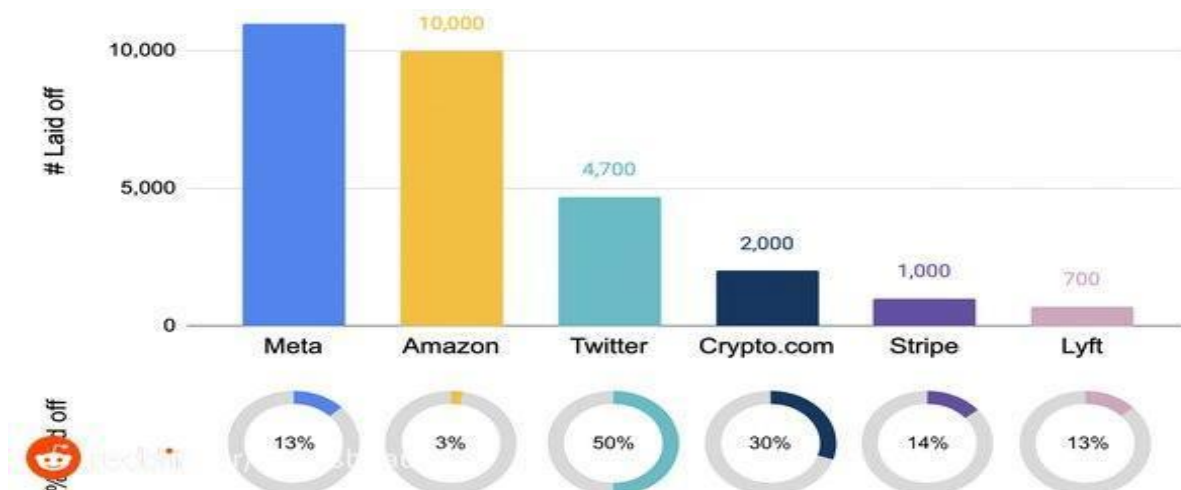
As we see Meta has laid off 11 thousand employees but this is not true only for other IT companies like Byju’s, Twitter, Amazon, Netflix etc. adopted the same path. 10 thousand employees by Amazon, 3400 people by Twitter are removed and Netflix also laid off 4% of its workforce. Accenture, which laid off its 6% of employees and Cognizant also did the same in India and told the basis of background checking or employee verification but the timing of this attrition creates doubts in our mind over this logic. Start-ups are also facing funding issues and slow growth. The USA and even the whole world is facing technological layoffs. Reasons for such layoffs are broadly classified in two parts i.e. micro and macro reasons.

Figure 1: Lay-offs by Major IT Companies in Year 2023



Source: Created by the researchers

Figure 2: Recent lay-offs in Major IT companies

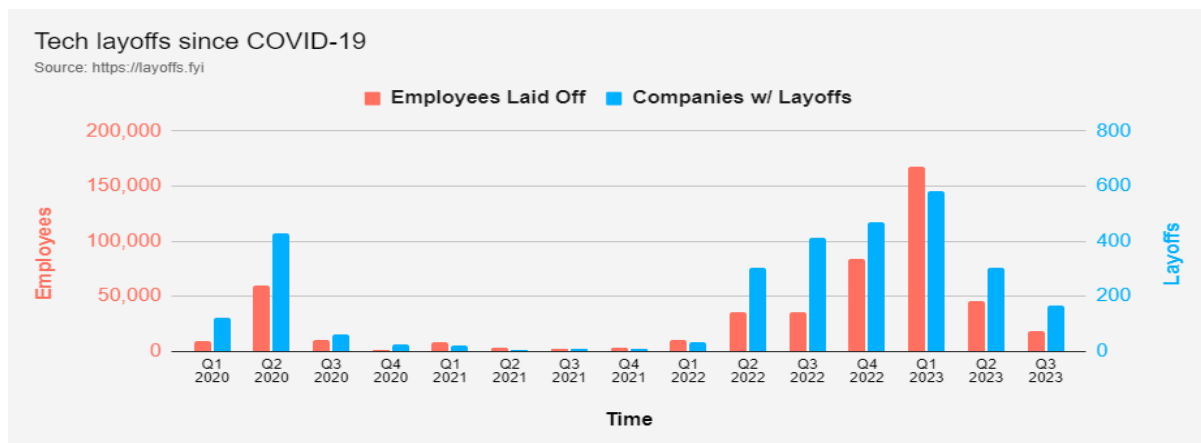


Source: https://www.reddit.com/r/dataisbeautiful/comments/yxlp1b/oc_layoffs_in_the_tech_industry_over_the_last/?rdt=51001 compiled by Roger Lee

Micro reasons include the reckless hiring of employees in previous years. During the lockdown, IT-related companies have seen exponential growth due to more purchases and consumption of products of tech companies along with increment in funding as well as advertisement revenue in this period.

As a result, more hiring is done by IT companies but when life returns to normality after COVID-19, ‘over-hiring’ is exposed and layoffs happen. For example, Facebook was renamed as Meta in Oct 2020 and it saw a growth rate of 55.6% at its peak level. Pattern analysis presented a positive picture and became the ground for high hiring even from the gig economy but when this hope proved wrong, high hiring translated into high layoffs.

Figure 3: Quarters-wise presentation of Lay-offs



Source: <https://layoffs.fyi/> compiled by Roger Lee

Macro reasons include the Russia-Ukraine War which is a geo-political turmoil damaging the normal business environment, breaking the supply chain, creating an energy crisis and causing inflation. The tightened monetary policy of the US Federal Bank is another reason for current inflation in global markets. Other geo-political tensions like unilateral trade sanctions imposed by NATO countries on Russia, border disputes and internal protests against several governments like Iran, China and Myanmar etc. are other reasons for shoring prices or inflation. Rising prices become a cause of shrinkage in demand and increase the cost of production. In reaction, companies implement the tactics to cut the cost of production and operations and a most easy way is giving termination to a certain percentage of their employees. Reduction in global demand due to inflation and lack of purchasing power due to huge layoffs initiate a vicious cycle of low demand and low production i.e. recession. Technically, recession is the continuous negative growth rate of an economy in two consecutive quarters. Hence, the forthcoming recession is the biggest challenge for the companies of IT sector and other sectors and it is also playing a pivotal role in such layoffs.

Impact on the Indian Economy

Due to globalization, a domino effect appears in the world as interdependency has increased among economies over the time. For example, Tata Consultancy Group (TCS) is an India-based company but only nearly 5% of its revenue comes from India and Infosys earns only 2.9% of its income from the Indian economy. It means a major chunk of their income comes from exports to the USA and EU. On the other hand, some economists argue that this is not going to happen because of the tech. industry has better prospects in the future. The Indian IT sector has the benefit of growing demand as it was \$81.89 billion in 2021 and it increased to \$ 101.8 billion in 2022. Along with this, the global footprints

of these companies, competitive advantages due to cheap labour and policy support from the Indian government are other reasons for positive signals for Indian tech companies.

As far as impact of these layoffs is concerned there are two opinions over it. Some economists are arguing that India will see the impact of this recession and Indian IT companies will be forced to cut their cost through layoffs. Excess dependency on the global market, Indian companies will surely face the rollover effect of this recession. The Indian IT sector has started shrinking its recruitments as in Q1, near about 52,842 employees recruited whereas in Q2, only 28,836 employees were hired. As we think about layoffs then the information technology industry is the most affected sector in comparison to other sectors of the economy. The skills of the Indian workforce is upgrading with the technological growth in the IT sector. Changes in skill sets of the Indian workforce is necessary to cope up with the dynamic nature of this industry.

In recent years, layoffs in the IT industry have been a common phenomenon in the global context. Such cut-downs in manpower produce more problems in a country's economy on a macro level like the decline in demands and probable recession along with risks at the micro level like regulatory actions on companies for huge lay-offs, negative returns in terms of revenue, loss of goodwill, creating headline risks and others. Recent layoffs have shown a cyclic effect on our economy as the recession is causing it and it is also leading towards recession that's why this is more destructive than usual layoffs as the number of layoffs in this industry is continuously increasing with time. Increasing layoffs will also hamper the further growth of the economy due to a fall in income of the people and a reduction in demands of the economy. However, the downward movement of economic growth is the main challenge that is contributing to the grieving problem of unemployment in the IT industry of our country. The chain effect of job losses and recession will deteriorate the situation in the future and there will be needed government interventions to bring back the normality of the economy. It includes improving the country's infrastructure, adopting modern technologies, and transforming the education system towards vocation and skill orientation because the scarcity of skilled employees will hinder the path of reverting to the upward movement of the industry as well as the economy. Transformation of the education system in the form of skill-based vocational qualifications is necessary to ensure available job-fits in this highly competitive sector which yields capability to many young graduates to get job opportunities since they have adequate knowledge and skills. In this regard, allocating enough funds to generate resources to provide the required level of education and skills is necessary to find the right job placements.

Conclusion, Limitations, and Recommendations of the Study

The technology industry had experienced rapid growth during the pandemic and now while the rest of the labour market is growing, they have had exceptional experience of not having such growth. This is due to recession, inflation, and a mismatch between expected growth patterns and actual growth of businesses in the IT sector. 'Over-expectation' in this sector and forthcoming recession looks like the 'Dot Com Burst' recession of 2003. It caused the loss of nearly 1 lakh 20 thousand jobs in India. Thus, the reasons behind such lay-offs are also related to such irrational recruitment during the boom condition in the post-pandemic period as well as the forthcoming recession is visible at the global level. India is failing to produce big giants in the field of IT sector. In this regard, the following points can be considered- firstly, the Indian IT sector is facing the problem of 'cyber coolies' (e.g.

employees of consultancy model) rather than cyber developers. Secondly, India needed to control its 'brain drain'. Thirdly, there is a need to promote innovation and entrepreneurship in India. Fourthly, employability in STEM graduates is important. Fifth, the market size in India must be increased concerning other markets to bring independence from global economies.

This study has some limitations as this research paper is entirely based on secondary data. This research is also qualitative and a theoretical study is conducted to look into the reasons for mass lay-offs in the IT sector and its impact on the Indian economy. Further, there may be many reasons behind huge lay-offs in the global IT industry but a few of these are covered in this research paper. Lastly, this study is limited to only the information technology sector. Therefore, some measures can be taken to overcome these limitations and improve the findings of future research on this topic. Firstly, primary data collected from various methods could be used to support the outcomes of this research. Secondly, quantitative tools of analysis can be used to find out the causes of mass lay-offs in the IT industry at the global level. Lastly, this study can be extended to other sectors of the economy other than the Information Technology industry. Hence, this situation could be studied in future research to widen its scope.

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