

Towards a new labour contract

Economic slowdown has laid the foundation for labour market change

It took a global economic crisis to make the world notice India's long-term attractiveness. Outsiders now realise that our million negotiations of democracy, large domestic consumption and attractive demographics make sure that the Indian economy will not be hot, but consistently warm. In a post-crisis world this is not as problematic as it used to sound. But it was also a year where India's labour markets saw a quick and sharp reversal of many years of high tide and lower hiring standards. With all the disclaimers inherent in any predictions, I volunteered five seeds—that were either planted or took stronger roots in 2009—that have the potential to transform our labour markets over the next decade.

The beginning of the end of lifetime employment: The massive demand recession of 2009 forced many companies to massively and somewhat arbitrarily rationalise headcount. Years of high tide had fooled employees, trade unions and policymakers into believing that employers or shareholders pay salaries—actually, customers do. This 'no customers, no employment' may represent an end of innocence but it was only the final blow to the heavily wounded and quaint notion of lifetime employment. In fact, this is the logical culmination of an organisation deconstruction best epitomised by IBM; the book *Organisation Man* glorified the IBM man in 1950—a lifer who was male, loyal, obedient and socialised. But today 50% of IBM employees have been with them for less than 2 years, 40% of them don't go into an IBM office every day and 30% of them are women. The employment contract has shifted from being a marriage—till death do us part—to being a taxicab relationship—short, intimate and purposeful. Obviously this change offers individuals new structures like telecommuting, part-time work, freelancing and temporary work (massive self-interest disclaimer).

The beginning of the end of the MNC employer myth: Many Indian companies finally realise that their equity is not on their balance sheet but goes home everyday. They ferociously brought HR from the backroom to the boardroom and thought strategically about compensation, culture, performance management and human capital architecture. So, it was clear going into 2009 that the notion of MNCs being better employers was built on a foundation already under threat. But some MNC parents badly bruised by the global crisis were unwilling to take the long view of India and made decisions that, in retrospect, seemed hasty and random. The most telling sign was the matrimonial market: parents starting reversing the MNC apartheid by seeking spouses for their children who worked for 'stable' Indian companies. It may be premature but the unfair labour market advantage that multinationals have had for top talent over the last 30 years is surely going to be challenged over the next 10 years.

The beginning of the end of EPFO: The Employee Provident Fund Organisation's monopoly has made it callous, insensitive



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and corrupt. In 2009, it defaulted on its flagship pension scheme by reducing benefits, but it was counter-intuitively granted a kingdom expansion to cover more employers. EPFO's lack of online or double-entry book-keeping means they are incapable of early detection of employer defaults. But the launch of the New Pension Scheme (NPS) creates backpack benefits that are linked to employees and has competitive costs—currently EPFO runs the most expensive government securities mutual fund in the world (451 basis points). While EPFO is currently busy fighting NPS around mandatory enforcement—the last refuge of incompetent government service organisations is their regulatory role—every virus needs a host and NPS could radically change employer pension over the next decade.

The rise of superstar CEOs: The highest salaries in India over the last decade have been of entrepreneurs of large listed companies paying themselves (Reliance, Dr Reddy's, Cipla, Ranbaxy etc). But 2009 saw the rise of the superstar CEO either because 1) families accelerated unbundling ownership from management and 2) private equity firms started doing control transactions or exercising their right around independent management. The telephone number salaries of CEOs is a hot topic of debate globally, but brace yourself for hyperinflation in CEO salaries in India over the next decade and the inevitable public policy firestorm around rising economic inequity and fairness.

A higher migration threshold: India's geography of work is badly skewed with only 34 cities with a million people (China has 174) and 2 lakh villages with less than 200 people. The last decade has seen a massive migration to where jobs are clustering but in 2009 we noticed a trend where job seekers were willing to accept lower salaries or opportunities in rural areas (the threshold has risen from Rs 4,000 per month to Rs 6,500 per month). Whether this reflects the lack of urban reform and higher city costs or the creation of opportunities in rural areas is still early to call. But a new geography of work has important implications for employers who were counting on their ability to cap labour costs by accessing traditional labour market outsiders.

Whatever happens to these five seeds, nobody should doubt that fixing India's human capital ecosystem—education, employment and employability—over the next decade is a unique confluence of public policy and the biggest entrepreneurial opportunity on the planet.

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