THE HINDU BusinessLine
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Cracking the code

The rest of India Inc should learn a few lessons from IT majors on how to navigate business challenges

Latest hiring numbers from India's IT services sector offer glimmers of hope in a gloomy economy. A *BusinessLine* analysis based on the latest quarterly results shows that the Big Three of Indian IT services added 28,157 employees on a net basis in the latest July-September quarter. This represents a 59 per cent improvement over their new hires in the preceding April-June quarter, and an over threefold jump from the 8,000-odd employee additions they reported in January-March 2019. Even as other export-oriented sectors in India, from textiles to engineering, have been bemoaning the challenges posed by US-China trade wars, an uncertain Brexit and currency volatility, Indian IT majors have remained quite upbeat about their demand outlook on the back of recent deal wins, traction for their digital offerings and the opportunities opened up by their newly reskilled workforce.

Barely three years have elapsed since industry commentators were penning obituaries to the Indian IT services sector, citing looming disruptions to the offshore delivery model, the automation threat to its bread-and-butter application development services and the lack of skills in its legacy workforce to bag new-age digital projects that used cloud computing, artificial intelligence or machine learning. But three years on, it is quite clear that Indian IT firms have proved those naysayers wrong by sharply pivoting their business models to vanquish these challenges. Responding to the anti-outsourcing wave and pressure on billing rates, these companies embraced automation, squeezed out higher productivity from their existing workforce and tweaked their offshore-onsite mix, while bidding for lower-margin Digital India projects. They reinvested their savings from automation into reskilling of their mammoth workforce on a mission mode too. By FY19, the sector featured six lakh digitally-skilled employees with many firms managing to retrain well over half their workforce. Aided by tactical buyouts of niche innovator firms, the sector had managed to successfully pitch for and win digital deals totting up to $33 billion, a fourth of its export revenues, by FY19. All this is not to say that the sector faces smooth sailing from now on. With a high likelihood of a global recession and slowing BFSI spends, its revenue growth this year may fall short of the double digits which used to be the norm five years ago. But these are short-term hiccups and the ability of the sector to navigate a global recession is no longer in question.

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The Indian IT sector's ability to look inward to reinvent itself in line with the changing business environment is worthy of emulation by the rest of India Inc too. The captains of India Inc — who have been incessantly lobbying the government for GST rate cuts, personal income tax cuts, import protection *et al* — must take their cues from their software peers to cuts costs, eke out higher productivity and sacrifice some of their hefty profit margins to drum up flagging demand for their products and services, instead of constantly looking to external props to tackle the downturn.

The coming disruption in India's job market

The new Labour and Social Security codes will fundamentally alter the nature of employment

R SRINIVASAN

ON THE OTHER HAND

There is a difference between growth and size. India continues to be one of the fastest growing countries in the world, but it has some way to go before its economy catches up in sheer size with the biggies. Take California, for instance. The state is one of the largest in the US, but is eight times smaller than India in land area and has just 3 per cent of India's population. Its GDP, however, at a little over $3 trillion, is actually bigger than India's GDP of around $2.96 trillion.

But there is one area where India is playing catch-up with California. Surprisingly, it is not technology — where hundreds of thousands of clever, highly-skilled Indian Americans have helped California's 'Silicon Valley' become the unquestioned technology capital of the world — but in the area of labour.

Labour laws, to be precise. Last month, California Governor Gavin Newsom signed Assembly Bill 5 into law, which will force companies like Uber and Lyft to reclassify their gig workers as employees, and extend benefits of labour protection like minimum wages, overtime and social security cover. The law redefines who can be classified as a contract worker. From January 1, 2020, Uber's army of drivers can no longer be considered independent contractors, since the job they do — driving vehicles for hire — falls within the "normal course" of Uber's business.

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India is proposing something similar. It has already passed the Code on Wages, 2019, which amalgamates four separate laws — the Payment of Wages Act, 1936; the Minimum Wages Act, 1948; the Payment of Bonus Act, 1965; and the Equal Remuneration Act, 1976 — into a single law which codifies the powers of the Centre, which can make wage-related decisions for specified industries such as railways, mines and oil fields, etc, while States can set wage levels for other industries. The Code also proposes a uniform floor wage across the country, below which industry/state-specific minimum wages cannot fall.

Addressing the gig economy

Now, a draft Code on Social Security (currently in its third iteration) which proposes to merge as many as eight laws covering social security benefits of workers in different industries with a uniform law. This is actually a long-delayed reform — the Modi government promised, but did not take up labour reforms during its first stint — and will bring a few of India's many complex and outdated laws somewhat up to date.

But what has set India Inc — particularly India's new, but booming technology-driven start-ups — buzzing is a proposal which will effectively do what California's Assembly Bill 5 has done: convert India's millions of gig workers into "employees" and force gig-worker-based companies like Swiggy and Zomato and Ola and Uber to recognise the millions of their "independent contractors" as workers and extend social security benefits like PF and ESI to them.

Now this is huge. The ramifications extend far beyond just a handful of tech unicorns like Zomato and Ola. Staffing solutions provider Teamlease estimates that as much as 56 per cent of all new jobs will be created in "sharing/gig economy". Those calls you get pitching insurance policies or credit cards or time-share holidays are not being made by people whom the companies they are working for will classify as their 'employees'. They are temporary staff, hired for short durations to meet specific business objectives. From mall salesgirls to food delivery agents to software coders, they are all part of India's booming gig economy, even if they themselves do not recognise that they are part of it.

Formalising work The new law will mandate companies to recognise their independent contractors as employees

To a food delivery agent, the job is a temporary one, mostly seen as a stop-gap before landing a more secure (read permanent) job. If the new Social Security Code goes through, it will erase many of the differences they see between their current jobs and a "permanent" one — social security (PF) cover, some form of medicare, maybe termination and retiral benefits.

This will, of course, radically disrupt the business models of such companies, which currently claim that they are simple technology platforms enabling independent contractors to deliver services to customers. They will now have to factor in the costs of providing for such social security, which may well end up putting the brakes on their headlong growth.

Changed nature of work

This also raises a fundamental question mark on whether the economy can afford such a disruption at this point. Remember, India is still in the ascending part of its demographic dividend curve, which means that more people are entering the workforce than those leaving it every year.

Our jobs data is woefully inadequate to make any kind of meaningful forecast. But maybe, looking at external examples might help. Brazil is a good fit. It is a large emerging economy, much like India, and has large numbers of young (and poorly skilled) job seekers (again, much like India).

And just like us, they had some of the world's toughest, most cumbersome labour laws, long seen as impediments to unlocking the full potential of the economy. All that changed in 2017, when Brazil passed Law No. 13,467/2017 to amend the Brazilian Labour Code (Consolidação das Leis do Trabalho - CLT). Its purpose reads almost like the preamble to India's revised labour code. It aims to lead to the creation of new jobs and reduce unemployment rates (currently over 11 per cent), by axing restrictive rules and recognising the changed nature of work and employer-employee relationships.

It allows for the gig economy and the contractual and temporary nature of present-day employment. It accounts for terminations, which will no longer need to be ratified by unions or the Ministry of Labour. The new Law also establishes the possibility of termination by mutual consent and sets strict conditions for demanding things like equal pay, or benefits and allowances.

Despite initial — and strong — objections from unions, the reform appears to be working for workers as well. Social security cover has been improved and even temporary workers get benefits like (pro-rated) leave, bonus etc.

Make no mistake, the Indian jobs market is set for significant disruption and turmoil. But unless India makes some difficult choices now, the future is only going to get more difficult.

Railway privatisation: India must hasten slowly

Privatising even a part of a highly-integrated set-up as the railways, although beneficial, can be a complex regulatory process

SUBIR ROY

VALUE FOR MONEY

Indian Railways has launched itself on the road to privatisation by flagging off the Tejas Express running between Lucknow and Delhi and announcing plans to privatise the running of as many as 150 passenger trains.

This is an ambitious target, and global experience in privatising railways services has been mixed. So it is essential to tread with caution. Ideally, the move should have been preceded by extensive public discussion, but that has not happened.

The Tejas Express will be run by IRCTC, a subsidiary of the Railways. So there is not much of real privatisation there to begin with. IRCTC cannot have been expected to drive a hard bargain for itself, but that will happen when full-fledged private firms bid for various tasks.

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It is difficult to privatise a portion of the Railways' operations (total privatisation is not even being contemplated) as it is strongly vertically integrated. Logically, tracks and signalling, common resources accessed by all private train operators, should remain in state hands. But this can also be privatised much later, if at all.

British example

Privatisation is likely to take two steps forward and one step back, like the latest development in the UK — which embarked on the journey in the 1990s — seems to indicate. The Queen's recent speech to outline the government's legislative agenda contains plans to scrap the existing rail franchise system and replace it with a new one based on performance and reliability, using recommendations by the Williams Rail Review.

In fact, privatisation of what was earlier the British Rail has through the intervening decades politically been hugely contentious. Those sceptical of privatisation argue it has not worked as fares are higher, there are more delays, the franchising system is floundering and passenger dissatisfaction is high.

On the other hand, those in favour point to the rise in public use of the railways to argue that the system works. The problem is that independent socio-economic changes — rise in fuel costs, greater road congestion, lower unemployment — have raised the number of rail journeys undertaken. So public use cannot be cited.

Eco-impact Railways' value will grow

Ideology apart, independent studies would indicate that the British public has generally been satisfied with the experience of privatisation, its satisfaction level being ahead of France, Germany and Italy and behind only Finland. Punctuality was initially high, but fell after new restrictions were imposed post the 2000 Hatfield accident; it has recovered since. Safety on British railways has improved after privatisation. Government subsidy per journey has fallen, but expectations of cost-cutting under private operation did not materialise. The train company's operating cost per passenger mile has reduced.

It was expected that privatisation would remove the railways from short-term political control, but this has not happened. The industry can be said to be under greater government control than ever. When the borrowing requirements of Network Rail to replace the collapsed Railtrack were taken over by the government, it amounted to renationalisation. Also, many of the private franchisees are owned by foreign government companies. So privatisation, in a sense, has not taken place in the UK.

Simplifying the ordeal

Where privatisation has indisputably worked is Japan. Five of the seven companies into which Japanese National Railways was broken up in 1987 were in the black last year. What has helped is the companies being allowed to run commercial and real estate businesses, so they are able bear the cost of upkeep and improvement in services. Another good idea was splitting the legacy railways on basis of geographical area, not functions like tracks and trains. This has helped get round the difficulty of breaking up a highly integrated operation like the railways.

In India, the social importance of the Railways will grow with climate change concerns, leading to greater use of public transport. The Railways has taken the positive step of shifting to renewable energy over time, and so is a public good whose use goes beyond paying its keep. On the other hand, private ownership tends to improve services and cut costs, particularly under conditions of competition. When the public suffers due to the perceived laid-back attitude of a state-owned enterprise, support for privatisation grows.

But ensuring competition within a public utility needs complex regulation that has to offer a level playing field to all players sharing common infrastructure. The quality of regulation that a country is capable of is critical, and crony capitalism can become retrogressive.

It is also vital for the Indian Railways, steadily losing market share to fossil-fuel burning road transport, to reverse the trend. But neither workers nor management appear to be delivering results. Recently, the Planning Commission sought to take away the task of developing key stations from the hands of the Railway board and pass it on to a group of secretaries, because of lack of progress. So, the case for privatising parts of railway operations has gained from the way they are currently run.

The writer is a senior journalist

OTHER VOICES

South China Morning Post

Xi Jinping's visits to India, Nepal helped build bridges

Timing is everything where the trade war between China and the United States is concerned. President Xi Jinping's first overseas trip since the 70th anniversary celebrations of the People's Republic of China on October 1 was to neighbours India and Nepal. The former still refuses to join the Belt and Road Initiative, a key strategy for Beijing to counter the slowing of the Chinese economy, and the latter is an avowed supporter. HONG KONG, OCTOBER 16

The Telegraph

Queen's Speech: An agenda designed to win an election

Conceivably, the Queen opened the shortest parliamentary session since September 1948. That lasted just 10 days after the Labour government deliberately curtailed proceedings in order to overcome objections to a new Parliament Act in the Lords. Depending on what happens with Brexit, there is every expectation at Westminster of a general election, possibly as soon as next month, rendering much of what was announced yesterday otiose until the voters have had their say. LONDON, OCTOBER 16

Los Angeles Times

Impeachment inquiry needs more transparency

President Trump can be expected to denounce the House's impeachment inquiry as a "witch hunt" or a "coup" attempt no matter how fair and transparent the process is. But House Speaker Nancy Pelosi still needs to shore up the credibility of the fast-moving investigation by having the entire House vote to authorize it and by insisting that witnesses now speaking to investigators in private testify as soon as possible in public. LOS ANGELES, OCTOBER 16

LETTERS TO THE EDITOR

Send your letters by email to bleditor@thehindu.co.in or by post to 'Letters to the Editor', The Hindu Business Line, Kasturi Buildings, 859-860, Anna Salai, Chennai 600002.

Small-town transit

This refers to the editorial 'A lighter commute'(October 16). Light rail trains or Metro Neo is indeed a welcome idea, not only because the Delhi Metro has been a great success, but also for the simple fact that the Metro Neo will act as a feeder service between various stations. Since last-mile connectivity has been a major issue with not only DMRC but other metros as well, this move is going to help immensely. When the cost of a light-rail based transit system is more than half as that of a conventional metro rail network, then introducing it is simply a no -brainer for both small and metro cities. Most Tier-II and -III cities do not have great and convenient public transport systems, and that gap can be easily filled with Metro Neo, more so as these trains can cater perfectly to a small amount of passangers. A light rail metro may be one of the best ways to reduce vehicular traffic on roads.

Bal Govind
Noida

Urban commuting

This is with reference to 'A lighter commute' (October 16). Urban living is increasingly putting an exorbitant strain on time and space. Urban density is higher than ever, in terms of both verticalpopulation and earnings concentration. Metro flats have shrunk in area and roads and lanes have narrowed. Buses are too wide for limited road space in common suburbs, that account for 90 per cent of commuters in big cities.

As urban affluence is here to stay, there will be a rise in the trend of having everything delivered at home, and even the metro system may not be able to cope with growing commuting needs. Each mega city needs to plan far ahead to accommodate the transportation needs of its population.

R Narayanan
Mumbai

Distribution of funds

Apropos 'Defence funding isn't a finance panel's mandate' (October 16). I endorse the author's view that funding defence is not the under the Finance Commission's purview, since it will create a constraint on the funds to be allocated to States in lieu of giving a bigger slice to defence expenditure.

Moreover, the competency of the Finance Commission to rationalise and allocate the defence fund cannot be justified, and the Central government alone should make proper decisions on defence allocation. Above all, specific programmes like disaster management may suffer if the Finance Commission gives priority to defence allocation. Hence, the triangular allocation by the Finance Commission to States, the Centre and Defence may not be a feasible proposal, and the budgetary route would be more appropriate.

NR Nagarajan
Sivakasi

IRCTC shares

The great success of the issue of IRCTC shares, which doubled investors' money overnight, calls for issue of long-term bonds by the IRCTC for setting of large-scale production units in every district of the country for packaged water, confectionery items and other food products to replace cooked meal in trains and schools, where complaints of sub-standard food in unhygienic conditions are quite common.

The setting of such big units in large numbers by the IRCTC with help of long-term bonds will provide huge employment in public sector, apart from giving sizeable profits to the public exchequer. Products can be sold in open market also, to encourage private players bring down their prices.

Employment in the public sector can also be tremendously increased by digging out unaccounted money through the Voluntary Disclosure Scheme whereby those declaring unaccounted money may be asked to invest 50 per cent of the amount in other long-term infrastructural bonds with nominal interest, to be issued by public sector undertakings like the IRCTC.

Madhu Agrawal
Delhi

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