

# The Indian IT sector in the Era of Neoliberal Reforms with Emphasis on Workers and Working Conditions: A Global Value Chain Perspective

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**Abstract:** In this paper we examine the Indian IT & ITeS sector through a Global Value Chain(GVC) perspective, exploring some linkages. Using the Lead firm linkages for Indian IT giant TCS and Microsoft, we find that the Indian IT sector is not really moving up the GVC even though the participation has increased as the investment in R&D remains very low for TCS. We also look at the role of the state in the growth of the Indian IT sector and find that the state played a major role in facilitating this growth and the notion that the sector grew because of free market or neo-liberalism is misguided. The primary data is been collected by interviewing 25 workers in the IT sector to ascertain their working condition and find that even though the sector is projected as a hub for good HR practices and great working condition, in reality it isn't so. Again, we look at a case study from TCS to ascertain if they actually value their employees as much as they claim to, especially in the lower echelon. We observe a stark difference between the pay scale and treatment met out to the lower echelon relative to the top

**Keywords:** Global Value Chain, Neo-liberalism, Indian Information Technology (IT) Sector.

## Introduction

The growth story of India in the neo-liberal era cannot be separated from the growth of the Indian IT sector. The IT sector which barely contributed 1% to the Indian GDP in the early 1990's accounted for 7.4% of India's GDP in FY22, and it is expected to contribute 10% to India's GDP by 2025<sup>1</sup>. This growth has been projected by the big industrialist in the market and the government as a neo-liberal 'miracle'. In this paper we will try to evaluate this claim with analysing the state's policy perspective and how it has changed during the neo-liberal era. Moreover, how the state has aided the Indian IT sector implicating presence of a corporate-state nexus using the empirical data taken from NASSCOM. While the IT sector has gained a lot the subsequent gains for labour has been minimal.

The analysis attempted to be used in the paper borrows from a large literature on Global Value Chain (GVC), Global Value System (GVS), Global Production Network (GPN). One perspective argues that GVC is made possible with the rise of neo-liberalism leading to deregulation of capital and trade flows beyond the country's border. Subsequent advancement in technology lead to fragmentation of production process beyond national borders, which is regulated and controlled by Multi-National Companies (MNC) (Barrientos et al., 2011a; Gereffi , 2006). While the other argues that this is in fact not true there is clear evidence that GVC existed for a long time (Jha & Yeros,2019) such as the slave trade in African continent or the colonial extraction of Indian subcontinent (Bagchi, A. ,1993)

In the context of GVC there is also a dominant argument that the international supply chains are de-coupled from the Impact of state regulation and Trade regimes(Robinson and

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<sup>1</sup> Indian IT & BPM Industry Analysis. *India Brand Equity Foundation*. 21 October 2021.

Rainbard,2013). But this isn't true in the Indian context which we will explore in the paper. The decoupling of hardware and software in 70-80's opened a window of opportunity for countries rich in human capital to be involved in IT value chain. The corporate and state nexus exploited this to shift the focus of Indian IT from hardware to software. State facilitated the IT sector by improving the quality of human resource and offering tax exemptions and infrastructure facilities. (Noronha & D'cruz, 2020) Further the labour cost arbitrage made it favourable for IT firms to cater to global clients at competitive prices.

Majority of the IT revenue, an astonishing 88% in India comes from exports. Furthermore, 2/3rd of this revenue comes directly from USA (NASSCOM, 2019). Ergo, the Indian software industry mainly serves the global market, and its contribution to the domestic market is negligible (Ethiraj, 2005).

Nature of Work in the IT sector has always been projected as interesting, innovative and skilful requiring high aptitude. Moreover, IT sector has been synonymous with good HR practices. But in fact, much of the IT sector is trapped in repetitive, uninspiring, uncreative, require low skill levels, and involve routine tasks such as development, maintenance, testing, coding, low-level design, data conversion, and online technical support. (Agrawal et al., 2012; Arora et al., 2001a;D'Costa,2003; Lakha,1994).

We evaluate the working conditions of workers and the nature of work using primary data collected through F2F interviews and google form of 25 respondents.

## Overview of the sector

The industry has recorded a compounded annual growth rate (CAGR) of about 46 % for the past three decades (1980–2011). In the 1990s, the CAGR of this industry was about 58 % (Sahoo B.K., Nauriyal D.K, 2013). The growth continued in the 2000's with It companies growing their services and client base and henceforth their Balance sheet.

Even in recent years from 2016-2020 the sector recorded a CAGR of 10.71%<sup>2</sup>. In the contemporary the IT sector generated \$227 Billion in revenue and now contributes 13% to the GDP growing at a CAGR of 15.5% in FY22. Out of this \$181Billion were generated directly from exports.<sup>3</sup>

A recent report by the RBI tries to put these numbers in a global context and underscore the enormity of revenue generated from export by Indian IT firms, the RBI stated that the revenue generated by Indian IT export was greater than the revenue generated from oil export by Saudi Arabia.<sup>4</sup>

India does have a competitive advantage in the global context as it alone accounts for 55% of the total Global outsourcing service market as of FY20. Moreover, the skilled pool of workers in India alone accounts for 75% of cumulative global talent pool.<sup>5</sup>

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<sup>2</sup> Data is taken from NASSCOM.

<sup>3</sup> <https://nasscom.in/knowledge-center/publications/technology-sector-india-2022-strategic-review#:~:text=FY2022%20therefore%20has%20been%20a,reach%20%24227%20Bn%20in%20revenue.>

<sup>4</sup> <https://levelup.gitconnected.com/software-is-the-new-oil-4a698409f296>

<sup>5</sup> <https://www.thehindubusinessline.com/news/national/how-the-it-sector-has-emerged-as-a-pillar-of-modern-india/article32357389.ece>

The availability of a large pool of skilled and educated professionals, a favourable business environment, low labour costs, and the states support have been instrumental to the growth facilitating Indian IT firms in providing cost-effective solutions to global clients while maintaining high-quality standards, which has helped them gain a competitive advantage.

Hence, we can say that the growth of Indian IT sector cannot only be attributed to the neo-liberal reforms and the subsequent participation of private sector rather the favourable condition created by the state intrinsically through the changing role of the Indian state (Parthasarathy, 2004).

From the very early stage of software development the government was actively involved in the process primarily in regulating the sector as well as in production (Nollen, 2007) and later on after liberalisation turned into a promoter and facilitator (Aggarwal, 2013; Heeks, 1996). Huge investment made in ICT (information and communication technology) formed the pre-requisite for IT-based development in India.

Until the 1980's, Indian IT industry, similar to all the industries at the time, followed a protectionist regime which gradually started to open up and slowly pull out from control and ownership of the sector and focused rather on promotion and support (Heeks, 1996) to make it competitive on global scale (Aggarwal, 2013). Indian state also started to take impetus from employers' body like NASSCOM apart from the industry leaders. Drawing on the industrial feedback state started to slowly embark itself into private capital at the large scale.

As a paradigm to this embarkment and embracement of private capital, the state, in 1973's, set up software technology park (STPs). Success of STP can be ascertained from the fact that by the end of 1980's 80% of total export revenue of IT came from STPs. These STPs increased in number in the 90's and played a huge role in the shift from hitherto prevalent practice of 'bodyshopping' into off-shore services leading to a new relationship dynamic between India and the global market through and its integration into the global division of labour through a perspective of GVC (Lakha, 1994, Parthasarathy & Mohan, 2013). STP's provided the necessary infrastructure (such as uninterrupted electricity, communication facilities, land at concessional prices, centralised AC, tax-free status for export-oriented firms, monetary incentives for firms providing offshore services (Aggarwal, 2013; Chatterji, 2013; D'Costa, 2011; Parthasarathy, 2013)) required to leverage the skill advantage that tech hubs like Bangalore already possessed.

Apart from these national level benefit, IT firms also receive many concessions and benefits at state as well as local level. Some of these benefits include exemption from paying stamp duty, reduction in electricity tariff, entry and sales tax exemption (Chatterji, 2013). Exemptions on local level ranged from benefits in city-level zoning regulations including location policy irrespective of local area master plans to additional building heights or floor area ratio (Chatterji, 2013). Moreover, the blanket exemption was provided to the IT companies from following the labour laws (D'Cruz, 2012).

All these incentives have benefitted the aggregate Indian IT industry. As evident in NASSCOM 2012-13 report where they stated:

Timely government policies and increased private-public participation have played a key role in creating an extended business environment for the Indian IT sector. The government attention on education has helped in developing the abundant skilled people, from where the industry meets its labour requirements. The government's proactive

approach toward the IT industry was further highlighted in 2008 through actions such as the IT Act amendment, extension of tax incentives by a year, removal of the Special Economic Zones (SEZ) Act anomalies, and the introduction of progressive telecom policies that focus on work from home (NASSCOM, 2012/2013)

Even in the contemporary time the authorities have implemented a range of measures, such as establishing 62 Software Technology Parks of India (STPI) centres throughout the nation. They have also made changes to the Special Economic Zones (SEZ) Regulations, allowing half of the personnel at SEZ facilities to operate from home for an extended period through a hybrid model or Work from Home (WFH).

State policy in the neo-liberal era has not only been made favourable to the private sector but it has been done with very minimal benefit transferred to the labour and has benefited India in GVC terms only to a limited extent. For example, we do maintain that the investment by the state in say education (for example IIT's) was done in order to create a highly skilled labour force, with world class skillset and expertise to cater to the requirement of IT sector and with a vision to subsequently climb on the Global Value chain. But, was this a success? *Apparently not*. Rather, the Indian IT sector relies heavily on repetitive and labour-intensive manufacturing processes (Ferus-Comelo, 2008) and mundane task leading to high scale deskilling of the skilled labour force.

### Global value chain (GVC)

Global value chain (GVC) refers to a whole range of activity related to the production process, which are broken down into different segment and spread across the world geography, and is needed to bring a service or product to the market.

#### *Theoretical Framework*

The theoretical framework is adapted from cheng et al, 2015.

It is generally believed that the Value added along the production process of Global value chain moves as shown in Figure 1.

**Figure 1**



Source: Mukherjee, D. (2019). Is India moving up the value chain? A sectoral study of Indian exports. *Journal of South Asian Development*, 14(1), 23-46.

Meaning that the Research and development, designing, standardization and activities like Transport, Logistics, branding, Distribution and marketing capture the higher value in Global Value chain. While activities such as manufacturing and assembly value addition remains low or subpar.

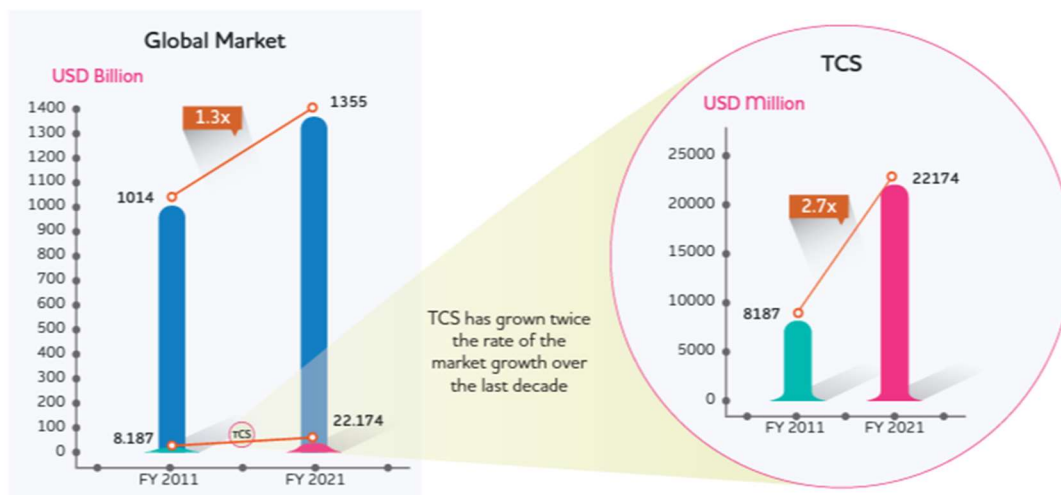
## TCS case study: A GVC prespective

### *TCS and global participation*

As the fieldwork is concerned with Tata Consultancy Services (TCS), here is a quantitative overview of how TCS has fared in this participation of Global Value Chain (GVC).

In figure 2 we can see that the Global IT service market has increased 1.3x from \$1014 Billion to \$1355 Billion from FY 2011 to FY 2021. While for the same time period TCS share in the market has almost tripled (to be precise 2.7x increase).

**Figure 2**



Source: TCS Annual Report FY2021

But does the fact that TCS total participation in the global market has increased actually transcends into it moving up the value chain? Well, the answer is largely: NO. I conclude this based on a comparative analysis of the operating profit margin of TCS and its clients namely Microsoft.<sup>6</sup> It also needs to be mentioned here that TCS is also indirectly depended on these client as they are part of building the TCS infrastructure both physical and technical (backward linkages).<sup>7</sup> For example: TCS hosts some of its services on Microsoft Azure cloud. This interconnectedness becomes important.

TCS has provided service to thousands of global clients for Microsoft in matters related to Azure engagement, using a workforce of 1,00,000. It is worth noting that TCS has also achieved Solutions Partner status in five solution areas, making it one of the earliest Microsoft partners to achieve this status. TCS is a highly reputable partner in the Microsoft ecosystem, having received the 2022 Microsoft Partner of the Year award in several categories such as Global SI & Advisory Digital Transformation, Retail & Consumer Goods, SAP on Azure, US

<sup>6</sup> Posing Microsoft as the lead firm.

<sup>7</sup> <https://www.tcs.com/who-we-are/newsroom/press-release/tcs-launches-new-collaboration-with-microsoft#:~:text=TCS%20is%20one%20of%20the,in%20nine%20other%20global%20categories>



Advisory Services, and US Financial Services. Additionally, TCS has been recognized in nine other global categories.

### *Juxtaposing Operating Profit Margin (OPM) of TCS and Microsoft*

Microsoft recognises TCS as a “Very reputable partner” but when we look at the Operating profit margins (OPM) of these 2 companies (at a very generalised level<sup>8</sup>), it’s evident that Microsoft is taking the bigger chunk out of the profit. While the TCS OPM stands at just around 20 for the FY22 the same ratio for Microsoft is well above 33%.

Hence, even though TCS is better placed in the Global Value System relative to other Indian IT companies as TCS has the Highest operating Profit Margin (OPM) in the industry and TCS has also successfully managed to increase its share in the Global Industry, it is still lagging way behind its lead firms.

### *Paradigm of Research & Development (R&D)*

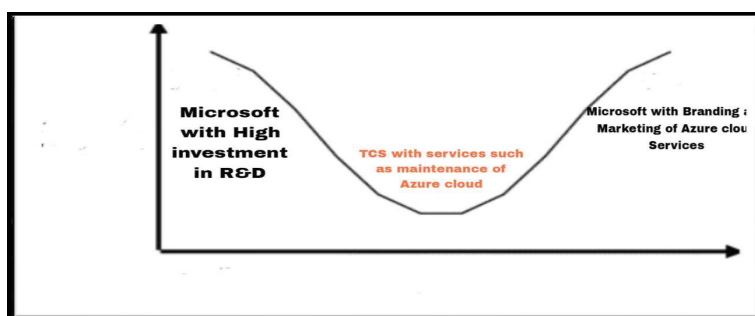
This asymmetry in the operating profit margin is the consequence of the Cheng et al module. Microsoft in the figure 1 illustration of value addition in the Global value chain falls on the 1<sup>st</sup> section, which is concerned with Product development and Research and Development (R&D). While TCS is somewhere between the 2<sup>nd</sup> and 3<sup>rd</sup> section as the TCS activity is mainly concerned with maintaining and proper functioning of the Microsoft designed service product which in this case is Azure cloud. It is not to say that TCS doesn’t spend on R&D, it does. But the percentage of expenditure in comparison to Microsoft remains minute. Data for the year 2018 shows, the Net Profit for Microsoft and TCS stood at \$35,100 million and \$3,200 million respectively while their expenditure of research and development (R&D) stood at \$14,726 million and \$37 million.

The statistics above alone cannot prove the greater allocation of Microsoft in Research and Development. Hence, we calculated the percentage expenditure of Microsoft as well as TCS on R&D out of their net profits. Which as expected shows a stark contrast.

While Microsoft spends almost 42% of its net profit on R&D TCS spends a little over 1%. Hence, TCS still remains on the lower end of the IT value chain and will continue to remain so until it makes major advancement in the expenditure of its R&D division.

Hence in the above theoretical framework the model will appear somewhat as shown in figure 3.

**Figure 3**



<sup>8</sup> Both this firms have very wide business interest and business model hence the analysis is difficult.

## Field perspective and theorisation

Employers claim that they have developed their own set of working standards, guidelines, and procedures that offer employees with benefits and equitable treatment that exceed what is required by the law. In particular, the IT/ITES sector is frequently praised for its excellent methods of addressing grievances, including open forum meetings, open door policies, counselling and suggestion programs, non-hierarchical structures, casual work environment, merit-based promotions, opportunities for career advancement through partnerships with educational institutions, and promoting gender equality. These practices challenge the conventional hierarchical and paternalistic management approaches that were commonly utilized in the past, and which often included the use of caste-based systems in the workplace. (D'Cruz and Noronha, 2012; Noronha and D'Cruz, 2009a; Rothboeck et al., 2001; Sahay et al., 2003; D'Mello and Eriksen, 2010).

Some researchers have argued that well-being and job satisfaction forms the pivot of HR practices implemented in the Indian IT sector, which is supposed to be highly innovative, professional, formal, structured and all and all world-class (Thite and Russell, 2009). Thus, arise a prevalent notion that the workers in this sector move both towards better paid employment associated with progressive social upgrading (Barrientos et al. 2011a) – a clear instance of a 'race to the top' (Arora and Athreye, 2002 op cit Noronha & D'cruz, 2020).

Most employer organisations sought to provide physical work environments of international standards resembling those in the West. There was also an effort to create fun in the workplace with cultural activities and get-togethers such as team outings, team parties and office gatherings organised frequently (Noronha and D'Cruz, 2009a).

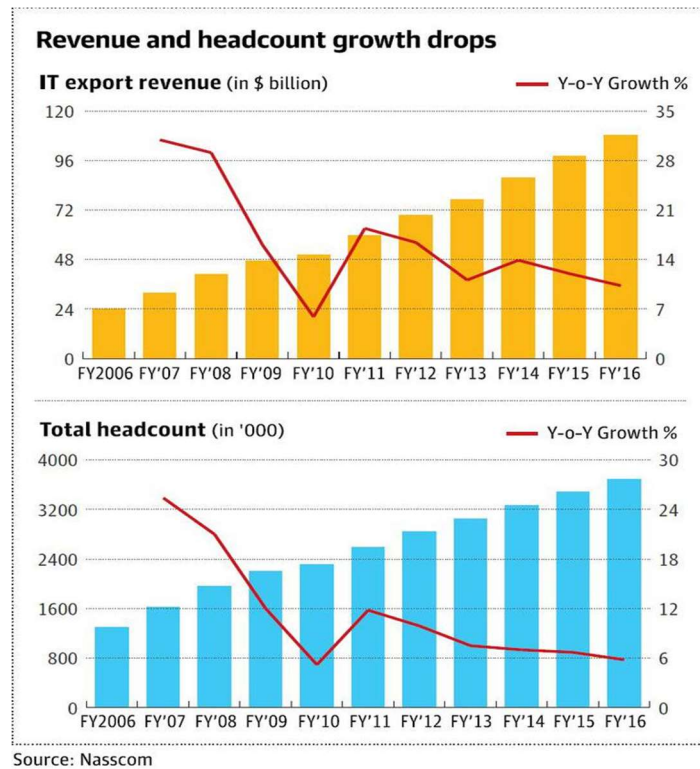
Besides this, the explosive growth of the industry gives these professionals the ability to negotiate aggressively and demand high concessions in terms of compensation and career advancement from companies. This has prompted firms in the IT/ITES sector to explicitly introduce human capital management strategies such as high salaries, opportunities to work abroad, quick promotions, flexi-time, parental leave, provide more congenial and satisfying work environments, transport facilities, the option to telecommute from home, stock option plans, cafeterias, sports facilities, de-stress rooms, on-site childcare and health facilities comparable to those of their strongest competitors in the US and elsewhere (Arora and Athreye, 2002; Penfold 2009; D'Cruz and Noronha, 2006).

This forms the prevailing perspective in reference to the industry, with my fieldwork we are going to analyse this critically. We do accept that many of the aforementioned policies are in fact true and also prima facie appears to be beneficial to the employee but in reality, hasn't been so, at least not completely. For instance, just the mere fact that the industry has high attrition rate bear evidence to a possible performance appraisal or compensation policy or cultural problem present in these organisations.

Moreover, Skill development has not actually resulted in higher-paying jobs and the larger industry is engaged in , the laborious, low-level work that requires repetitive tasks such as low-level design, coding, testing, support, and maintenance, and their pay still remains low especially when juxtaposed with the higher ups, which has contributed to low level of job satisfaction as evident from the field study. Meaning the improvement in GVC positioning, as

we discussed earlier, of Indian IT hasn't been transferred to the employees on middle and lower echelon.

If we analyse the data below, we can see the rate of growth of headcount is actually less than the rate of growth of Revenue. Which basically means an average employee is bringing in more and more revenue that means an average employee has to work harder, invest more time and produce more output for relatively low proportionate wages.



### *Down-skilling of the workforce*

What is not apparent from the industry's trendy and fashionable facade is that it relies heavily on repetitive and labour-intensive manufacturing processes (Ferus-Comelo, 2008) and mundane task leading to high scale down-skilling of the skilled labour force due to their engagement in low skilled mechanised task, which in itself was created by the state so as to facilitate IT growth in India. In 2000's, task such as design and user-requirement which requires intrinsic knowledge (of lead firms) and skills remains outside the purview of Indian IT (Sahay et al., 2003; Parthasarathy, 2000) and still continues to do so.

A significant proportion of the IT jobs available in India are repetitive, uninspiring, uncreative, require low skill levels, and involve routine tasks such as development, maintenance, testing, coding, low-level design, data conversion, and online technical support. These activities are carried out according to the client's instructions and specifications (Agrawal et al., 2012; Arora et al., 2001a; Arora et al., 2001b; Arora and Asundi, 1999; D'Costa, 2004; D'Costa, 2003; Lakha, 1994; Nath and Hazra, 2002; Rothboeck et al., 2001).

In essence, we wouldn't be wrong to conclude that the Indian software industry was established by focusing on low-level, technically undemanding, and labour-intensive tasks for the global IT industry taking advantage of the labour cost differences among India, developed countries



and other developing nations to create opportunities for labour cost arbitrage (Ethiraj et al., 2005). Resulting in the cycle of Indian firms been restricted to providing low skilled task for low cost and ergo resulting in subsequent down-skilling of labour and low wages. Hence, Indian IT jobs would fall on the lower end of IT-value chain.

### *Manufactured Competitiveness and the ills of capitalism*

In complete contrast to the highly skilled (predominately IIT graduates), there stands a large population of engineers graduating from a plethora of tier-2 or tier-3 engineering college from small town or big with sub-par skills, who are part of the labour market. According to NASSCOM survey, 2019 out of 15 lac engineering graduate every year only 2.5 lac are able to get a job creating a Reserve army of labour, creating a sense of competition and competitiveness which the private capital has been successful in using for the labour cost arbitrage.

These low-end tasks performed by the workers in Indian IT shouldn't be seen as an exception but rather a progeny of modern-day capitalism which thrives on these uninteresting and mundane task as oppose to passionate, skilful and purposeful work. The lack of job satisfaction in the industry can be attributed to this aspect as was also evident in my fieldwork. One of the respondents went as far as to say that the work is unfulfilling and lacks any sense of 'meaning' and 'purpose' or social satisfaction that one might derive in other occupation.

### *Human Resource (HR) Policy in IT sector and its connect with labour law*

According to Wallace (2009), outsourcing firms in India face ongoing demands from their clients to lower costs and improve service, leading to a "sacrificial HR strategy", worker been the sacrifice, that prioritizes company goals over the well-being and job satisfaction of employees (D'Cruz and Noronha, 2012). This is also evident from the fact most the respondent in my fieldwork had to work overtime, some of them had to take their work home (work outside of the working hour for which they didn't get paid any overtime whatsoever) some of them even received unsolicited work emails on weekends.

Employees in project-based work are often required to work outside of their normal working hours and sometimes even on weekends, national holidays, and festival days to ensure the consistent delivery of projects within the given time frame. This unpredictable workload often leads to employees taking their work home (Babu et al., 2015; Noronha and D'Cruz, 2017; Sardeshmukh & Srinivasan, 2014). This pattern is in continuum with my fieldwork where 60% of the respondent working regular office job has to bear through similar issues (non-Hybrid model).

This has had negative implications for the employees. The software industry performs poorly in comparison to other sectors regarding factors such as job security, working with tight deadlines, paid annual leave, and freedom of association (Sarkar et al., 2013). This is in congruence with my observation where 72% of the subject worked more than 8 hours on a regular day which increased even further during the busy season. Even if some of them get paid, the pay scale<sup>9</sup> still remains ambiguous.

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<sup>9</sup> Legally mandated to be twice the normal pay

This, in turn, can result in depersonalized bullying (D'Cruz and Noronha, 2009a; D'Cruz, 2012). Moreover, Exemption from many provisions of labour laws and most importantly the blanket exemption from the Industrial Employment (Standing Orders) Act, 1946<sup>10</sup> allows employers to be abusive in a figurative sense.

### *Impact on workers mental and physical well being*

The demanding nature of the job, characterized by long work hours, unpredictable workloads, the constant need to update skills, and frequent travel, has a significant impact on the personal lives and career paths of software professionals, leading to a high-stress work environment. The industry's expectation of a "24-hour knowledge factory" requires employees to adopt a more flexible attitude towards time management. (Sardeshmukh & Srinivasan, 2014) Making them work overtime doesn't actually mean they are going to be paid for the overtime (Baas, 2007), in fact only 12% respondent answered in affirmative for getting overtime pay.

Moreover, these long and untimed, erratic working hour lead to detrimental social life and work life balance for the employee and aggravate physical condition of their body leading to nervousness, chronic fatigue, stiff neck, sore eyes, backaches and headaches, impaired vision, numbness in fingers, body ache, fever, asthma, sore throats, nausea, dizziness, rashes, insomnia, anxiety, restlessness, irritability, depression, drowsiness, loss of appetite, changes in body weight, decreasing vigilance and gastrointestinal problems (McMillin, 2006; Noronha and D'Cruz, 2006; Poster, 2007; Ramesh, 2004) and plethora of other deleterious effects

Further leading to substandard dietary practices: overeating or undereating, eating junk food which lack necessary nutrients further aggravating physical condition of the person leading to excessive smoking and drinking coffee to cope up with the work pressure. Hence, from the parameter of 'decent work' as defined by ILO in 1999 there are many problem areas such as lack of job security and social protection along with long working hours affecting the workers social as well as work life i.e., work life balance (Karlsson S., 2015). This illustrates the exploitative paternalism ever present in the industry.

### *Apprehension in invoking the legal route and forming Associations and Unions*

Another peculiar observation about the IT sector is the very low number of cases filed by employees. The laws that provide the right of appeal against unjustified dismissal to employees who have been employed for more than six months are typically not used by workers in the IT/ITES industry due to several reasons, including the slow and complicated legal system (the anxiety of finding an alternative jobs within the industry, as the employee who might file a case against an employer might be perceived as a troublemaker (Penfold, 2008), and their own perception as professionals (Noronha and D'Cruz, 2006, 2009b). Same apprehensions were observed in majority of the respondents and extends to even joining an union. All the respondent in the fieldwork were not aware of any trade union or workers union or workers association whatsoever and weren't even willing to be associated with one as they considered it will reflect poorly in their promotions and performance appraisal. Even the unions and associations hitherto formed such as F.I.T.E and U.N.I.T.E have largely been inactive due to these apprehensions and lack of association.

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<sup>10</sup> "This Act is to require employers in industrial establishments to formally define conditions of employment under them and submit draft standing orders to certifying Authority for its Certification."

### *Categorisation: A 'Worker' or an 'Employee'*

In fact, Noronha and D'Cruz (2016b) argue that most work in the contemporary Indian IT sector would fall within the scope of the definition of workman under the Industrial Dispute Act, 1947. While my field study suggests none of the people working in the industry consider themselves as a 'workman' and they consider themselves as an 'employee'.

Even though In a recent verdict by the Chennai labour court in *Thirumalai Selvan Shanmugam vs Tata Consultancy Service Limited* court categorised a TCS employee, Thirumalai, as a workman. The court allowed the arbitrage of the case of a TCS 'employee' under the Industrial dispute and concluded that the worker comes under the definition of "workman" as defined u/s.2(s) of the Industrial Dispute Act, 1947. But none of the respondent in my survey had any awareness about this verdict even though this might have huge implication on the industry especially in relation 'hiring and firing' policy prevalent in the industry. These implications are yet to unfold which we will have to wait and watch.

Borrowing from this in the next chapter we will try to quantify the implication of this verdict for TCS with the help of a case study.

### **TCS case study: A prognosis of labour and their compensation**

TCS is considered as a "employee friendly company" and it has been awarded several accolades for good HR practice in India and also around the world.

For the year 2021-22, an average employee of TCS generated a revenue of \$44,509 while the average expenditure on an employee amounted to \$14,057. Moreover, the salary of employee on lower echelon was \$6,875.<sup>11</sup>

We can clearly see that employee in the lower echelon is barely making 15% of the revenue he is earning for the company.

In the next section we will look at a case study of TCS to further highlight the negligence of average employee in TCS and we will also highlight the hierarchical structure where the upper strata are reaping all the benefits and the lower is deprived of the gains.

### *Thirumalai selvan shanmugam v. Tata consultancy services*

Generalizing on the verdict of the Chennai labour court in the case of Thirumalai selvan shanmugam v. Tata consultancy services, 2022. Which provides for the reinstatement of the TCS employee and reimbursement of salary and all other benefits he was entitled to backdating from the day he was fired from his job.

This case also underscores the important of Trade unions and labour union as this case was filled with the help of FITE (All India Forum For IT/ITES Employees), which is a labour association based in Chennai.

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<sup>11</sup> Revenue is calculated by dividing 51 lac employees from the total IT revenue i.e., \$227 Billion. Average expenditure by TCS on an employee is calculated by dividing Employee Benefit cost with 5,92,000 employees taken from TCS annual report. Average salary of lower-level employee is taken as the average salary of a worker working as 'systems engineer' in TCS.

The verdict given by the labour court establishes that the petitioner who was *a priori* projected by TCS as a ‘manager’ would actually come “within the definition of ‘Workman’ as 17 defined u/s 2(s) of the I.D. Act (Industrial Dispute Act, 1947).”

Basing its (Labour court) judgement on the fact that Thirumalai Selvan Shanmugam is in fact a ‘workman’ and not a manager or employee, the Labour court invoked section 25F(b) of the Industrial Dispute Act, 1947. By virtue of which the workmen should be provided with a retrenchment compensation.

Hence, this judgement should have huge implications when it comes to termination (rather illegal termination) of workers in the IT sector in the future. This also provides a platitude to scrutinise the blanket exemption provided to these IT companies from following the labour laws (D’Cruz, 2012). Which has impacted the basic encashment of worker rights in this sector such as freedom of association (Sarkar et al., 2013), which was also evident from my fieldwork as discussed earlier.

The case of Thirumalai begins in 2014 when the FITE claimed that TCS is going to lay off 25,000 employees from its middle level management. For the case led to rehiring of one employee rest of 24,999 of them are still left with no avenue. At the very least according to the verdict the other 24,999 employee should have been paid Retrenchment compensation.

We calculate this retrenchment allowance for the 24,999 workers for an average salary of 25 lac per annum and average work experience of 8 years.<sup>12</sup> This calculation in total adds up to an amount of Rs 1,44,23,070 or 1.44 cr.

When we juxtapose this amount with TCS revenue and Net profit for the year FY22 taken from its annual report which is 1,67,827cr and 38,187cr respectively then it appears that the total retrenchment compensation is not even close to being big enough to make so much as a dent into the towering revenue and Net profit of TCS. This can be observed in the below graph. And yet TCS didn’t pay up any retrenchment to these workmen. So much for being the “epitome of HR practices” or “best place to work at in the industry” and so on and so on as the award title they have received go.

#### *Inequality in compensation*

Further if we look at the increase of salary of the CEO of TCS Mr. Rajesh Gopinathan for the year of FY22 it comes out to be an increase of 26.6% from its previous year salary. He was paid a salary of 25.75cr for the FY22 an increase of 5.4cr from his previous year salary. For the same period the average increase of salary in TCS remained at just 5-8%<sup>13</sup>. Moreover, the COO also received an increment of a whopping 29.7%

The total retrenchment allowance of 1.44cr is barely 5.59% of the CEO’s salary and around 26% of just the increment he received in FY22. If the increase was reduced by 7% to 19% it would have been enough to pay retrenchment compensation to all the employees, they illegally fired in 2014 and would still have some money left.

When we juxtaposed the compensation of CEO&COO with an average employee for the FY22, we find that:

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<sup>12</sup> Data is curated for 1.1k employees from the website of Ambitious box.

<sup>13</sup> <https://www.newindianexpress.com/business/2022/may/20/tcs-ceos-salary-up-27-to-rs-26-crore-average-hike-at-5-8-2455801.html>

- **CEO & COO Compensation = 792 x Average Lower-Level Employees Compensation**
- **CEO & COO Compensation = 249 x Average middle Level Employees Compensation**

This Underscores the widespread and ubiquitous nature of wage inequality present in TCS.

## Conclusion

This paper attempts to presents a picture of the Indian IT sector from a Global Value Chain perspective. The growth story of the Indian IT has prejudicially been attributed to the opening up of the economy, but when we explore it further this notion seems rather ignorant. State has played a major role in making India the hub for IT sector services be it through establishing STP (Software Technology Park) where the IT firms are allowed to bypass all labour laws or by giving tax benefits and subsidies to the corporates or be it by providing the corporate with competent human resource via high investment in ICT investment and it continues to do so. This corporate State nexus has affected the labour force in the sector and hinder them from experiencing and availing even basic worker right, such as the 'right to association'. This has severely affected the worker moment in the industry or rather they have been successful in rendering the right to association non-functional.

We find that the Indian IT has global connectedness in the global Value system and is more aligned with the world economy than with the national economy, the contemporary US recession crisis and how it has affected the Indian tech market can serve as an epitome embellishment to this fact. As a prima facie positive development there is a drop in backward linkages in the service sector, while the forward linkage witnessed an increase. While from the case of TCS its evident that it has been able to increase its participation in the global service sector at an increasing rate for the decade of 2011-2021. This grandeur nature of global participation has had detrimental impact on the labour in IT sector in India.

Drawing from the comparative analysis of TCS and Microsoft we conclude that TCS still invests very minute amount of its Net profit in R&D while Microsoft on the other hand invests almost 43% of its Net Profit directly into R&D, and thus manages to maintain an Operating profit margin of 33% way higher than TCS, which stands at 20%.

Thirumalai selvan shanmugam v. Tata consultancy services, 2022 underscores the precariousness of the job in IT sector and the limitation of avenues for an illegitimately fired employee. The judgement of the Chennai labour court in this regard might prove to be a benchmark and instrumental in keeping a check on practices of illegitimate termination in the future. The industry is also ridiculed with the skewed distribution of profit where the higher ups in the pyramid appropriate large sums of profit while the bottom have to satisfy themselves with the bare minimum, even though their proportion in earning revenue be greater than those of the higher ups.

GVC is a rat race but the reality of the time and even though Indian IT and more importantly TCS has been able to successfully capture more of the global IT service market in recent years, due to the lack of investment in high value adding activity such as R&D and Product designing there hasn't been much of indigenous products. still proven them to be a laggard. Even though with this strategy of trying to increase their participation in GVC by providing lower end services or working on mechanised task may prove to be successful and they (Indian IT) successfully garner greater share of the pie, the truth still remains that with rat race even if you



win, you're still a rat. And investment in Research & development and product designing which will lead to creation of indigenous products and tech can be the only way out of this cycle. This what the Indian IT and the state facilitating the growth in this sector should focus on in the future, while also subsequently improving the working conditions of employee and taking active steps towards stress management for a prosperous growth story.

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