International Journal of Scientific Research and Engineering Development-– Volume 9 Issue 5, Sep-Oct 2026
Available at www.jsred.com

RESEARCH ARTICLE OPEN ACCESS

Employee Productivity and Profitability: A Study of IT Companies

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Abstract:

Human capital is increasingly recognised as the single most important source of competitive advantage for modern firms, particularly in knowledge and service-intensive economies such as India. This paper examines the relationship between employee productivity and corporate profitability among Indian IT-services companies (TCS, Infosys, HCLTech and Wipro), where human capital is the primary asset. Using productivity measures such as revenue per employee (RPE), profit per employee (PPE), employee-cost intensity (employee cost as a percentage of revenue) and human-capital return, and profitability measures such as Return on Assets (ROA), Return on Equity (ROE), Net Profit Margin and Return on Capital Employed (ROCE), the study draws on secondary data compiled from company annual reports, exchange filings and prior empirical research covering the period from FY 2019–20 to FY 2025–26. The analysis finds a positive and economically meaningful association between employee productivity and firm profitability: companies that generate higher revenue and profit per employee consistently report stronger margins and return ratios. Among large Indian IT firms, TCS, Infosys, HCLTech and Wipro display differing productivity profiles — Infosys and TCS typically lead on profit per employee while HCLTech has recently reported the highest revenue per employee — and these differences map closely onto differences in profitability and operating margins. The study also finds that disciplined management of employee-cost intensity, rather than simple headcount growth, is the key lever linking workforce productivity to the bottom line, and that AI-led efficiency gains are now visibly lifting revenue per employee. The paper concludes with recommendations for firms seeking to convert workforce productivity into sustainable profitability.

Keywords — **Employee Productivity, Profitability, Revenue per Employee, Profit per Employee, Human Capital, Indian IT companies, Return on Assets, IT Services.**

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I. INTRODUCTION

In a globalised, technology-driven economy, the people a company employs are often its most valuable — and most expensive — resource. For Indian listed companies, and especially for the information-technology and services sectors that have powered much of India's corporate growth, employee cost is typically the single largest line item in the profit-and-loss statement, running to 55–57% of revenue in large IT-services firms. How efficiently a company converts that spending on people into output and, ultimately, into profit is therefore a central determinant of its financial performance and shareholder value.

Employee productivity captures the output or value generated per unit of workforce input. It is most commonly measured in financial terms by revenue per employee and profit per employee, which indicate how effectively a firm's human capital is deployed [12], [13]. Profitability, in turn, measures how efficiently the firm converts its resources into surplus and is captured by ratios such as Return on Assets, Return on Equity, Net Profit Margin and Return on Capital Employed.

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The intuitive link between the two is strong: a workforce that produces more revenue and profit per head should, other things being equal, support higher margins and returns. Yet the relationship is not automatic — it depends on cost discipline, pricing power, business mix, automation and the quality of management.

The Indian context makes this question especially interesting. India's listed IT-services majors — Tata Consultancy Services (TCS), Infosys, HCLTech and Wipro — together employ well over a million people and compete globally on the efficiency with which they monetise talent. Recent years have brought headcount rationalisation, a shift away from pure linear (people-led) growth, and the first visible productivity gains from artificial intelligence, with the leading firms reporting a 3–4% rise in revenue per employee in FY 2025–26. These developments have sharpened the strategic focus on productivity as a driver of profitability.

Against this backdrop, the present study investigates the relationship between employee productivity and profitability among Indian IT-services companies. It benchmarks leading firms on productivity and profitability metrics, tests whether higher productivity is associated with higher profitability, and identifies the mechanisms — chiefly employee-cost intensity and business mix — that connect the two.

II. OBJECTIVES OF THE STUDY

The study is guided by the following objectives:

- To examine the concept and measurement of employee productivity among Indian IT companies, using revenue per employee, profit per employee, employee-cost intensity and human-capital return.
- To analyse the profitability of selected Indian IT companies through Return on Assets, Return on Equity, Net Profit Margin and Return on Capital Employed.
- To assess the relationship between employee productivity and firm profitability, and to determine whether higher productivity is associated with higher profitability.
- To compare the productivity–profitability profiles of leading Indian IT-services companies (TCS, Infosys, HCLTech and Wipro).
- To identify the key drivers — cost discipline, business mix, pricing and automation — that convert workforce productivity into profitability, and to offer practical recommendations.

III. REVIEW OF LITERATURE

A growing body of research examines the link between human capital, employee productivity and firm performance. The weight of evidence supports a positive relationship, while cautioning that the strength of the link depends on sector, cost structure and measurement.

Wanigasekara and Mendis, in a comparative study of the relationship between employee productivity and firm profitability from the shareholders' and the firm's perspectives, found a positive association between productivity metrics and profitability, concluding that firms which extract more value per employee reward both the firm and its shareholders [1].

Human-capital efficiency studies on listed companies (2022) comparing manufacturing and service-sector firms report a significant relationship between intellectual/human capital efficiency and firm profitability, with the link strongest in human-capital-intensive service firms [2].

Krekel, Ward and De Neve (Harvard/HBS working paper), reviewing the theoretical and empirical literature on employee well-being and productivity, document that higher employee well-being is associated with higher individual productivity and, through it, with stronger firm performance and profitability [3].

Prasad (and co-authors), studying the determinants of profitability and productivity of Indian SMEs, found that firm-specific factors significantly affect both productivity and

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profitability, and that the two reinforce each other over time [4].

A comparative study of employee productivity in Indian public and private sector banks (2018) considered ten indicators of employee productivity and observed that profit and spread per employee were significantly higher in the more efficient banks, directly linking per-employee productivity to profitability [5].

Recent sectoral analyses of Indian IT (2024–2026) report that Infosys generates the highest profit per employee among the large IT firms, ahead of TCS and Wipro, while HCLTech has recorded the highest revenue per employee (about Rs. 57.3 lakh versus about Rs. 54.4 lakh for Infosys and about Rs. 45.7 lakh for TCS on one measure). These studies also document a 3–4% rise in revenue per employee in FY 2025–26 attributed to AI-led efficiency and a move away from linear headcount growth [9]–[11].

Studies on employee-cost intensity and profitability (IJCRT, 2026) find that human-capital efficiency significantly raises profitability in TCS and Infosys, and benchmark IT-services labour cost at roughly 55–57% of revenue, confirming that managing employee-cost intensity is central to converting productivity into profit [7], [8].

The literature is broadly consistent: employee productivity and firm profitability move together, the relationship is strongest in human-capital-intensive sectors, and the mechanism runs through cost discipline, pricing power and, increasingly, automation. The present study extends this literature by focusing on Indian IT companies in the most recent, AI-influenced period.

IV. RESEARCH METHODOLOGY

Nature and type of study

The study is analytical and descriptive, based on secondary data. It examines the relationship between employee productivity and profitability at the firm level, with a focused comparison of leading Indian listed IT-services companies.

Period of study

The analysis covers FY 2019–20 to FY 2025–26, a window chosen to capture the pandemic shock, the subsequent demand surge and headcount expansion, and the recent pivot to productivity- and AI-led growth.

Sample

The core sample comprises four leading Indian listed IT-services companies — TCS, Infosys, HCLTech and Wipro — which are human-capital-intensive, well-disclosed and representative of the sector that most clearly links workforce productivity to profitability. Cross-sector benchmarks (for example manufacturing labour-cost ratios) are referenced from prior studies [6], [8] to contextualise the findings.

Sources of data

Data were compiled from company annual reports and investor presentations [14]; stock-exchange and regulatory filings; and peer-reviewed and industry research cited in the review of literature. All monetary figures are reported in their original currency or in Indian rupees as disclosed.

Variables and tools of analysis

Employee productivity is measured through revenue per employee (RPE = Revenue / Average Headcount), profit per employee (PPE = Net Profit / Average Headcount), employee-cost intensity (Employee Cost / Revenue) and human-capital return. Profitability is measured through Return on Assets, Return on Equity, Net Profit Margin and Return on Capital Employed. The study applies ratio analysis, trend analysis and comparative tabulation, and interprets the direction and strength of the productivity–profitability association. Where prior studies report correlation or regression results, these are referenced to corroborate the descriptive findings.

Limitations

The findings rest on secondary data and are subject to the accuracy and comparability of published figures. The core sample is sector-concentrated (IT services), so firm-level inferences should be generalised to other sectors

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with caution. Differences in accounting policy, currency, headcount definitions (billable versus total), subcontractor use and one-off items can distort year-on-year and cross-firm ratio comparisons.

V. DATA ANALYSIS AND INTERPRETATION

A. *Why Employee Productivity Matters for Indian IT Firms*

For human-capital-intensive Indian IT companies, employee cost dominates the cost structure — benchmarked at roughly 55–57% of revenue in large IT-services firms, against only about 6% in a capital-intensive manufacturer such as an automaker [6], [8]. Where people are the main input, the efficiency with which each employee generates revenue and profit becomes the primary driver of margins and returns. This is why revenue per employee and profit per employee are watched closely by analysts and shareholders as leading indicators of profitability.

B. *Employee Productivity of Leading Indian IT Firms*

The large Indian IT-services firms display distinct productivity profiles. On profit per employee, Infosys typically leads, ahead of TCS and Wipro, reflecting strong operating discipline and value creation per head. On revenue per employee, HCLTech has recently reported the highest figure, as summarised in Table I.

TABLE I
REVENUE PER EMPLOYEE OF LEADING INDIAN IT FIRMS

Company	Revenue per Employee	Relative standing
HCLTech	Rs. 57.3 lakh	Highest RPE (recent)
Infosys	Rs. 54.4 lakh	High RPE; leads on profit per employee
TCS	Rs. 45.7 lakh	Large scale; strong profit per employee
Wipro	lower than peers	Lagging on both RPE and PPE

In FY 2025–26, TCS, Infosys and HCLTech each reported a 3–4% rise in revenue per employee, attributed to AI-led efficiency gains and a deliberate move away from linear, headcount-driven growth. This signals a structural shift: firms are increasingly growing revenue faster than headcount, which lifts productivity and, in turn, supports profitability.

C. *Linking Productivity to Profitability*

The productivity rankings map closely onto profitability. Firms with higher revenue and profit per employee — Infosys and TCS — consistently report higher operating and net margins and stronger return ratios than lower-productivity peers such as Wipro.

TABLE II
PRODUCTIVITY–PROFITABILITY COMPARISON OF LEADING INDIAN IT FIRMS

Metric	Higher-productivity firms (TCS, Infosys)	Lower-productivity firms (e.g. Wipro)	Direction
Profit per employee	Higher	Lower	Productivity leads
Net Profit Margin	18%–22%	lower	Positive link
Return on Equity (ROE)	25%–45% (TCS high)	lower	Positive link
Return on Assets (ROA)	High	Lower	Positive link
Employee-cost intensity	Contained	Higher relative drag	Inverse to profit

Interpretation.

The data support a positive relationship between employee productivity and profitability. Firms that generate more revenue and profit per employee enjoy higher margins and returns. The mechanism runs through employee-cost intensity: when a firm grows revenue per head faster than cost per head, employee-cost intensity falls and margins expand. Conversely, headcount growth that outpaces revenue growth raises cost intensity and compresses profitability even if absolute revenue rises.

D. *Drivers of the Productivity–Profitability Link*

The analysis identifies four principal drivers that convert workforce productivity into profitability:

- ***Employee-Cost Intensity and Pyramid Management:*** Optimising the mix of junior and senior staff (the "pyramid"), utilisation rates and subcontractor costs keeps employee

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cost contained relative to revenue, directly protecting margins.

- ***Business and Pricing Mix:*** A shift toward higher-value services, digital and platform work, and better pricing lifts revenue per employee and margins simultaneously.
- ***Automation and AI:*** AI-led delivery and non-linear growth allow revenue to rise faster than headcount, structurally improving productivity and profitability — the dominant theme in FY 2025–26.
- ***Talent Management and Retention:*** Lower voluntary attrition and higher employee well-being reduce hiring and training costs and sustain productivity, reinforcing profitability over time.

VI. FINDINGS

- Employee productivity and firm profitability are positively associated among Indian IT companies: firms with higher revenue and profit per employee report stronger margins and return ratios.
- The relationship is strongest in human-capital-intensive sectors such as IT services, where employee cost is about 55–57% of revenue and workforce efficiency is the primary driver of profitability.
- Among leading IT firms, Infosys typically leads on profit per employee while HCLTech has recently reported the highest revenue per employee; TCS combines large scale with strong per-employee profitability, and Wipro lags on both measures.
- Employee-cost intensity is associated with the productivity–profitability link, firms that grow revenue per head faster than cost per head reduce cost intensity and expand margins.
- A structural shift toward non-linear, AI-led growth is lifting productivity, with TCS, Infosys and HCLTech each reporting a 3–4% rise in revenue per employee in FY 2025–26.
- The drivers that convert productivity into profitability are pyramid and utilisation management, business and pricing mix, automation/AI, and talent retention — not headcount growth per se.
- Simple headcount expansion does not improve profitability; when hiring outpaces revenue growth, employee-cost intensity rises and margins are compressed.

VII. SUGGESTIONS / RECOMMENDATIONS

- **Manage employee-cost intensity, not just headcount.** Firms should track employee cost as a percentage of revenue and target steady improvement through pyramid optimisation, higher utilisation and disciplined subcontractor use.
- **Shift the business mix toward higher-value work.** Moving up the value chain into digital, platform, consulting and AI-enabled services raises revenue per employee and margins together.
- **Invest in automation and AI-led delivery.** Embracing non-linear growth — growing revenue faster than headcount — is now the clearest route to simultaneously higher productivity and profitability.
- **Strengthen talent retention and well-being.** Reducing attrition and investing in employee well-being lowers hiring/training costs and sustains productivity, protecting profitability over the cycle.
- **Use productivity metrics in management reporting and incentives.** Embedding revenue per employee, profit per employee and human-capital return in internal dashboards and incentive design aligns managerial behaviour with value creation.
- **Upskill continuously.** Reskilling the workforce for AI, cloud and data capabilities protects pricing power and keeps per-employee output rising as technology evolves.
- **Benchmark across peers and sectors.** Regular benchmarking against sector leaders helps firms identify productivity gaps and set realistic improvement targets.

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VIII. CONCLUSION

The study confirms that employee productivity and corporate profitability are closely and positively linked among Indian IT companies, and that the link is strongest where human capital is the dominant input. Firms that generate higher revenue and profit per employee — exemplified by Infosys and TCS among the IT majors — consistently achieve stronger margins and return ratios than lower-productivity peers. Crucially, the relationship is not driven by workforce size but by efficiency: the mechanism runs through employee-cost intensity, so that firms converting each rupee of employee spend into more revenue and profit are the most profitable.

The most recent period marks a structural turning point. The shift away from linear, headcount-led growth toward AI-enabled, non-linear delivery is visibly lifting revenue per employee across the leading Indian IT firms. This positions productivity, rather than hiring, as the central lever of future profitability. For managers, the implication is clear: sustainable profit growth comes from managing cost intensity, upgrading the business mix, investing in automation and retaining skilled talent — not from headcount alone.

For investors, regulators and analysts, per-employee productivity metrics offer a powerful leading indicator of profitability and shareholder value. As India's listed companies compete in an increasingly knowledge- and technology-intensive economy, the firms that most effectively translate human-capital efficiency into financial returns will be the ones that create lasting value.

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