The new H1B rules: Indian IT companies must shed the shareholder capitalism for stakeholder capitalism and pay more to employees in the USA

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The October 8 announcement by the Trump administration for yet another modification to the H1B rules may be a dampener to Indian IT-ITES industry, but the knee-jerk reactions of some experts are not only capitalistic but also selfish, to say the least. Either they are being paid by the rich Indian IT lobby or have vested interest in benefiting from lower wages.

The new-age slavery in the IT industry must end sooner or later, and the latest H1B rules deserve a lot of praise from the IT doyens whose mission-vision-values talk of lofty goals such as fairness, equality and parity. For long, they have been running the Chinese equivalent of sweatshops in India for knowledge workers. Deputing lower-paid Indians to global client locations to earn more money for the founders and shareholders is no more a good business model in a world that has been exploiting the poor and the weak for a while now.

The truth is that the average Indian IT employee on H1B gets "glorified perks" that are only slightly better than his/her peers working in India (PPP basis). They never get wages at a level where they could be called upper middle class in the country they are deputed to while their peers in India will be upper middle class.

Critics to the modified rules say these rules are framed under the "guise" of protecting US workers. What they are not saying is that these rules are actually good for those skilled foreign workers who will now get parity pay with their USA counterparts. The panic is from the majority shareholders and owners of IT companies who fear lower profit margins that could reduce their market capitalization. But they won't be poor by any long yardstick. The greed factor is raising its ugly head when they protest against higher pay for their own countrymen and women. Isn't this totally against stakeholder capitalism? Most of our companies including big four consulting firms seem to advocate shareholder capitalism even in an economy that is driving more middle class to below the poverty line. Indian prime minister himself had admitted that the government would supply free food to over 80Cr people till November end – That's a whopping 60% of population!

The POTUS seems to have understood the premise that higher pay will pay for itself, which India IT enterprises still have not grasped. Contrary to what many CEOs, analysts and HR heads seem to believe; employees' rate of pay is not synonymous with labour costs (which reflect not just the rate of pay but also productivity). Moreover, labour costs have little bearing on competitiveness or profitability. Many IT companies pay very well, but are extremely profitable. Lower wages do lead to ill health, financial stress, and ultimately chronic illnesses and diminished wellbeing. The costs of such illnesses will be borne

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eventually by other stakeholders including the government, public health systems, society at large and other stakeholders.

Evidence suggests that if companies paid more, not only would they help their employees but also they would actually help themselves. My esteemed colleague at Stanford, Jeffrey Pfeffer and I have shown enough evidence on this in one of our articles.

A quick study of private sector banks revealed some interesting aspects unique to India. HDFC has the highest per employee revenue amongst all banks and its critical job families driving the business have higher wages than the industry average. ICICI, a comparable private sector bank, has higher overall wage bill but less productivity, perhaps because it didn't look at the concept of strategic job families, typically 10% of all employees, who are most essential to driving the strategy.

In another analysis of the top 5 Indian IT players revealed that Infosys paid highest wages to employees and led the per employee revenue as compared to the next two high productivity firms – Wipro and TCS. Unlike in the banking sector, the direct correlation between higher wages and higher productivity is evident here.

Besides, as a stakeholder at a deep-tech startup based in the Silicon Valley and in India, I have seen the demonstrable pay-productivity correlation up close. The higher-paid USA employees deliver much more than their Indian counterparts on the same programming and simulation.

The current changes in the H1B rules postulate that US companies wanting to employ non-Americans should pay higher of actual or prevailing wages at the location of work. Over a million H1B holders will have to be paid more wages, starting from USD30000 annually. More and more of Indians will benefit from this hike while employed in the USA. Lobbyists who are paid astronomically by the IT lobby will only talk about the loss of profit margins of the employers and not address the larger benefit to employees and their families. Also, it will help qualified people earn what they deserve and bring in the market economies of supply-demand to decide on the wage levels.

Eventually quality will pay for itself and the meritocracy will prevail. If more of highly skilled workers come to the market, the overall wage will come down anyway.

The current noises made by IT-ITES companies are essentially a result of greed in driving stock prices and getting themselves richer. They should start thinking of distributing the wealth to more employees, society and the country they earn their profits from. Higher pay will mean higher tax income for the USA and it is a good thing because the society benefits from it. In a pandemic-affected economy, what is required is maximizing shared value and not shareholder value.

As for the argument that many Indians will lose jobs because of higher costs, some job losses will be inevitable just as we have witnessed with every tech revolution. People will become redundant because of their skills becoming replaceable with lower costs or when their skills are outdated. If people continually acquire new skills they will continue to stay relevant. Even if companies don't get their H1B renewed, they will find better jobs on their own in the land of great opportunities. It is just that simple.

Indian IT/ITES companies should walk their talk and start looking after their workers' wellbeing by paying them more if they are as productive as the locally available talent. It is time to shed the opportunistic and discriminatory mentality. Business models cannot run on cost-arbitration any more.

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