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How do companies cope with the slowdown spurred by the downturn in the US economy?

Thanks to continuing high investment levels, expanding consumer demand and various policy stimuli, the Indian economy is to hum along at a happy growth rate of 8.9 per cent this year, according to the Indian economic think tank, the National Council for Applied Economic Research. Even if “external shocks” slow the expansion, the minimum growth rate will be 8.5 per cent, we are assured.

While global factors such as rising commodity prices and the possible recession in the United States could subdue growth, anti-inflation measures being taken in India coupled with soaring salaries should boost consumer spending and sustain the domestic demand-based growth. So goes the argument.

However, the not-so-awesome returns posted by Indian companies have now got optimists looking again at this “amazing growth story”. Earnings growth and operating margins have come under pressure on a year-on-year basis. In such an uncertain scenario, it is interesting to see the effect on the job creation arena.

On the one hand, sectors like retail are still hiring like there is no tomorrow, creating up to 200,000 jobs per year. There is huge demand for people with

skills in merchandising, store operations and space planning, and this has created opportunities for expatriates to come in and fill the gap. Currently, expats fill an estimated 5 per cent of the key positions in the industry. Even mining and civil engineers are looking for jobs with infotech companies – creating a shortfall in the core engineering and manufacturing sectors. But even the “untouchable”, constantly growing Indian IT sector has started reeling under the triple whammy burden – skyrocketing wages, the south-bound US economy and the rising rupee.

Suddenly, their workforces are facing wage cuts and layoffs.

VULNERABLE TO US ECONOMY

Back in the US, this is election year and the White house is duly proclaiming that the economy will escape a recession and unemployment will remain low this year. While exports have grown due to the weakening dollar, wages have failed to march in step with inflation and consumer spending has slowed. Companies like TCS, IBM, Infosys and Satyam, among others, are all vulnerable to the US economy and have taken measures such as cutting incentives and even laying off Indian engineers. Some of

these are poor performers who deserved to go, but the reality of pressures on salaries and the rising rupee is showing on the recruitment front. Many Indian IT providers are also turning their focus to the domestic Indian IT market.

In today’s scenario, human resource managers continue to rate employee retention at the top of their list of priorities. This is followed by concerns about managing other trends such as job-hopping, flexible work locations and times, issues facing older hires, off-shoring and reverse off-shoring. Most recruiters are cautiously optimistic as they focus on the long term and hire strategically. One of them says, “High performers are always good poaching targets, always in demand, and we see no slowdown in the hiring of key talent and experienced business leaders who are vital to corporate innovation, growth and business success.”

SALVAGE OPERATIONS

Even though UBS has axed 8,000 jobs after posting a US\$11.4 billion Q1 loss, the new CEOs at Merrill Lynch and Citigroup are rebuilding the bruised bank’s management teams by hiring strings of top executives in areas such as strategy, sales and Trading and Risk management. Citigroup in India, however, has had to make some hard choices due to a slowdown in the local market and loan defaults. Its non-banking consumer finance company, Citi Financial, has had to let go 400 employees and the bank is looking to sell off close to US\$1 billion of its portfolio – a combo of commercial vehicle and construction equipment loans. Citi has also told potential buyers of these divisions to absorb around 300 affected employees.

Many pragmatic institutions are using this period of organisational restructuring to bring in people who can change cultures, break down silos and counter the negatives that plagued them earlier.

So what we are seeing now is a reaction to the market realities of 2008 but with less panic and with a clear focus on the future. For many companies, that’s not such a bad thing, after all!

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Pedestrians pass by the New York Stock Exchange March 11, 2008 in New York City.

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