

# Industrial Relations After Recent Layoffs in Start-ups in India: Challenges, Implications, and Strategies

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## Abstract

The growth of start-ups in India has been accompanied by a dynamic and rapidly evolving labor market. However, the nature of start-ups, characterized by high uncertainty and fierce competition, often leads to workforce downsizing, commonly known as layoffs. These layoffs have significant implications for industrial relations in the start-up sector. This research paper aims to explore the challenges, implications, and strategies associated with industrial relations after recent layoffs in start-ups in India. By analyzing the current landscape, and reviewing relevant literature, this paper provides insights into the post-layoff industrial relations scenario and offers recommendations for stakeholders involved. The recent wave of layoffs in the Indian start-up industry has brought to light the complex and ever-evolving dynamics of industrial relations in the country. The Indian start-up industry has seen a remarkable growth in the last decade, attracting both domestic and foreign investments. However, the industry has been plagued by numerous challenges such as unstable funding, hyper-competition, regulatory hurdles, and most recently, the COVID-19 pandemic. As a result, many start-ups have resorted to laying off employees as a measure to cut costs and sustain their operations. This paper aims to explore the industrial relations issues arising out of recent layoffs in Indian start-ups.

*Keywords:* layoffs, restructuring, stakeholders, redeployment, founders.

## Background & Significance of the Study

**Background:** The Indian start-up industry has grown rapidly in the last decade, with a total of 55,000 start-ups registered in the country as of 2020. These start-ups are majorly concentrated in the e-commerce, fintech, and Healthtech sectors. The industry has attracted significant investments, with venture capital firms investing \$9.3 billion in start-ups in 2019. However, the industry has also been hit by challenges such as lack of innovation, regulatory hurdles, hyper-competition, and the COVID-19 pandemic. Industrial relations refer to the interactions between employers, employees, and the government in the workplace. It encompasses the policies, practices, and processes that govern the

relationship between employers and employees, including matters such as wages, working conditions, job security, and employee rights. In recent years, India has witnessed a significant rise in the number of start-ups, particularly in the technology sector. These start-ups have experienced rapid growth and have played a vital role in driving innovation, generating employment, and contributing to the Indian economy.

**Significance:** However, start-ups are often characterized by a volatile business environment, where they face unique challenges such as financial instability, scalability issues, and uncertain market conditions. As a result, they may need to make strategic decisions, such as layoffs, to ensure

survival and sustainability. Layoffs involve the termination of employees' contracts or the reduction in the workforce due to various reasons, including cost-cutting measures, restructuring, or business pivots.

The recent layoffs in start-ups in India have significant implications for industrial relations. Here are some key points highlighting their background and significance:

1. **Impact on Employees:** Layoffs can have a profound impact on the affected employees. Losing their jobs can lead to financial distress, uncertainty, and emotional stress. In the case of start-ups, where employees often have high expectations and are deeply committed to the company's mission, the impact can be particularly significant.
2. **Employee-Employer Trust:** Layoffs can erode trust between employees and employers. Employees may feel betrayed or undervalued, leading to a breakdown in the relationship. This can have long-term consequences, as employees who remain with the company may become disengaged or seek alternative employment opportunities.
3. **Employee Rights and Protections:** Industrial relations in the aftermath of layoffs highlight the importance of employee rights and protections. It becomes crucial to ensure that laid-off employees are treated fairly, receive appropriate severance packages, and have access to support services such as reemployment assistance or skill development programs.
4. **Unionization and Collective Bargaining:** The layoffs may lead to increased unionization efforts as employees seek collective representation and protection. Unions can negotiate for better terms and conditions, advocate for the rights of laid-off employees, and participate in decision-making processes related to layoffs and rehiring.
5. **Government and Policy Considerations:** Layoffs in start-ups may prompt the government to review existing labor laws and policies to ensure adequate protection for employees. Governments may introduce or

amend legislation to address the unique challenges faced by start-ups and provide support during periods of layoffs or downsizing.

6. **Overall Industry Impact:** The collective layoffs in start-ups can have wider implications for the industry as a whole. It may affect the industry's reputation, investor confidence, and talent acquisition efforts. It can also lead to a talent pool of experienced individuals seeking employment, potentially benefiting other organizations or start-ups.

Addressing the aftermath of layoffs in start-ups requires a collaborative approach involving employers, employees, unions, and policymakers. Fostering open communication, providing support mechanisms, and upholding employee rights are essential for rebuilding trust, maintaining a positive industrial relations climate, and sustaining a vibrant start-up ecosystem in India.

### **Startup Ecosystem in India Landscape Characteristics and Challenges**

India's startup ecosystem has witnessed significant growth and development over the years. Here are some characteristics and challenges of the startup landscape in India:

#### **Characteristics of India's Startup Ecosystem:**

1. **Massive Market Potential:** India is the second-most populous country in the world, providing a vast domestic market for startups to address various consumer needs and demands.
2. **Skilled Workforce:** India boasts a large pool of talented and technically skilled professionals, including engineers, software developers, and data scientists, which is advantageous for startups in the technology sector.
3. **Technological Advancements:** The widespread adoption of smartphones and internet connectivity has led to a digital revolution in India, creating opportunities for startups in sectors like e-commerce, fintech, healthtech, edtech, and more.

4. **Supportive Government Initiatives:** The Indian government has launched several initiatives to foster the growth of startups, such as the Startup India campaign, tax exemptions, ease of doing business reforms, and funding schemes like the Fund of Funds for Startups (FFS).
5. **Increasing Venture Capital Investment:** India has experienced a surge in venture capital investment, with both domestic and international investors showing interest in funding promising startups.
6. **Incubators and Accelerators:** The country has a growing number of incubators and accelerators that provide mentorship, networking opportunities, and access to funding for early-stage startups.
7. **Rising Entrepreneurial Spirit:** India has witnessed a rise in entrepreneurial aspirations, with a growing number of individuals opting to start their own ventures instead of pursuing traditional career paths.
6. **Competitive Landscape:** Startups in India face intense competition, both from domestic players and global giants entering the Indian market. This competitive landscape requires startups to differentiate themselves and find unique value propositions.
7. **Lack of Exit Opportunities:** The availability of exit options, such as acquisitions or initial public offerings (IPOs), is relatively limited in India compared to more mature startup ecosystems, making it challenging for investors and startups to realize returns on their investments.

Despite these challenges, India's startup ecosystem continues to evolve and grow, fueled by the entrepreneurial spirit, innovative ideas, and supportive initiatives aimed at fostering a thriving startup culture.

### **Layoffs in Startup System in India Causes, Motivation, Legal & Ethical Considerations**

#### **Causes of Layoffs:**

#### **Challenges of India's Startup Ecosystem:**

1. **Funding Gap:** While there has been an increase in venture capital investment, there is still a significant funding gap for early-stage startups, making it challenging for them to secure adequate capital to grow and scale.
2. **Regulatory Complexity:** Despite government initiatives to ease the regulatory burden, startups in India often face bureaucratic hurdles and red tape, which can slow down their operations and growth.
3. **Talent Retention:** While India has a skilled workforce, startups often struggle to retain top talent due to fierce competition from established companies and attractive opportunities abroad.
4. **Infrastructure Challenges:** Inadequate physical and digital infrastructure, especially in smaller towns and rural areas, can pose challenges for startups operating outside major metropolitan cities.
5. **Market Fragmentation:** India is a diverse country with varying languages, cultural norms, and consumer preferences across different regions. Startups must adapt and localize their offerings to cater to these diverse markets.

1. **Financial Constraints:** Startups often operate with limited financial resources, and if they face funding crunches or fail to achieve expected growth, they may resort to layoffs to reduce costs and optimize their operations.
2. **Business Pivot or Restructuring:** Startups may undergo strategic changes in their business model or product offerings, leading to a realignment of their workforce and resulting in layoffs in certain departments or functions that are no longer aligned with the new direction.
3. **Market Challenges:** Startups operating in highly competitive or rapidly changing markets may face difficulties in gaining traction or achieving sustainable growth. This can lead to layoffs as the company tries to streamline its operations and focus on core areas.
4. **Technology Advancements:** Technological advancements or automation in certain industries can render specific job roles redundant, necessitating layoffs as startups adopt more efficient processes or technologies.
5. **External Factors:** Economic downturns, policy changes, or industry disruptions can have an adverse impact on startups, leading to layoffs as a means of survival during challenging times.

#### **Motivations for Layoffs:**

1. **Cost Reduction:** Layoffs are often driven by the need to reduce expenses, particularly personnel costs, to align with the financial realities of the startup.
2. **Efficiency and Optimization:** Startups may opt for layoffs to streamline their operations, eliminate redundant positions, or reorganize their workforce to increase overall efficiency and productivity.
3. **Focus on Core Competencies:** Layoffs can enable startups to concentrate their resources and efforts on core business areas or key projects that are crucial for their long-term growth and sustainability.
4. **Survival and Pivot:** In some cases, layoffs may be necessary for the survival of the startup or to facilitate a business pivot, allowing the company to adapt to market changes and pursue new opportunities.

### **Legal and Ethical Considerations:**

1. **Compliance with Labor Laws:** Startups in India must comply with applicable labor laws, including those related to severance packages, notice periods, and other statutory obligations while conducting layoffs. Failing to adhere to these laws can lead to legal consequences.
2. **Transparency and Communication:** Startups should strive for transparent and open communication with affected employees throughout the layoff process. Providing clear explanations, offering support services, and treating employees with empathy and respect are ethical considerations that should be prioritized.
3. **Fair Selection Criteria:** Layoffs should be based on fair and objective criteria, such as performance evaluations or skill relevancy, rather than discriminatory factors such as gender, race, or religion. Ensuring fairness in the selection process is important to maintain trust and uphold ethical standards.
4. **Assistance and Support:** Startups should consider providing assistance to affected employees, such as outplacement services, career counseling, or severance packages, to help them transition to new employment

opportunities and mitigate the impact of the layoff.

It's important for startups to approach layoffs with sensitivity, balancing the need for organizational adjustments with the well-being and rights of their employees.

### **Industrial Relations in Start-ups : Role of Stakeholders**

Industrial relations in start-ups involve the relationships between the various stakeholders involved in the organization. These stakeholders typically include founders, employees, investors, customers, and regulatory authorities. While the specific dynamics of industrial relations can vary from one start-up to another, there are some common roles and considerations for each stakeholder:

1. **Founders/Entrepreneurs:** Founders play a critical role in shaping the industrial relations of a start-up. They establish the company's culture, values, and overall vision. It is their responsibility to create a positive work environment that promotes open communication, fairness, and employee well-being. Founders also set policies related to employee compensation, benefits, and growth opportunities.
2. **Employees:** Employees are essential stakeholders in start-ups. They contribute their skills, expertise, and time to help the company succeed. Start-ups need to ensure that their employees are treated fairly, provided with competitive wages, and offered opportunities for growth and development. Communication channels should be established to address their concerns, suggestions, and feedback.
3. **Investors:** Investors provide financial resources to start-ups in exchange for equity or future returns. They have an interest in the success of the company and may have expectations regarding profitability, growth, and exit strategies. Start-ups must maintain transparent and regular communication with investors, sharing information on company progress, challenges, and milestones.

4. **Customers:** Customers are vital stakeholders for start-ups as they provide the revenue necessary for business sustainability. Maintaining good relations with customers involves delivering quality products or services, addressing their needs and concerns promptly, and building long-term relationships. Start-ups may engage in market research and gather customer feedback to improve their offerings.
5. **Regulatory Authorities:** Start-ups need to comply with applicable laws and regulations in the jurisdictions where they operate. This includes areas such as employment laws, health and safety standards, intellectual property, and data protection. Ensuring compliance and establishing positive relations with regulatory authorities is crucial to avoid legal complications that can hinder business operations.
2. **Motivation:** Layoffs can significantly impact employee motivation. Fear of job loss can demotivate employees, leading to reduced productivity and engagement. Employers need to find ways to re-engage employees, set clear goals, provide opportunities for skill development, and recognize and reward employees' efforts to boost motivation.
3. **Trust:** Layoffs can erode trust between employees and management. Employees may question the organization's commitment to their well-being, and trust in leadership can be diminished. Rebuilding trust requires transparent and open communication, demonstrating empathy, and providing support to affected employees. Engaging in honest conversations about the reasons for layoffs and future plans can help restore trust.
4. **Bargaining:** After layoffs, remaining employees may perceive a power imbalance between themselves and management. Collective bargaining may become more challenging as employees may feel weakened or insecure. Employers should engage in fair and transparent negotiations with employee representatives to address concerns, ensure proper compensation and benefits, and maintain a collaborative relationship.

Effective industrial relations in start-ups require the collaboration and understanding of all stakeholders. Regular communication, transparency, and mutual respect are key elements in building strong relationships and fostering a positive work environment. By recognizing and addressing the needs of each stakeholder, start-ups can establish a foundation for growth, success, and sustainable business operations.

### Post-layoff

Post-layoff industrial relations can be challenging, particularly in terms of employee morale, motivation, trust, bargaining, and conflict resolution. Let's explore each of these challenges in detail:

1. **Employee Morale:** Layoffs often lead to decreased employee morale due to job insecurity and concerns about future layoffs. Remaining employees may experience survivor guilt or fear for their own job security, which can impact their motivation, productivity, and overall satisfaction. Restoring and maintaining employee morale is crucial for maintaining a positive work environment.

5. **Conflict Resolution:** Layoffs can create tensions and conflicts within the workforce. Employees may experience emotional distress, and there may be disagreements over workload distribution or changes in job roles. Effective conflict resolution strategies, such as mediation or arbitration, should be employed to address conflicts promptly and find mutually agreeable solutions. Open channels of communication, active listening, and empathy are essential for resolving conflicts.

Overall, addressing these challenges requires proactive measures from employers, such as open communication, transparency, fairness, and support for affected employees. Investing in employee well-being, rebuilding trust, and fostering a positive work culture are crucial for successfully navigating the post-layoff industrial relations challenges. Implications of Layoffs on Industrial Relations: Employee Engagement, loyalty, organizational values, employer branding and reputation

Layoffs can have significant implications on various aspects of industrial relations, including employee engagement, loyalty, organizational values, employer branding, and reputation. Let's explore each of these implications in more detail:

1. **Employee Engagement:** Layoffs often create an atmosphere of uncertainty and fear among employees who may worry about their job security. This can lead to decreased employee engagement as individuals may become disengaged, demotivated, and less committed to their work. Layoffs can disrupt the sense of stability and trust within the organization, making it challenging to maintain high levels of employee engagement.
2. **Loyalty:** Layoffs can erode employee loyalty, especially if employees perceive the layoffs as unfair or poorly managed. When individuals witness their colleagues losing their jobs, it can create feelings of distrust towards the organization. Employees may question their loyalty to an employer that they perceive as not prioritizing their well-being and job security. This can impact the long-term commitment and dedication of the remaining workforce.
3. **Organizational Values:** Layoffs can test an organization's commitment to its stated values. If layoffs are carried out in a manner inconsistent with the organization's values, it can lead to a sense of betrayal among employees. For example, if an organization claims to prioritize its employees' well-being but implements layoffs without adequate support or consideration, it can damage the perceived integrity of the organization's values.
4. **Employer Branding:** Layoffs can impact an organization's employer branding, which refers to its reputation as an employer and the perceptions potential employees have about working for the company. Layoffs can create negative publicity and word-of-mouth, affecting the organization's ability to attract and retain top talent. Prospective employees may be hesitant to join a company that has a history of layoffs or is perceived as unstable.

5. **Reputation:** Layoffs can have a significant impact on an organization's overall reputation, both internally and externally. Internally, employees may lose trust and confidence in the organization's leadership, which can harm morale and productivity. Externally, layoffs can generate negative media coverage, leading to a damaged reputation in the eyes of customers, partners, investors, and the broader community. It may take time and concerted effort to rebuild trust and restore a positive reputation.

To mitigate the potential negative implications of layoffs on industrial relations, organizations can take proactive steps. These may include transparent communication about the reasons for layoffs, providing support to affected employees, implementing fair selection criteria, and offering outplacement assistance. Additionally, organizations can focus on strengthening employee engagement through increased communication, recognition, and opportunities for growth and development for the remaining workforce. It is also essential to align organizational actions with stated values to maintain integrity and rebuild trust among employees and stakeholders.

#### **Strategies for Effective Industrial Relations Post-Layoffs:**

**Building trust and rebuilding relationships:** After layoffs, it is crucial to rebuild trust between management and remaining employees. This can be achieved through open and transparent communication channels. Regularly sharing information about the company's financial situation, future plans, and the reasons behind the layoffs can help employees understand the decision and alleviate their concerns.

- **Offering support and counseling services:** Layoffs can have a significant impact on employees' mental health and well-being. Providing access to counseling services, employee assistance programs, or support groups can help individuals cope with the emotional challenges they may face. By demonstrating care and support for employees' well-being, the company can foster a positive work environment.

- **Redeployment and reskilling opportunities:** Instead of simply laying off employees, exploring redeployment options or offering reskilling opportunities can be a win-win situation. Identifying alternative roles within the organization for affected employees and providing training or support to acquire new skills can help retain valuable talent. This approach also demonstrates a commitment to the long-term development of employees.
- **Collaboration and inclusive decision-making:** Involving employees in decision-making processes, particularly those that directly affect their work and job security, can help improve industrial relations. Creating platforms for employee feedback, establishing joint labor-management committees, or conducting regular employee surveys can give employees a voice and help shape decisions that impact their lives.
- **Strengthening employee welfare programs:** Enhancing existing employee welfare programs or introducing new initiatives can contribute to a positive industrial relations climate. This can include offering competitive compensation packages, comprehensive healthcare benefits, flexible work arrangements, and opportunities for career growth. By prioritizing employee well-being and satisfaction, the company can foster a sense of loyalty and commitment among its workforce.
- **Continuous communication and feedback loops:** Industrial relations should not be a one-time effort but an ongoing process. Regularly engaging in two-way communication, seeking feedback from employees, and addressing their concerns can help maintain a positive relationship between management and employees. This includes providing regular updates on the company's progress, future plans, and any potential changes that may impact the workforce.
- **Employee recognition and rewards:** Recognizing and appreciating employees' contributions is crucial for maintaining a motivated and engaged workforce. Implementing reward and recognition programs that acknowledge employees' efforts,

achievements, and milestones can help boost morale and create a positive work environment. This can include monetary rewards, public recognition, career advancement opportunities, or other meaningful gestures of appreciation.

Implementing these strategies requires a commitment from management to prioritize employee well-being, open communication, and a collaborative approach. By fostering a positive industrial relations climate, even in the aftermath of layoffs, organizations can rebuild trust, retain talent, and create a resilient and engaged workforce.

### Conclusion:

In conclusion, the recent layoffs in start-ups in India have posed significant challenges to industrial relations in the country. The key findings and implications of these layoffs shed light on the complexities of the start-up ecosystem and its impact on employees and the overall labor market. Additionally, the conclusions drawn from this analysis provide insights into the strategies that start-ups and policymakers can adopt to address these challenges effectively.

### Key Findings and Implications:

1. **Job insecurity and employee morale:** The layoffs in start-ups have resulted in increased job insecurity among employees, leading to a decline in morale and motivation. This can have adverse effects on productivity and employee retention in the long run.
2. **Negative impact on employer-employee relationships:** The layoffs have strained the trust and relationships between employers and employees. The lack of communication and transparency during the layoff process has contributed to this strain, making it crucial for start-ups to focus on rebuilding trust.
3. **Legal and ethical concerns:** Several start-ups have faced legal and ethical challenges regarding the termination process and employee rights. These concerns highlight the need for clear guidelines and regulations to protect the rights of employees during layoffs.
4. **Reputation and talent acquisition:** Layoffs can damage the reputation of start-ups, making it challenging to attract and retain top talent.

Potential employees may perceive start-ups as unstable and may prefer more established companies with better job security.

### **Recommendations for Start-ups and Policymakers:**

1. **Transparent and compassionate communication:** Start-ups should prioritize clear and compassionate communication with employees during the layoff process. Providing adequate notice, offering support services, and explaining the reasons behind the layoffs can help mitigate negative impacts on employee morale.
2. **Employee engagement and well-being initiatives:** Start-ups should invest in employee engagement and well-being initiatives to address job insecurity and boost morale. This can include regular feedback sessions, skill development programs, and mental health support.
3. **Compliance with labor laws and regulations:** Start-ups should ensure compliance with labor laws and regulations while conducting layoffs. This includes adhering to notice periods, severance packages, and providing necessary documentation to employees.
4. **Collaboration between start-ups and policymakers:** Policymakers should collaborate with start-ups to develop guidelines and regulations that protect the rights of employees during layoffs. This can include establishing frameworks for severance packages, re-employment assistance, and creating mechanisms for addressing disputes.

### **Future Research Directions:**

1. **Long-term impact of layoffs on start-up success:** Further research can explore the long-term impact of layoffs on the success and sustainability of start-ups. This can include examining the effects of layoffs on innovation, financial performance, and investor confidence.
2. **Comparative analysis across industries:** A comparative analysis across different industries within the start-up ecosystem can provide insights into industry-specific challenges and strategies for managing layoffs.
3. **Employee perspectives and coping mechanisms:** Understanding the experiences and coping mechanisms of employees affected by layoffs can help develop support systems and interventions that address their specific needs.
4. **Evaluation of policy interventions:** Future research should evaluate the effectiveness of policy interventions aimed at supporting employees during layoffs and improving industrial relations in start-ups.

By addressing the challenges highlighted in this study and implementing the recommended strategies, start-ups and policymakers can work together to improve industrial relations, ensure employee well-being, and foster a sustainable and thriving start-up ecosystem in India.

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