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AnExploratory Study on Salary Bubble & its repercussions on employee retention ontechies of Indian Edutech and Tech Companies

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Abstract:
The demand for technology talent has shot up as more businesses shift online for the reason that of the pandemic. This means tech startups are now in competition with offline businesses that are being forced online, and with multinational firms that have to invest in WFH solutions. This research is undertaken after realizing the fact that the salary bubble is created. Due to this a sense of great hike in the salaries of the employees has become a concern for the big IT companies. As in the employees are welcoming the offer which are adding value in multiple way to their takeaways. The identified reasons for this switchovers is that all the unicorns are thriving to expand and go locations while they are absorbing the best talent available. The unicorns have a greater realization that hiring the best talent without compromising the packages will fetch them the best talent from the market. The paper concludes with the respondent's answer pointing that the value of labor is not dependent on one's location. Whether one is at point A or point B, the quality and quantity of work one produces remain constant. In other words, only the work set-up changed, not the work itself. The paper also concludes with the understanding that the scale by which remote work is redefining the tech industry is evident. It's also clear how tech employees may bear the brunt of these changes. As such, the looming enforcement of the new pay mechanism has been met with mixed reviews. The paper concludes with the solutions to control the Salary Bubble.

Keywords: *Salary bubble, Employee retention, Techies of Indian Edutech, work from home, unicorns and soon unicorns*

Introduction:
Why techies are turning down almost half of all job offers even as salaries are rising to "unprecedented" levels. Hiring is getting expensive, especially for early-stage startups, several founders and recruiters have reported the concern. The demand for technology talent has shot up as more businesses shift online because of the pandemic. This means tech startups are now in competition with offline businesses that are being forced online, and with multinational firms that have to invest in WFH solutions.Another reason is that the recent funding boom has left many startups flush with cash. Tech hiring in the past two years has been peaking to unprecedented levels. In general, engineering and tech talent used to ask for a 15%-20% hike but this has now risen to around 30%-40%. Meanwhile, the proportion of job offers being declined has shot up from 25%-30% to 45%-50% as per data produced by Economic Times.

The huge sums that investors are pouring into startups come with an expectation to grow faster, which requires quality talent. The problem is for startups in the middle, which have suddenly become big too quickly. The money has to go into hiring. When startups want to quickly hire many engineers, that's where the trouble begins. In flashback Founders and investors said the current bubble is reminiscent of 2014-2015, when the initial funding boom in Indian startups led to inflated salaries. The hiring boom will lead to the same issue that happened in 2015 when salaries were inflated at junior levels. It becomes unsustainable, which leads to companies not becoming profitable anytime soon.

It is a mad rush for talent across unicorns in India. There are nearly 70 unicorns — startups valued at $1 billion or more — in India and these are likely to create 125,000-160,000 white-collar jobs over the next two-three quarters, according to two separate studies conducted by EMA Partners and CIEL HR Services for ET. Unicorns like CRED, Mesh, Vedanta and Browser Stack are all ramping up their teams, according to the EMA study conducted in September2022, unicorns have hired close to 150,000 executives over the last three quarters. It shows that an additional 125,000 executives are going to be hired over the next two quarters. A large proportion of the hiring, up to 70%, will be for technology roles alone, with a focus on talent like full stack developers, data scientists, solution architects and principal engineers.

This only includes the white-collar jobs and does not include blue/grey-collar hiring. Also, there are many 'soon corns' (soon to be unicorns) which are hiring significant numbers and they are not part of this study," The other study conducted by CIEL HR Services, a recruitment and staffing firm, shows that 53% of hiring done by unicorns this year was in finch, tech platforms and software-as-a-service (SaaS) segments."45% of these unicorns are on a

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hiring spree, expanding quickly. Their combined intent is to hire about 160,000 people in 12 months from July 2021," CIEL HR Services CEO Aditya Misran told ET. Since the beginning of the pandemic, CRED, one of the new unicorns, has added 350 people and currently has a headcount of more than 500 people. As their focus was on scaling existing offerings and building new product lines, they are constantly looking to expand our team across functions, including tech. CRED is currently valued at $2.2 billion post its Series D funding and is looking at growing the headcount to over 800 soon to be unicorns .

While Edutech unicorn Vedanta was looking at adding 1,000 people including tech talent over the coming months, even as it is aiming to set foot in international markets in the next 12-15 months. "Vedanta's revenue grew almost 4.5x last year alone as Covid-19 provided tailwinds for digital learning formats. The EdutechCompany is currently clocking $65 million in annual revenue run-rate.Browser Stack, another startup that joined the unicorn club this year, is planning to hire about 700 people in the coming months and for the next 12 to 18 months, it is targeting to double its headcount to about 1,600. Companies like BrowserStack aggressively hiring to support continued growth. Where the company size has grown from 300 to 800 during pandemic. Browser Stack is valued at $4 billion after its $200 million Series B funding, is looking at hiring for positions in sales, product management, marketing, design and finance.

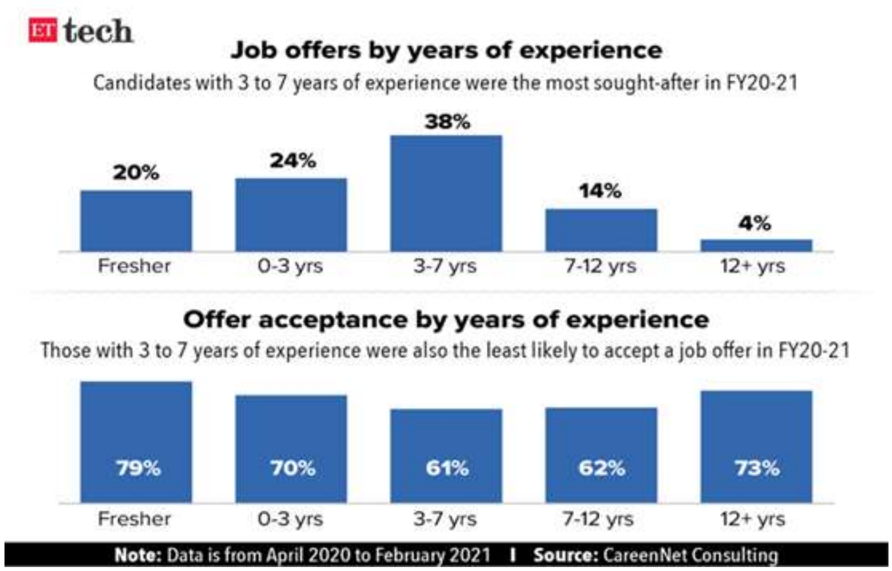
For ecommerce platform Mesh, the pace of hiring is the highest ever. As they know that the next wave of growth will only come if they rapidly innovate and increase employee strength, and are hiring more aggressively than ever. Mesh currently has 1,200 fulltime employees.

What contributes to the salary bubble?

Induced funding boom

Increased demand for technology talent, following an accelerated focus on digital adoption by businesses due to the Covid-19 pandemic, is making hiring expensive, especially for early-stage startups, multiple founders and recruiters. Engineers, data analysts, developers and product managers in the three-to-seven-years' experience bracket are often being hired for up to 50% higher salaries than industry levels by startups flush with investor capital.

At the onset of the Covid-19 pandemic, companies had to retrench staff, but as the wheels of the economy picked up pace and the adoption of technology accelerated, funds flowed into startups in the finch, Software as a Service (SaaS), Edutech space, and for platforms enabling small and medium-sized businesses to go digital. This led early-stage startups to hire at increased salaries compared to pre-pandemic levels. Yap, a banking and payments-focused infrastructure provider which recently closed a $10 million Series B round, has grown from 70 employees in March last year to over 200 now. As they continue to hire for tech roles, companies are willing to pay 70-80% more to retain core talent. The hiring boom will lead to the same issue that happened in 2015 when salaries were inflated at junior levels—it becomes unsustainable, which leads to companies not getting profitable anytimesoon," said Ashish Dave, chief executive officer of Mirage Asset Venture Investments, which has deployed over $200 million in India across companies like Ola, Tomato and Big Basket over the last two years.



Demand for top tech talent increased multifold as average deal sizes across sectors rose substantially in the past eight months. Funding rounds are closing in record time and startups are raising more capital than planned. In the first three months of this year, seed-stage rounds averaged $1.1 million, while Series arounds have averaged at $5.1 million across 32 financing rounds, according to data till March

2002 by Tracing, a research platform that tracks data for privately held companies. The slug of capital comes with an expectation to grow faster, which requires quality talent. The problem is for startups in the middle where you suddenly become big too fast. The money has to go into hiring. When startups want to quickly hire multiple engineers, that's where the trouble begins. In general, engineering and tech talent used to ask for a 15-20% jump but that has gone up to around 30-40%, Job offers being declined have gone up to 45-50% from 25-30% in companies like Flipkart, Goldman Sachs and Tata Consultancy Services Ltd.

Controlling Attrition rate

According to the survey findings, 92 per cent companies gave an increment in 2021 at an average of 8.0 per cent compared with only 4.4 per cent in 2020, when just 60 per cent of the companies had extended a pay hike. The Deloitte survey stated that if salary growth reaches 8.6 per cent, then the increments in 2022 would reach the pre-pandemic levels of 2019. About 25 per cent of the companies surveyed have projected a double-digit increment for 2022. While most companies are projecting a higher increment in2022 compared to 2021, the market continues to operate in an environment where Covid-19 related uncertainty persists, making it harder for firms to forecast.Some of the survey respondents have closed their 2021 increment cycleat the earliest, so 2022 increments are a fair distance away for them. GDP forecasts for FY22 were revised down after the second wave and expected organizations to closely watch similar developments while managing their fixed cost increases next year.

Sector-wise, Information Technology (IT) is likely to offer the highest increments, followed by life sciences. IT is the only sector expected to extend double-digit increments with some digital/e-commerce companies planning to give some of the highest increments.

Retail, hospitality, restaurants, infrastructure, and real estate companies continue to project some of the lowest increments in line with their business dynamics. Not all employees are expected to get the same increment as organizations continue to differentiate pay increases by skills and performance. Top performers can expect about 1.8 times the increments given to average performers.Organizations are trying to balance employee cost with what is best for their employees in what has been a difficult couple of years for many.

Going forward, function specific increment differentiation may become more prevalent as attrition rates vary significantly across different skills. Compensation is usually one of the top reasons for attrition, particularly at a junior management level, where virtual hiring has made it easier to jump ships

About 12 per cent employees were promoted in 2021 as compared to 10 per cent in 2020. Almost 12 per cent of firms have updated their bonus or variable pay plans to align their rewards structures with changing priorities. With respect to hiring, 78 per cent of the companies said they have started recruiting at the same pace as they used to prior to Covid-19.

In other findings from the survey, only 25 percent of companies have conducted an employee preference survey to decide their return to work strategy.

The IT sector has been the most proactive in assessing employee preferences with regards to the desired workplace. In most cases where such a survey was conducted, employees seem to prefer a hybrid work arrangement (combination of work from home and office, wherever feasible). However, at an all India level, only 40 percent organizations have finalized their return to work strategy," the survey found.

Previously, the organizations used to decide who can work from home; they are now deciding who can or should work from the office. While the hybrid model seems to be the preferred choice, there are critical questions about employees' health and safety, flexibility and choice, governance, data security, business continuity, collaboration, team work and culture that need to be carefully thought through before finalizing a robust return to work strategy

TCS, Infosys and Wipro hired over 2.3 lakh IT professionals last year

The reason for last year's salary hikes was the increasing attrition - which grew steadily last fiscal year. Tata Consultancy Services (TCS), Infosys, Wipro are the top three information technology firms in the Indian market with over 11 lakh IT professionals working for the companies.The three companies cumulatively hired 2.33 lakh employees in fiscal year 2022 to tame the high attrition rate they have been facing.

Company	Q1 FY2022	Q2FY2022	Q3FY2022	Q4FY2022
Infosys	13.9	20.1	25.5	27.7
TCS	8.63%	11.90%	15.30%	17.40%
Wipro	20.1	20%	25%	23.80%

Source: Company data
the rate of employees leaving the organization is highest in Infosys, second highest at Wipro and then at TCS.

To simplify it let's take an example that leads to understand well – the financial services outsourcing industry. The two most profound yet positive impact (s) of Covid for our incumbents have been a) the EBITDA (earnings before interest, taxes, depreciation, and amortization) margins zooming owing to shrinking overheads b) outsourcing as a service seeing the second awakening of sorts as clients cease to differentiate between employees sitting at home in NY City/Chicago or Gurgaon (as extended teams/outsourcing partners). Both these tailwinds have been revenue and margin accretive at the same time. Talking to a couple of supporters from the industry has also been confirmed my instinct. Some of the behemoths of the outsourcing industry have experienced EBITDA margins to double from 15% (pre-Covid) to ~ 28-30% during the last financial year. All the incumbents are also steadily expanding teams (almost at a frenzied pace) as FTE's/contracts increase.

Let's just dissect the EBITDA expansion at this stage. Doubling of EBITDA margin has meant large cash conversions on every dollar received. High cash conversion may then translate into higher cash flows with incumbents now sitting on a large enough cash pile with future expansion looking imminent. So what do these cash-rich companies do? Investing in the existing workforce (training and salary increases) can have constraints and boundaries. So what's next? Most companies are lured (into a trap) of hiring indiscriminately at this stage. A scenario where Company A offers Employee Z working at Company T at 100% with some obscenely exorbitant add-on is not unheard of. To stem attrition Company T would then counteroffer to match Company A's offer. This cycle continues till someone gives up. With more cash sitting on the balance sheet – companies also almost indulge in their campus recruitment programs (the competition to beat each other at salaries offered becomes campus folklore) – taking the starting salaries offered at campuses up by many notches. A long story cut short – salaries/wages for all new employees (lateral or campus hires) increase as more money chases the same resources without any significant increases in skill-sets.

CONCLUSION

How one can control Salary Bubble

Trade off to burst the bubble:

Following the consecutive announcements of pay adjustment, the online workplace community Blind conducted a review among tech professionals. The question: "Would you willingly take the trade-off (i.e. reduced wages in exchange for a permanent work-from-home setup) in this new Covid-19 future we have?"

Thirty-eight percent of Facebook employee respondents said they would consider relocating despite the cuts. This was seconded by 61 percent of VMWare employees who said they'd willingly relinquish a part of their salary if it means better work-life balance and lesser cost of living. In step with them is 47 percent of Twitter professionals.

From a bigger perspective, 66 percent of professionals gave an affirmative response to the question. That is, to move out of Seattle, New York, and San Francisco—the top tech hubs—even at a costly price. For them, the return far outstrips the expense.

On the other hand, however, lay those who opposed the pay adjustment policy. One respondent who works for streaming service provider Hulu said the policy is just another form of labor exploitation.

The respondent's answer hinged on the premise that the value of labor is not dependent on one's location. Whether one is at point A or point B, the quality and quantity of work one produces remain constant. In other words, only the work set-up changed, not the work itself.

This was followed by the results of a poll conducted via Twitter by research and advisory firm founding partner Jeremiah Ouyang. A similar question was raised: Will you accept an offer if it means having the ability to work from home indefinitely but with a 10 percent reduction in pay? Forty-four percent of the respondents answered affirmatively. The majority, on the other hand, said they'll either continue working at the office or find another job.

A decade ago, the digital disruption set a new precedent for the jobs market. Legacy roles which, for decades, were considered as the top professions were either replaced or redefined due to tech. Now, a new variable is taking root: remote work. As before, the message is clear: either adapt or lose.

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Permanent work from home to reduce cost of labor:

This year 2022, tech giants introduced the option for permanent work-from-home setups. Companies previously known for designing and providing home-like workplaces for their employees now are, ironically, moving to the real homes. The move is telling of the large-scale impact of the coronavirus pandemic.

Leading the permanent work-from-home setup charge is Facebook. During the second half of this year, the tech giant announced two major moves starting next year. First, it will expand its recruitment to remote workers, while also allowing its existing talent to continue working from home indefinitely.

Second, in relation to its accelerated adoption of a remote workforce, pay will be adjusted contingent to a remote worker's place of residence. This primarily affects Silicon Valley-based workers who moved out of the high-priced city to cut down on expenses.

Buy technology rather than people –

The start-up landscape is flush with new world automation tools and "gizmos". Rather than increasing the workforce in tandem with the increase in expected revenues – incumbents should think more like Elon Musk rather than corporate demi-gods of the past. In the next 10 years – most of the repetitive processes would be automated. If this is true – many of the tasks done at back-offices would be fully automated. What are we waiting for then? Company acquisitions can be trickier and pricier but will hordes of cash – maybe there can be a bigger bang for the buck. Additionally, moving from a service company to a product company has its own merits. Think of an outsourcing partner which has a product that they can sell directly to their client's client. Isn't that called moving vertically in the value chain and capturing the economic surplus which everyone in the chain is eventually vying for?

Mathematical illusion – One of the very important and ground-breaking works of late Prof Christensen related to how disruptive forces interact creating value for companies. His idea revolved around asking companies to invest in employee ideas, and this creative idea received considerable acclaim. However, at the ground level – seldom ideas coming from below are accepted. Either the middle managers blow and rubbish these ideas or the processes for idea selection are so cumbersome that they are lost in the wilderness. Additionally, each idea is looked through the lens of mathematically inaccurate ROI for which a ground-level employee may not have great justification. On the flip-side, organizations rarely calculate ROI on their expensive hires and access whether high salaries have any justification. Maybe higher budgets and a PE-type philosophy (only 1 idea out of the 10 can be a game-changer when investing in all of them). However, this culture change is evolutionary and requires patience

Loyalty Bonuses –

Loyal employees do not jump ship. They always seem to have an "eternal connection" with the firm and wouldn't leave even when pushed to the edge. I am not talking about people who hang around just because they don't have any options or have mastered the dark arts of survival. These loyal employees fully believe in the company's vision and mission are part of the "culture" and the mix then becomes endearing to prospective employees. More often than not loyal employees aren't treated the way should be. They may not be your best political animals hanging around power-hungry corridors pleasing top management or bosses but ones who quietly do their job and are also vociferous about things/policies/strategies not looking ok. Many times - these employees are looked down upon as they can't be "yes men" or question management policies. A good management system shouldn't find it too hard to identify such gems and then be brave enough to reward them for what they deserve.

Facebook is not alone. Other tech companies have since announced their adoption of the new policy. Twitter said that its own transition to remote work has been a subject of discussion for over two years now and has only been sped up due to the pandemic.

Included in its plan is the localization of pay. However, Twitter was quick to underline its "competitive" approach in adopting the policy to the tune of additional days off plus allowance worth $1,000.

The software company VMware is also offering the same deal to its employees. That is, to incur pay cuts in exchange for being able to work remotely on a permanent basis. Cuts for the annual salary of employees who take the company's offer are said to vary from eight to 18 percent.

Lastly, employees of Canadian e-commerce company Shopify are also not expected to return to the office any time soon, if at all. In a tweet by its founder Tobi Lute, he said Shopify is digital by default and as such should be able to continue its operations albeit the shift to remote work...

The scale by which remote work is redefining the tech industry is evident. It's also clear how tech employees may bear the brunt of these changes. As such, the looming enforcement of the new pay mechanism has been met with mixed reviews.

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