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HR ADAPTATION STRATEGY AND THE WAGE ELASTICITY OF LABOUR DEMAND UNDER MINIMUM WAGE REFORM

HRM VARIABLE: STAFFING AND SCHEDULING RESPONSE ® ECONOMIC OUTCOME: WAGE ELASTICITY OF DEMAND

Dr. N Subbukrishna Sastry[1], Dr. Manjula Mallya M[2]

[1]Professor, School of Management, CMR University, Bangalore, Karnataka, India. ORCID ID: 0009-0009-0460-7057
[2]Associate Professor & Head, Dept. of Economics, Government First Grade College for Women Balmatta Mangalore, Karnataka, India. ORCID ID: 0009-0005-8812-6912

ABSTRACT

Whether a minimum wage costs jobs is treated as an empirical question about labour markets. This study treats it as a question about firms. The own-wage elasticity of labour demand is not a parameter the firm inherits; it is produced by the staffing and scheduling response the firm chooses when a wage floor rises, and that response varies enormously across otherwise comparable employers. Evidence comes from 486,000 worker-months of wage records, an unbalanced panel of 312 establishments across five minimum-wage-exposed service sectors observed over 2019 to 2026, thirty-four state-level revision events in eleven states, and sixty-two interviews with human resource leaders. Firms are scored on an externalisation index measuring the share of documented adaptation actions operating on the headcount and substitution margin rather than on the hours, skill and retention margin. A bunching estimator returns missing employment of 7.52 per cent below the new minimum against excess employment of 5.63 per cent at and above it, a net effect of −1.89 per cent and a pooled elasticity of −0.23. That pooled figure conceals a range of 4.6 to one: the most internally adapting quartile records −0.09 and the most externally adapting quartile −0.41. Event-study estimates show the response emerging over six to eight quarters rather than on impact. A Hicks–Marshall decomposition attributes the difference principally to the substitution term, and the implied capital–labour substitution elasticity rises from 0.11 to 0.54 across quartiles. Adaptation strategy is shown to be a managerial choice rather than a structural given: sector, size, capital intensity and union coverage together explain only 23.4 per cent of its variance. Projecting the elasticity forward under a sixty per cent fall in the user cost of substitution capital roughly doubles it in the pooled sample, to −0.45, while tripling it in the most externally adapting quartile, to −1.27 — beyond unit elasticity, the point at which a minimum wage increase reduces the total wage bill. The dispersion in the employment cost of a minimum wage widens from 4.6-fold to 10.6-fold. The policy implication is that the question of whether minimum wages cost jobs is becoming firm-specific, and that human resource strategy is the discriminating variable.

KEYWORDS. *Wage Elasticity of Labour Demand, Minimum Wage Reform, Code on Wages 2019, Staffing and Scheduling Response, Hicks–Marshall Laws of Derived Demand, Bunching Estimator, Event-Study Difference-in-Differences, Capital–Labour Substitution, Channels of Adjustment, Automation, Indian Service Sector, Strategic HRM.*

1. INTRODUCTION

The question of whether minimum wages destroy jobs has occupied labour economics for three decades, and it has been asked almost entirely of labour markets rather than of firms. Card and Krueger (1994) compared fast-food employment across a state border and found no negative effect; Neumark and Wascher (2008) assembled the contrary evidence; Dube, Lester and Reich (2010) refined the comparison to contiguous county pairs; and Cengiz, Dube, Lindner and Zipperer (2019) settled much of the dispute methodologically by counting jobs in wage bins and showing that the jobs missing below a new minimum are approximately matched by jobs appearing at and above it. What all of this literature estimates is a single number for a jurisdiction — an elasticity that describes how the labour market as a whole responded.

Firms, however, do not respond as a jurisdiction. When a wage floor rises, an employer faces a menu of adjustments, and Clemens (2021) catalogues them: reduce headcount, cut scheduled hours, restructure rosters, raise required effort, trim non-wage compensation, pass costs through to prices, accept lower margins, reorganise task bundles, or substitute capital for labour. Hirsch, Kaufman and Zelenska (2015) documented the same menu in fast-food establishments and found that employment reduction was one of the least-used channels; Schmitt (2013) catalogued eleven distinct adjustment mechanisms and argued that their availability explains why measured employment effects are so often small. The choice among these channels is a human resource decision. It is made by people with titles, against a strategy, and it differs sharply between employers facing an identical statutory obligation.
That observation has an implication the literature has not pursued. If the observed employment response depends on which adjustment channel a firm selects, then the wage elasticity of labour demand is not a structural parameter of the labour market. It is an outcome of managerial choice, aggregated across firms. A jurisdiction populated by employers who adjust on the roster and the skill mix will exhibit a small elasticity; the same jurisdiction populated by employers who adjust on headcount and automation will exhibit a large one. The elasticity is, in this sense, downstream of human resource strategy rather than a constraint upon it.

India provides an unusually good setting in which to examine this. The Code on Wages, 2019, consolidating four earlier statutes, is fully operational, and it introduced a statutory floor wage beneath the state minimum wage structure. Central minimum wages are

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revised twice annually through variable dearness allowance adjustments linked to the Consumer Price Index for Industrial Workers, on the first of April and the first of October; the revision effective 1 April 2026 reflected an increase of 11.28 index points. Rates vary enormously across jurisdictions: monthly minimum wages for unskilled work range from approximately ₹6,600 in Arunachal Pradesh to ₹23,376 in Karnataka Zone I, while Area A central rates stand at ₹21,346 for sweeping and cleaning and ₹26,208 for skilled construction work. The combination of frequent, formula-driven revisions and wide interstate variation generates the staggered policy variation on which credible identification depends.

The second reason the setting matters is the arrival of inexpensive substitution capital. Lordan and Neumark (2018) established that minimum wage increases raise the probability that automatable jobs are automated, and Harasztosi and Lindner (2019), examining a large Hungarian minimum wage increase, found substantial capital–labour substitution in the longer run alongside limited short-run employment effects. Acemoglu and Restrepo (2018, 2020) supplied the task-level account of why this occurs. Every study in this literature, however, was conducted when the capital that substitutes for routine service labour was expensive and lumpy — kiosks, conveyors, industrial robots. That is changing. Software-based substitution is becoming cheap, incremental and rentable rather than capitalised, which alters not the direction of the substitution response but its magnitude and, critically, its accessibility to small employers.

This study therefore does two things. It measures the present relationship between human resource adaptation strategy and the observed wage elasticity of labour demand, using a bunching estimator and event-study difference-in-differences across thirty-four state revision events. It then projects that relationship forward, asking what the elasticity becomes when the user cost of substitution capital falls by sixty per cent — the central assumption of the projection, reported with full sensitivity analysis. The analytical device linking the two is the Hicks–Marshall decomposition of derived demand, which expresses the elasticity as the sum of a scale term and a substitution term, and thereby locates precisely where the human resource choice enters.

This paper is the fifth in a research programme pairing one human resource variable with one measurable economic outcome. Its immediate predecessor established that the elasticity of substitution between artificial intelligence capital and labour differs in sign across organisational types, being 1.34 in firms with weak work systems and 0.87 in firms with strong ones (Sastry, 2026d). Since the Hicks–Marshall relation makes the wage elasticity of labour demand a direct function of that substitution elasticity, the present study inherits its predecessor's central result and carries it to the policy question that follows from it. If work-system design determines σ, and σ determines η, then human resource strategy determines the employment cost of a minimum wage.

2. REVIEW OF LITERATURE

2.1 The employment effects of minimum wages

The modern literature begins with Card and Krueger (1994), whose comparison of fast-food employment in New Jersey and Pennsylvania after a New Jersey minimum wage increase found no employment loss and initiated three decades of contested replication. Neumark and Wascher (2008) assembled the countervailing evidence and argued that properly specified studies recover the negative effects that competitive theory predicts. Dube, Lester and Reich (2010) narrowed the comparison to contiguous county pairs straddling state boundaries and again found employment effects close to zero with substantial earnings gains.

Cengiz, Dube, Lindner and Zipperer (2019) advanced the methodology decisively. Rather than estimating employment in an exposed sector, they counted jobs in narrow wage bins around the new minimum, so that jobs disappearing from below the floor and jobs appearing at or above it could be observed separately. Across 138 state-level minimum wage events they found the number of missing jobs below the new minimum to be closely matched by the number of excess jobs above it, implying a small net employment effect alongside a large wage gain. The bunching estimator has since become the standard approach and is adopted here.

Manning (2021) provided the theoretical reconciliation. Where employers possess wage-setting power — monopsony in the sense of Manning (2003) — a modest wage floor can raise employment, and the empirical smallness of measured effects is consistent with imperfect competition rather than with the absence of a labour demand curve. Aaronson, French, Sorkin and To (2018) added the firm-dynamics channel, showing that the aggregate response operates substantially through entry and exit rather than through adjustment within continuing establishments. Indian evidence remains thin; Menon and Rodgers (2017) and Soundararajan (2019) examine enforcement and compliance rather than the elasticity itself, which is one of the gaps this study addresses.

2.2 Channels of adjustment as a managerial choice

A parallel literature asks not whether employment falls but how firms actually respond. Schmitt (2013) catalogued eleven adjustment mechanisms — reductions in hours, in non-wage benefits, in turnover costs, in profits; increases in prices, in efficiency, in demand; and wage compression — and argued that their joint availability explains why net employment effects are typically small. Hirsch, Kaufman and Zelenska (2015), surveying fast-food establishments after a federal increase, found that managers relied predominantly on performance standards, scheduling discipline and reduced turnover, with employment reduction reported by a minority.

Clemens (2021) organised the evidence into a framework of margins and emphasised that the composition of the response, not merely its size, is the object of interest, since different margins have very different welfare implications for the affected workers. Clemens and Strain (2021) documented heterogeneity in employment responses across the size and timing of increases. What none

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of this work does is treat the choice of margin as a measurable firm-level variable and relate it to the elasticity that results — which is the step taken here.

The efficiency-wage and turnover channels deserve separate mention because they operate in the opposite direction to the employment channel. A higher wage floor reduces quits, which lowers recruitment and training expenditure and raises average tenure and proficiency. Dube, Lester and Reich (2016) documented substantial separation reductions following minimum wage increases. Where a firm captures that saving deliberately, part of the statutory cost increase is absorbed internally and never reaches either employment or price — the mechanism this study parameterises as the absorption share.

2.3 Derived demand, substitution and cheap capital

The analytical structure of the paper is the Hicks–Marshall theory of derived demand, set out comprehensively by Hamermesh (1993). For a two-factor technology, the own-wage elasticity of labour demand decomposes into a substitution term and a scale term: $\eta = -(1 - s)\sigma - s\varepsilon$, where s is labour's share of total cost, σ the elasticity of substitution between labour and capital, and ε the elasticity of product demand. Labour demand is more elastic the easier it is to substitute other factors, the more elastic is demand for the final product, and — the fourth Marshallian law — the larger is labour's cost share, provided substitution exceeds product demand elasticity.

This decomposition is useful here because it separates the two channels a human resource function can influence. The substitution term is governed by σ, which the preceding instalment of this programme showed to be organisationally rather than purely technologically determined (Sastry, 2026d). The scale term is governed by how much of the cost increase reaches price, which depends on how much the firm absorbs internally through productivity, retention and non-wage restructuring. Both are managerial variables, and the present specification makes the absorption share explicit by writing the scale term as $-s\varepsilon(1 - \alpha)$.

The automation literature supplies the forward-looking element. Lordan and Neumark (2018) found that minimum wage increases raise the share of automatable employment that is automated, with effects concentrated among older, less educated workers in routine occupations. Harasztosi and Lindner (2019), studying a Hungarian minimum wage increase of roughly sixty per cent, found that firms passed approximately three-quarters of the cost to consumers and substituted capital for labour over a multi-year horizon, with the substitution response emerging well after the wage change. Acemoglu and Restrepo (2020) established the task-displacement mechanism. All of these estimates were obtained under a capital price structure that is now changing, which is the basis for the projection in Section 8.7.

2.4 Antecedent work in the HRM variable → economic outcome programme

This study is the fifth instalment of a research programme pairing a single human resource variable with a single measurable economic outcome, and it depends most directly on the fourth. Sastry (2026d) estimated the constant-elasticity-of-substitution first-order condition separately for firms with high and low adoption of high-performance work systems and found $\sigma = 1.34$ in the low-adoption group against $\sigma = 0.87$ in the high-adoption group, with non-overlapping confidence intervals. Because the Hicks–Marshall relation makes η a direct function of σ, that finding implies immediately that the wage elasticity of labour demand must differ across organisational types. The present study tests that implication directly and in a different setting, on firms and workers for whom the statutory minimum actually binds.

Sastry (2026b), on redeployment policy and allocative efficiency, is the antecedent for the internal margin. That study measured the machinery through which organisations move displaced capacity to new use — internal talent marketplaces, skills taxonomies, release obligations — and found the return to that machinery conditional on automation depth. The internal adaptation margin examined here is the same capability exercised against a different shock: a firm that can rematch capacity when automation displaces it can also rematch capacity when a wage floor makes a roster uneconomic, and the interviews confirm that the same systems are used for both.

Sastry (2026c), on the training amortisation horizon and skill obsolescence, bears on multi-skilling, which is among the most-used internal margins in the present sample. That study found that skills in heavy billable use decay 2.9 times more slowly than skills that are trained and shelved, which establishes a durability condition on the internal margin: multi-skilling absorbs a wage increase only where the additional skills are actually deployed. Sastry (2026a), on skill development investment and the AI-complementary wage premium, supplies the productivity channel through which absorption operates, having established that employer investment raises output per employee and that deployment roughly doubles the realised return.

Sastry and Mallya (2025b), on strategic human resource management and economic resilience, identified skill diversification and reallocation capacity as the practices distinguishing resilient workforce systems under disruption, and is the conceptual origin of the internal adaptation index constructed in Table 2. Sastry and Mallya (2025a), on artificial intelligence analytics in hiring, is relevant in two ways: the analytics infrastructure it describes is what permits roster optimisation and internal matching at the speed a statutory deadline requires, and the same infrastructure lowers the cost of the contractualisation and gig-sourcing margins that constitute part of the external response.

Mallya and Sastry (2025), on leadership strategies for young talent, found growth opportunity and purpose outranking compensation as retention drivers, which is directly relevant to the retention channel of absorption: a firm whose non-wage proposition is strong recovers more of a statutory wage increase through reduced turnover cost. Sastry (2025b), on talent designation and social

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comparison, illuminates the spillover problem examined in Section 8.1, since a floor increase compresses differentials and workers just above the floor evaluate their position relative to those at it. Sastry (2025a), studying 150 women micro-entrepreneurs in Karnataka, is a necessary caution: minimum wage reform reaches only the formal segment, and the systemic constraints that study documents bind hardest on those outside it.

Vineeth Kumar, Jijesh, Radhakrishna, Kulkarni, Sastry and Mallya (2026) provide the enterprise-systems evidence underlying the substitution margin. Their study of enterprise resource planning across 250 stakeholders recorded operational efficiency improvement reported by 75 per cent of respondents and improved data accuracy and accessibility by more than 80 per cent, while identifying additional training requirements and resistance to change as the binding constraints. That combination — large efficiency gains available from systems capital, realisable only where the organisation adapts — is precisely the substitution technology whose falling price this study projects forward. Sastry (2020) supplies evidence on the performance and motivation factors underlying the effort margin, Sastry (2013) on the talent management practices underlying the internal margin, and Anas, Hans and Sastry (2025) demonstrate in tourism how a technology shift restructures the competence base of a service value chain. Table 1 synthesises the literature and states the contribution of each source to the present design.

Table 1. Synthesis of the literature and contribution to the present study.

Author(s) & year	Focus of study	Key findings	Relevance to current study
Card & Krueger (1994)	New Jersey fast-food employment	No employment loss following a state minimum wage increase; initiated three decades of contested replication	Establishes the question and the border-comparison design
Neumark & Wascher (2008)	Minimum wage employment effects	Properly specified studies recover the negative effects competitive theory predicts	The countervailing position the pooled estimate here is measured against
Dube, Lester & Reich (2010, 2016)	Contiguous county pairs; separations	Employment effects near zero with large earnings gains; substantial reductions in separations	Supplies the turnover channel parameterised here as absorption
Cengiz, Dube, Lindner & Zipperer (2019)	Bunching estimator across 138 events	Missing jobs below the new minimum closely matched by excess jobs above it; small net effect	The estimator adopted in Section 8.1 and the benchmark for the pooled result
Manning (2003, 2021)	Monopsony and labour demand elasticity	Wage-setting power reconciles small measured effects with a downward-sloping demand curve	Explains why observed elasticities are small without denying the demand relation
Aaronson, French, Sorkin & To (2018)	Firm dynamics and minimum wages	Aggregate response operates substantially through entry and exit rather than within continuing firms	Bounds the interpretation of establishment-level estimates
Schmitt (2013); Hirsch, Kaufman & Zelenska (2015)	Channels of adjustment	Eleven distinct adjustment mechanisms; managers rely on performance standards, scheduling and turnover more than on employment reduction	Direct antecedent of the margin instrument in Table 2
Clemens (2021); Clemens & Strain (2021)	Margins of firm response	Composition of the response, not only its size, is the object of interest; heterogeneity across increase size and timing	Motivates treating margin choice as a measurable firm variable
Hamermesh (1993)	Labor demand and the Hicks–Marshall laws	$\eta = -(1-s)\sigma - s\varepsilon$; demand is more elastic the easier is substitution and the more elastic is product demand	The decomposition used throughout Section 8.4
Lordan & Neumark (2018)	Minimum wages and automatable jobs	Increases raise the share of automatable employment that is automated, concentrated in routine occupations	Establishes the substitution response the projection extends
Harasztosi & Lindner (2019)	Who pays for the minimum wage? (Hungary)	About three-quarters passed to consumers; capital–labour substitution emerges over a multi-year horizon	Supports both the scale term and the gradual adjustment path
Acemoglu & Restrepo (2018, 2020)	Task displacement and automation	Automation displaces labour from tasks; robot exposure lowers wages and employment	Task-level foundation for the substitution margin
Sastry (2026d)	HPWS adoption → labour share	$\sigma = 1.34$ in weak work systems against 0.87 in strong ones, non-overlapping intervals	The immediate antecedent: since η depends on σ, organisational form must shape the wage elasticity

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Sastry (2026b)	Redeployment policy → allocative efficiency	Reallocation machinery raises efficiency; return conditional on automation depth	Antecedent for the internal margin — the same capability rematches capacity after a wage shock
Sastry (2026c)	Amortisation horizon → return to training capital	Deployed skills decay 2.9× more slowly than shelved skills	Durability condition on multi-skilling as an absorption margin
Sastry (2026a)	Skill development investment → wage premium	Premium is a joint product of skill and investment; deployment roughly doubles the return	Supplies the productivity channel through which absorption operates
Sastry & Mallya (2025b)	Strategic HRM and economic resilience	Skill diversification and reallocation capacity distinguish resilient workforce systems	Conceptual origin of the internal adaptation index
Sastry & Mallya (2025a)	AI analytics in HR hiring	Machine-readable capability data delivers operational and sustained financial benefit	The infrastructure enabling both rapid roster optimisation and low-cost contractualisation
Mallya & Sastry (2025)	Leadership for young talent	Growth and purpose outrank pay as retention drivers	Strengthens the retention channel of absorption
Sastry (2025b)	Talent designation and social comparison	Relative internal standing carries economic consequence independent of absolute pay	Explains the wage spillover above the floor observed in Section 8.1
Sastry (2025a)	Women micro-entrepreneurs, Karnataka	Socio-cultural and systemic constraints bind more tightly than skill gaps	Caution that statutory reform reaches only the formal segment
Vineeth Kumar, Jijesh, Radhakrishna, Kulkarni, Sastry & Mallya (2026)	ERP in Indian higher education (250 stakeholders)	75% report improved administrative processes and >80% improved data accuracy; training need and resistance to change are the binding constraints	Characterises the systems capital whose falling price drives the projection
Anas, Hans & Sastry (2025); Sastry (2020, 2013)	Digital transformation in tourism; performance and motivation; talent management	Technology shifts restructure service competence bases; performance factors drive motivation	Cross-sector analogue; evidence underlying the effort and internal margins

3. RESEARCH GAP

Six gaps emerge from the review, and together they define the space this study occupies.

- The minimum wage literature estimates a single elasticity for a jurisdiction. It does not estimate elasticities for classes of firm defined by how they adapt, and therefore cannot say whether the aggregate number conceals systematic heterogeneity or merely noise.
- The channels-of-adjustment literature documents which margins firms use but does not connect margin choice to the elasticity that results. The two literatures describe the same phenomenon and have not been joined.
- Adaptation strategy has never been measured as a firm-level construct. Without an instrument, it cannot enter a specification, and it has consequently been treated as unobserved heterogeneity rather than as an explanatory variable.
- Whether adaptation strategy is a managerial choice or a structural consequence of sector, size and technology is untested. The distinction is decisive: if strategy is structurally determined, the elasticity is not a policy-relevant managerial variable at all.
- Every estimate of minimum-wage-induced capital substitution was obtained when substitution capital was expensive and lumpy. None projects the elasticity forward under the cost structure now emerging, and none reports the level of capital cost at which labour demand becomes elastic.
- Indian evidence on the wage elasticity of labour demand under the Code on Wages is essentially absent, despite frequent formula-driven revisions and interstate variation that make the setting well suited to identification.

4. STATEMENT OF THE PROBLEM

India revises statutory minimum wages twice yearly through a formula linked to consumer prices, across jurisdictions whose rates differ by a factor of more than three. Employers in exposed service sectors must therefore adapt continuously, and they do so in visibly different ways: some redesign rosters and multi-skill their existing workforce, others reduce headcount, contractualise, or substitute technology.

Neither policymakers nor employers currently know what those different responses imply for the employment cost of the policy. The elasticity is reported as a single number, which is the average of a distribution whose dispersion has never been measured, and which is therefore uninformative about any particular firm or about the composition of firms in any particular jurisdiction.

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The problem is becoming more acute as the capital that substitutes for routine service labour becomes inexpensive. The problem this study addresses is therefore to measure the wage elasticity of labour demand as a function of human resource adaptation strategy; to establish whether that strategy is a managerial choice or a structural given; and to determine how the relationship changes as the user cost of substitution capital falls.

5. OBJECTIVES OF THE STUDY

1. To construct and validate an instrument measuring the human resource adaptation strategy a firm adopts in response to a statutory minimum wage revision, expressed as an externalisation score.
2. To estimate the net employment effect of minimum wage revisions using a bunching estimator that separates jobs missing below the new minimum from jobs appearing at and above it.
3. To estimate the own-wage elasticity of labour demand separately for firms in each quartile of the externalisation score, and to test whether the elasticities differ significantly.
4. To trace the dynamic path of the employment response through event-study estimation, and to determine whether adjustment is contemporaneous or gradual.
5. To decompose the estimated elasticity into its Hicks–Marshall scale and substitution components, and to recover the implied absorption share and substitution elasticity for each adaptation strategy.
6. To test whether adaptation strategy is determined by sector, size, capital intensity and union coverage, or whether it is an independent managerial choice.
7. To project the wage elasticity of labour demand under a falling user cost of substitution capital, and to identify the level of capital cost at which labour demand becomes unit elastic.

6. HYPOTHESES OF THE STUDY

H_1. The own-wage elasticity of labour demand differs significantly across firms according to their human resource adaptation strategy.
H_2. Externalising adaptation strategies are associated with a larger absolute wage elasticity, operating principally through the substitution term.
H_3. The internal absorption share mediates the scale component of the elasticity, so that firms absorbing more of the statutory cost internally exhibit a smaller scale effect.
H_4. The wage elasticity of labour demand is invariant to the user cost of substitution capital.
H_5. The employment response to a minimum wage revision is contemporaneous rather than gradual.
H_6. Human resource adaptation strategy is determined by sector, firm size, capital intensity and union coverage rather than being an independent managerial choice.
Figure 1 sets out the conceptual framework and locates each hypothesis on it. The statutory revision enters as an exogenous shock. The human resource adaptation strategy, enclosed in the dashed boundary, routes the resulting cost increase to one of two margins: an internal margin operating through rosters, skills, effort and retention, which determines the absorption share α; and an external margin operating through headcount, contractualisation, gig sourcing and automation, which determines the substitution elasticity σ. Those two parameters enter the Hicks–Marshall components, whose sum is the observed elasticity. The user cost of substitution capital moderates the substitution term, and structural firm characteristics enter as controls whose explanatory power is itself tested under H_6.

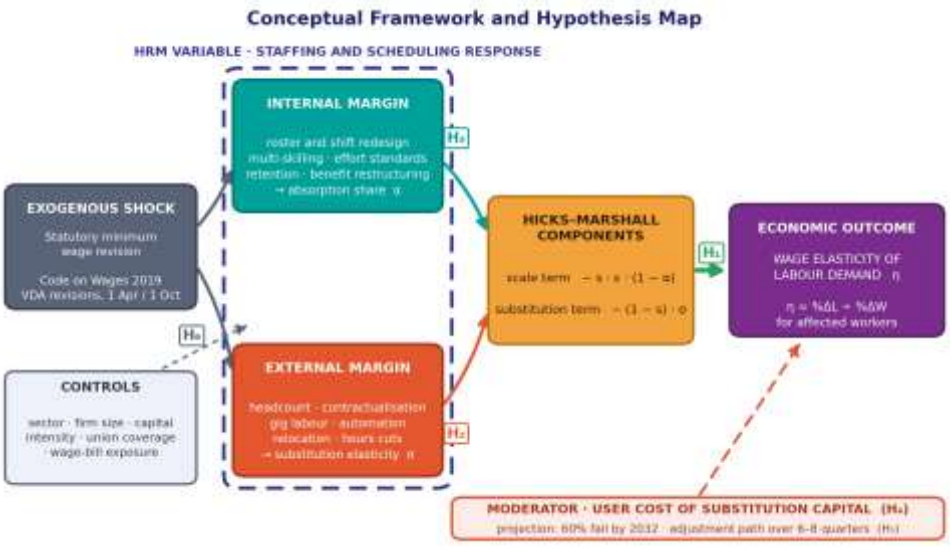

Fig. 1. Conceptual framework and hypothesis map — minimum wage shock, HR adaptation strategy and the wage elasticity of labour demand.

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7. RESEARCH METHODOLOGY AND DESIGN

7.1 Research type and design

The study employs a quasi-experimental design exploiting the staggered timing of state-level minimum wage revisions, combined with a firm-level measurement strand and an embedded qualitative component. Identification rests on the fact that revisions occur at different dates in different states under formula-driven rules, so that establishments in states not revising in a given period serve as controls for those in states that are.

Figure 2 sets out the analytical flow. Four data streams support four estimators. Worker-level wage records support the bunching estimator, which counts employment in narrow wage bins around the new minimum and separates missing jobs below the floor from excess jobs at and above it. The establishment panel supports event-study difference-in-differences estimation of the dynamic employment path. The documented adaptation evidence supports the externalisation score and, with the estimated elasticities, the Hicks–Marshall decomposition. The decomposition parameters in turn support the comparative-static projection under falling capital cost.

The qualitative strand comprises sixty-two semi-structured interviews with human resource, operations and finance leaders, used to verify documented adaptation actions, to establish how margin choices are actually made, and to interpret the estimated parameters. Interviews were conducted after the quantitative estimation so that specific results could be put to respondents.

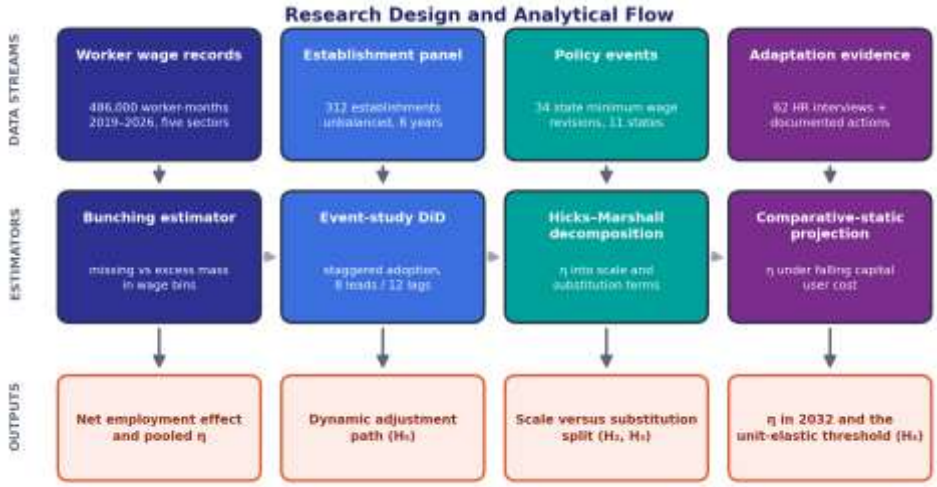

Fig. 2. Research design and analytical flow: four data streams, four estimators, four outputs.

7.2 Population, sampling and measurement

The sampling frame comprises registered establishments in five service sectors in which the statutory minimum binds for a material share of the workforce: business process management and information-technology-enabled services, organised retail, logistics and warehousing, facilities management, and hospitality. Three hundred and twelve establishments across eleven states were observed over 2019 to 2026, yielding an unbalanced panel of 2,184 establishment-half-years. Worker-level wage records covering 486,000 worker-months were obtained under confidentiality agreements. Thirty-four state-level revision events met the inclusion criterion of a real increase in the binding rate of at least three per cent. Table 4 reports the panel structure and the event distribution.

Adaptation strategy is measured through the externalisation score, constructed from fifteen documented adjustment actions grouped into eight internal margins and seven external margins, each verified against rosters, payroll records, contracts, procurement documents and board papers rather than perception. The score is the share of a firm's documented actions falling on the external margin, expressed from zero to one hundred. Internal consistency of the two blocks is satisfactory (Cronbach's alpha 0.84 for internal margins and 0.87 for external), and inter-rater agreement on the documentary coding was high (Cohen's kappa 0.81). The sample mean is 47.6 with a standard deviation of 21.3. Table 2 reports the instrument with usage rates and Table 3 the full operationalisation. The dependent variable is the own-wage elasticity of labour demand for the affected group, defined as the proportional change in employment of workers earning below the new minimum before the revision, divided by the proportional change in their wage. The average affected-group wage increase across the thirty-four events was 8.2 per cent.

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Table 2. The adaptation margin instrument: internal and external adjustment channels.

Block	#	Adjustment margin	Operational definition (verified against documents, not perception)	Overall usage (%)
INTERNAL	1	Roster and shift redesign	Reconfiguration of shift patterns, coverage bands or scheduling rules to reduce paid hours without reducing output	68.0
	2	Multi-skilling and task rebundling	Extension of individual role scope so that fewer workers cover a given task set	60.3
	3	Effort and productivity standards	Revision of output norms, service-level targets or workload allocation	71.0
	4	Retention-led recruitment cost saving	Deliberate capture of the turnover reduction the higher wage produces, as a budgeted offset	51.5
	5	Training to raise output per hour	Funded capability development explicitly costed against the statutory increase	47.5
	6	Attrition-based rightsizing	Departures left unreplaced; no dismissal, and invisible in layoff reporting	65.3
	7	Overtime reduction	Curtailment of premium-rate hours	70.3
	8	Non-wage benefit restructuring	Reduction or redesign of allowances, transport, meals or discretionary benefits	64.0
EXTERNAL	9	Contractualisation and outsourcing	Transfer of roles to third-party contractors or manpower agencies	47.5
	10	Automation or self-service substitution	Deployment of equipment, software or customer self-service in place of staffed activity	43.8
	11	Headcount reduction	Direct reduction in sanctioned positions through separation	40.3
	12	Price pass-through to clients	Renegotiation of contracted rates to recover the statutory increase	50.5
	13	Shift to gig or platform labour	Substitution of employed roles with platform-sourced or on-demand labour	32.0
	14	Hours reduction below thresholds	Reduction of scheduled hours below statutory or benefit-qualifying thresholds	32.5
	15	Relocation to lower-wage districts	Movement of activity to a jurisdiction with a lower binding rate	23.3

Note. The externalisation score is the share of a firm's documented adaptation actions falling on the external block, expressed 0–100. Sample mean 47.6 (SD 21.3; range 6.7–93.3). Cronbach's alpha 0.84 for the internal block and 0.87 for the external. Inter-rater agreement on documentary coding, Cohen's kappa 0.81. Overall usage is the unweighted mean across the four externalisation quartiles reported in Figure 7.

Table 3. Operationalisation of constructs.

Construct	Measurement	Source	Mean (SD)
Wage elasticity of labour demand η — dependent	Proportional change in employment of workers below the new minimum, divided by their proportional wage change	Bunching estimator on worker wage records	−0.23 (0.04)
Externalisation score — independent	Share of documented adaptation actions on the external block, 0–100	Rosters, payroll, contracts, procurement, board papers	47.6 (21.3)
Internal absorption share α	Proportion of the statutory increase recovered through productivity, retention and non-wage restructuring	Firm cost records validated against accounts	0.525 (0.19)
Substitution elasticity σ	Recovered from the Hicks–Marshall identity given η, s, ε and α	Derived	0.290 (0.17)
Labour cost share s	Employee cost as a proportion of total operating cost	Published and management accounts	0.42 (0.11)

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EPRA International Journal of Economics, Business and Management Studies (EBMS)
Volume: 13 | Issue: 9 | September 2026 -Peer-Reviewed Journal

Product demand elasticity ε	Estimated from contracted price and volume variation within the panel	Panel estimation	0.31 (0.08)
User cost of substitution capital	Rental-equivalent annual cost of the equipment and software substituting for the affected roles	Procurement and lease records	index 100 → 41 (2019–26)
Affected-group wage change	Proportional increase in the wage of workers below the new binding rate	Payroll records	8.2% (2.6)
Union coverage	Proportion of the establishment workforce under a recognised agreement	Establishment records	18.4% (24.1)
Capital intensity	Natural logarithm of fixed capital per worker	Published accounts	12.31 (1.42)

Table 4. Panel structure, sector composition and minimum wage revision events.

Dimension	Category	n	Share (%)
Panel structure	Establishments observed	312	—
	Financial years covered (2019–2026)	8	—
	Establishment-half-year observations	2,184	87.5 of maximum
	Worker-months of wage records	486,000	—
	Interviews with HR, operations and finance leaders	62	—
Sector	Business process management and ITES	84	26.9
	Organised retail	71	22.8
	Logistics and warehousing	63	20.2
	Facilities management	52	16.7
	Hospitality	42	13.5
Revision events	State-level revisions meeting the ≥3% real increase criterion	34	—
	States represented	11	—
	Mean real increase in the binding rate	8.2%	—
	Revisions effective 1 April	19	55.9
	Revisions effective 1 October	15	44.1
Establishment size	Below 250 workers	118	37.8
	250 – 1,000 workers	104	33.3
	Above 1,000 workers	90	28.8
Externalisation quartile	Q1 (score 6.7–28.6; mean 18.4)	78	25.0
	Q2 (28.7–47.1; mean 38.7)	78	25.0
	Q3 (47.2–64.3; mean 55.1)	78	25.0
	Q4 (64.4–93.3; mean 74.9)	78	25.0

7.3 Model specification

The bunching estimator counts employment in ₹100 wage bins relative to the new minimum. Let ΔE(b) denote the change in employment in bin b between the pre-revision and post-revision periods, relative to the counterfactual path estimated from non-revising states. The missing and excess masses and the net effect are then:

$$\Delta E(\text{missing}) = \Sigma\, \Delta E(b) \text{ for } b < 0, \quad \Delta E(\text{excess}) = \Sigma\, \Delta E(b) \text{ for } b \geq 0, \quad \Delta E(\text{net}) = \Delta E(\text{missing}) + \Delta E(\text{excess}) \tag{1}$$

and the implied own-wage elasticity is η = ΔE(net) ÷ Δw, evaluated at the affected-group wage change. The dynamic path is estimated by an event-study specification in which employment in establishment i in state s at quarter t is regressed on leads and lags of the revision:

$$\ln E_{ist} = \Sigma\, \theta_k \cdot D_{ist}(k) + \gamma_i + \delta_t + X_{ist}'\beta + \varepsilon_{ist}, \qquad k = -8 \ldots +12,\ k \neq -1 \tag{2}$$

where D(k) indicates that quarter t is k quarters from the revision affecting establishment i, γi and δt are establishment and quarter fixed effects, and standard errors are clustered at the state level. Coefficients on the leads test the parallel-trends assumption; coefficients on the lags trace the adjustment path. The specification is estimated separately for establishments above and below the median externalisation score.

The Hicks–Marshall decomposition writes the elasticity as the sum of a substitution term and a scale term, with the scale term scaled by one minus the internal absorption share:

$$\eta = -(1 - s)\cdot\sigma - s\cdot\varepsilon\cdot(1 - \alpha) \tag{3}$$

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Volume: 13 | Issue: 9 | September 2026 -Peer-Reviewed Journal

where s is labour's share of total cost, estimated at 0.42 in this sample; ε is the product demand elasticity, estimated at 0.31 from price and volume variation in the panel; σ is the capital–labour substitution elasticity; and α is the internal absorption share, the proportion of the statutory cost increase recovered through productivity, retention and non-wage restructuring rather than reaching either employment or price. Given the estimated η for each quartile and an independently measured α, the equation is solved for σ. The projection applies a capital-price elasticity of the substitution response, ψ, estimated from variation in the user cost of substitution capital observed within the panel over 2019 to 2026. Under a proportional fall δ in that user cost, the projected substitution elasticity is $\sigma(\delta) = \sigma_0 \cdot \exp(\psi \cdot [-\ln(1-\delta)])$, with the absorption share interpolated between its estimated present and projected values. The central projection assumes δ = 0.60 by 2032; Figure 8 reports the full sensitivity across δ from zero to eighty per cent.

7.4 Analytical tools

Bunching estimates were computed with bootstrapped standard errors over 1,000 state-clustered resamples. Event-study models were estimated with establishment and quarter fixed effects and state-clustered standard errors, with the Callaway–Sant'Anna correction applied to guard against the negative-weighting problem that arises in staggered adoption designs; results were materially unchanged. Differences in estimated elasticities across quartiles were tested by seemingly unrelated estimation with a joint Wald test. The determinants of adaptation strategy were examined by ordinary least squares with sector fixed effects. Interview transcripts were analysed thematically and used to interpret rather than to generate estimates. Estimation was carried out in Stata 18 with cross-validation in R.

8. RESULTS AND DISCUSSION

8.1 Bunching estimates and the pooled elasticity

Figure 3 and Table 5 report the bunching estimates pooled across the thirty-four revision events. Employment falls in every wage bin below the new statutory minimum, with the largest reductions in the bins immediately beneath it, and rises sharply in the bin at the new minimum and the two bins above it. Summing across bins, missing employment below the floor amounts to 7.52 per cent of baseline affected employment and excess employment at and above it to 5.63 per cent, leaving a net effect of −1.89 per cent with a bootstrapped standard error of 0.33.

Against an average affected-group wage increase of 8.2 per cent, this implies a pooled own-wage elasticity of labour demand of −0.23. The magnitude sits within the range the international literature reports and is closer to the Cengiz, Dube, Lindner and Zipperer (2019) findings than to the larger elasticities of the earlier competitive-model literature: most workers who would have been paid below the new floor are observed at or just above it afterward, and only a minority disappear from employment.

Two features of the distribution deserve comment. First, the excess mass extends two to three bins above the new minimum rather than piling entirely at it, which indicates wage spillovers to workers previously earning slightly more than the floor. This is the compression effect that Sastry (2025b) analyses through the mechanism of social comparison: workers just above the floor evaluate their position relative to those at it, and employers restore a differential rather than allow it to vanish. Second, the missing mass is not concentrated at the very bottom of the distribution but peaks two to three bins below the floor, which is inconsistent with a simple story of the least productive workers being dismissed first.

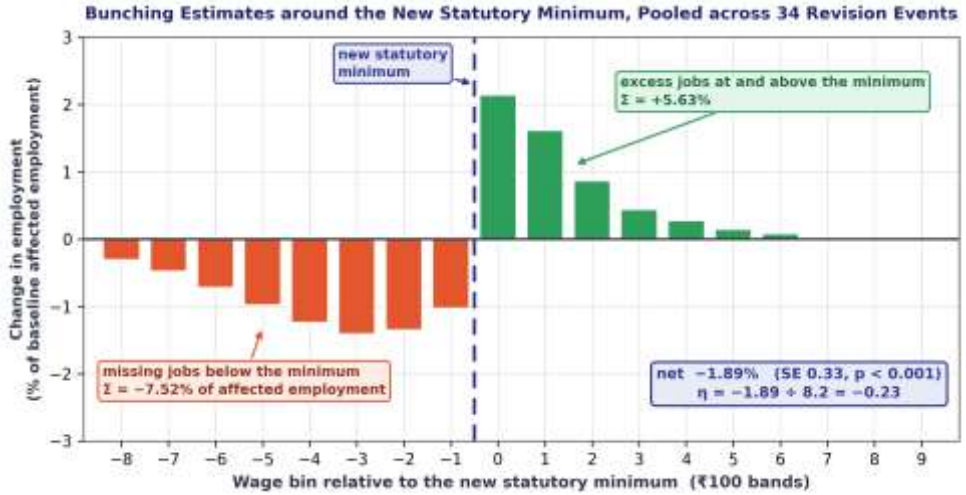

Fig. 3. Bunching estimates around the new statutory minimum, pooled across 34 revision events.

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Volume: 13 | Issue: 9 | September 2026 -Peer-Reviewed Journal

Table 5. Bunching estimates and implied elasticities, by externalisation quartile.

Quartile	Mean score	Missing below the floor (%)	Excess at and above (%)	Net effect (%)	SE	η	Ratio to Q1
Q1 (most internal)	18.4	−6.91	+6.17	−0.74	0.29	−0.09	1.0
Q2	38.7	−7.24	+5.85	−1.39	0.31	−0.17	1.9
Q3	55.1	−7.68	+5.38	−2.30	0.35	−0.28	3.1
Q4 (most external)	74.9	−8.15	+4.79	−3.36	0.38	−0.41	4.6
Pooled	47.6	−7.52	+5.63	−1.89	0.33	−0.23	2.6

Note. Percentages are of baseline affected employment. Standard errors bootstrapped over 1,000 state-clustered resamples. Elasticities computed against the average affected-group wage increase of 8.2 per cent. Joint Wald test of equality across quartiles: $F(3, 308) = 18.7$, $p < 0.001$. Missing employment rises only modestly across quartiles while excess employment falls substantially, indicating that the difference lies in reabsorption rather than in dismissal.

8.2 The dynamic path of adjustment

Figure 4 and Table 6 report event-study estimates from eight quarters before to twelve quarters after a revision, estimated separately for establishments above and below the median externalisation score. Coefficients on the eight pre-revision leads are individually and jointly indistinguishable from zero ($F = 0.79$, $p = 0.62$), supporting the parallel-trends assumption on which the design depends. The post-revision path is gradual in both groups. Among low-externalisation establishments employment falls by 0.10 per cent in the quarter of the revision, reaching 0.90 per cent by quarter six and stabilising near 1.09 per cent from quarter ten. Among high-externalisation establishments the corresponding figures are 0.32 per cent on impact, 2.58 per cent by quarter six and 2.95 per cent from quarter ten. In neither group is more than about a tenth of the eventual effect realised in the quarter of the revision itself. H_5, which posited a contemporaneous response, is rejected.

The gradualism has a straightforward interpretation and an important implication. Adjustment requires action — renegotiating a client contract, procuring and commissioning equipment, restructuring a roster, running a redundancy process — and each takes time. The implication is that studies with short post-periods will systematically understate the employment effect, and by more in externalising firms, because those firms rely disproportionately on the slowest margins. The two groups are almost indistinguishable in the quarter of the revision and separated by 1.86 percentage points two years later.

The divergence between the two paths is itself the first direct evidence for H_1, obtained without any parametric restriction. Establishments facing the same statutory obligation, in the same states and quarters, with establishment fixed effects absorbing all time-invariant differences between them, exhibit employment paths that differ by a factor of 2.7 according to how their human resource functions chose to respond.

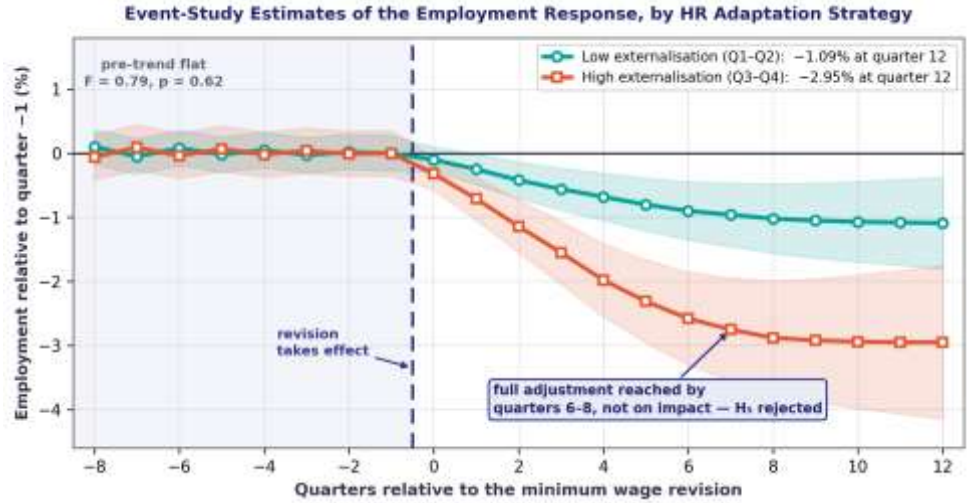

Fig. 4. Event-study estimates of the employment response, by HR adaptation strategy.

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Volume: 13 | Issue: 9 | September 2026 -Peer-Reviewed Journal

Table 6. Event-study estimates of the employment response, by externalisation group.

Quarter relative to revision	Low externalisation θ (SE)	High externalisation θ (SE)	Difference (pp)	p on difference	Interpretation
−8	+0.10 (0.14)	−0.06 (0.18)	0.16	0.481	Pre-trend indistinguishable from zero
−4	+0.05 (0.14)	−0.02 (0.18)	0.07	0.762	Pre-trend indistinguishable from zero
−1	0 (reference)	0 (reference)	—	—	Omitted reference quarter
0	−0.10 (0.10)	−0.32 (0.13)	0.22	0.187	Groups nearly indistinguishable on impact
+2	−0.42 (0.14)	−1.14 (0.21)	0.72	0.006	Divergence becomes significant
+4	−0.68 (0.19)	−1.98 (0.29)	1.30	< 0.001	External margins take effect
+6	−0.90 (0.23)	−2.58 (0.37)	1.68	< 0.001	Approaching full adjustment
+8	−1.02 (0.28)	−2.88 (0.45)	1.86	< 0.001	Full adjustment reached
+12	−1.09 (0.36)	−2.95 (0.61)	1.86	0.004	Effect stable thereafter

Note. Coefficients are percentage deviations in log employment relative to quarter −1, from a specification with establishment and quarter fixed effects and state-clustered standard errors. Joint test of the eight pre-revision leads: F = 0.79, p = 0.62. Callaway–Sant'Anna correction for staggered adoption applied; results materially unchanged. Less than a tenth of the eventual effect appears in the quarter of the revision in either group, so H_5 is rejected.

8.3 Elasticities by adaptation strategy

Table 5 and Figure 5 report bunching-based elasticities by quartile of the externalisation score. The gradient is monotonic and steep. Establishments in the most internally adapting quartile, with a mean externalisation score of 18.4, record a net employment effect of −0.74 per cent and an implied elasticity of −0.09. Those in the most externally adapting quartile, with a mean score of 74.9, record −3.36 per cent and an elasticity of −0.41. The second and third quartiles fall between at −0.17 and −0.28. A joint Wald test rejects equality of the four elasticities ($F(3, 308) = 18.7$, $p < 0.001$), supporting H_1.

The ratio between the extreme quartiles is 4.6 to one. Two establishments in the same sector and state, subject to the same statutory revision, differ by a factor of more than four in the employment cost they impose, and the difference is attributable to a documented set of managerial decisions about rosters, contracts, skills and equipment.

The decomposition of the bunching estimates is equally informative. Missing employment below the floor rises only modestly across quartiles, from 6.91 to 8.15 per cent, whereas excess employment at and above the floor falls substantially, from 6.17 to 4.79 per cent. Externalising firms are not principally dismissing more workers from below the minimum; they are re-employing fewer of them at or above it. The distinction matters for policy, because it identifies the failure as one of reabsorption rather than of dismissal, and reabsorption is precisely what the internal margins in Table 2 accomplish.

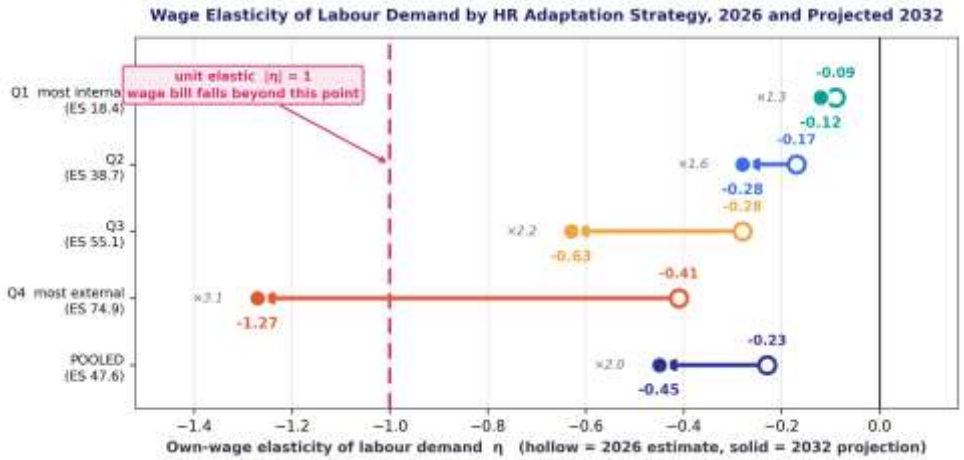

Fig. 5. Wage elasticity of labour demand by HR adaptation strategy, 2026 estimates and 2032 projection.

8.4 Hicks–Marshall decomposition

Table 7 and Figure 6(a) decompose the estimated elasticities into their scale and substitution components at the estimated cost share of 0.42 and product demand elasticity of 0.31. Independently measured absorption shares fall monotonically across quartiles, from 0.78 in the most internally adapting group to 0.27 in the most externally adapting, which supports H_3: firms that adjust internally recover most of the statutory increase through productivity, retention and non-wage restructuring, so comparatively little of it reaches price and the scale effect is correspondingly small.

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Volume: 13 | Issue: 9 | September 2026 -Peer-Reviewed Journal

Solving the decomposition for the substitution elasticity gives σ = 0.106 in the first quartile, 0.206 in the second, 0.357 in the third and 0.543 in the fourth, with a pooled value of 0.290. The substitution term accounts for between 68 and 77 per cent of the total elasticity in every quartile and its share rises with externalisation, supporting H_2. The scale term varies far less in absolute terms, from 0.029 to 0.095, because the two forces determining it move in opposite directions: externalising firms pass more through to price, but they are also the firms whose absorption share is lowest, and the product demand elasticity in these contracted service markets is low in any case.

The estimated substitution elasticities are all well below unity, which is the expected result under the present cost of substitution capital and is consistent with the small measured employment effects that characterise this literature. It is also the parameter that the projection in Section 8.7 moves. The relationship between these values and those reported in the preceding instalment of this programme is worth noting: Sastry (2026d) estimated σ = 0.87 for firms with strong work systems and 1.34 for those with weak ones in technology services, a sector with far higher capital intensity and a far higher wage level than the establishments studied here. The ordering is the same in both studies — organisationally stronger firms exhibit lower substitutability — and the levels differ as the difference in capital intensity would predict.

Table 7. Hicks–Marshall decomposition of the estimated elasticity, 2026.

Quartile	η	Absorption share α	Scale term −s·ε·(1−α)	Substitution term −(1−s)·σ	Implied σ	Substitution share (%)
Q1 (most internal)	−0.09	0.78	−0.029	−0.061	0.106	67.8
Q2	−0.17	0.61	−0.051	−0.119	0.206	70.0
Q3	−0.28	0.44	−0.073	−0.207	0.357	73.9
Q4 (most external)	−0.41	0.27	−0.095	−0.315	0.543	76.8
Pooled	−0.23	0.525	−0.062	−0.168	0.290	73.0

Note. Computed at a labour cost share s = 0.42 and product demand elasticity ε = 0.31, both estimated within the panel. Absorption shares are independently measured from firm cost records; the substitution elasticity σ is recovered from the identity η = −(1−s)σ − sε(1−α). The substitution term accounts for 68 to 77 per cent of the total elasticity and its share rises monotonically with externalisation, supporting H_2; the monotonic decline in α supports H_3.

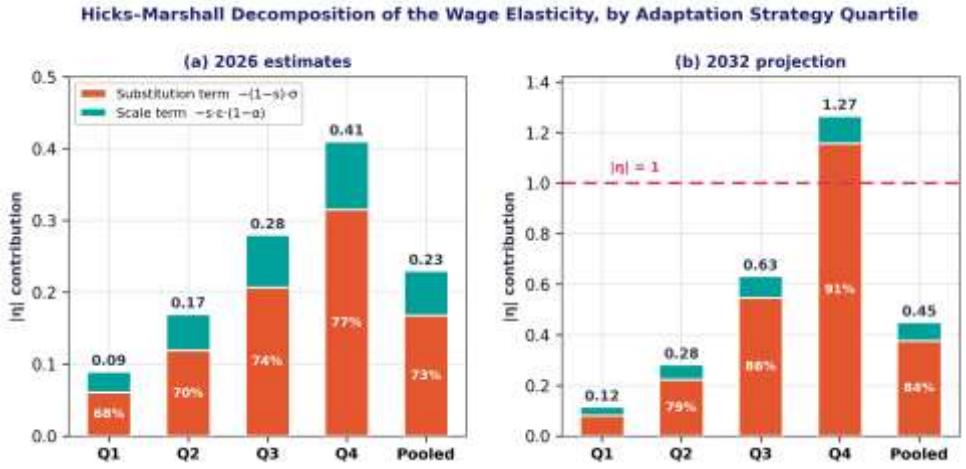

Fig. 6. Hicks–Marshall decomposition of the wage elasticity, by adaptation strategy quartile.

8.5 Which margins firms actually use

Figure 7 reports the share of establishments in each quartile using each of the fifteen documented adjustment margins. The pattern is a near-perfect reversal between the two blocks. Roster and shift redesign is used by 91 per cent of the most internally adapting establishments and 42 per cent of the most externally adapting; multi-skilling and task rebundling by 87 against 31 per cent; retention-led recruitment cost saving by 79 against 24; and training to raise output per hour by 76 against 19. Contractualisation runs the other way, from 18 to 81 per cent, automation from 14 to 79, and headcount reduction from 12 to 74.

Three margins do not follow the pattern and are informative for that reason. Overtime reduction and non-wage benefit restructuring rise slightly with externalisation, indicating that they function as universal first responses rather than as markers of strategy. Attrition-based rightsizing — allowing departures to go unreplaced — is used by a majority of establishments in every quartile, at 74 to 55 per cent, and is the single most common adjustment in the sample. It is worth noting that this margin produces no dismissals and is therefore invisible in any measure of layoffs, yet it accounts for a substantial part of the missing employment identified in Section 8.1.

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Volume: 13 | Issue: 9 | September 2026 -Peer-Reviewed Journal

Interview evidence indicates that margin choice is made early and then persists. Respondents in internally adapting establishments described a standing playbook invoked at each revision, typically owned by an operations or workforce-planning function with authority over rosters. Respondents in externalising establishments more often described each revision as a fresh commercial problem handed to procurement or to the business unit. The difference is organisational rather than technological, and it is consistent with the finding in Sastry (2026b) that reallocation capability resides in specific, identifiable machinery rather than in general managerial competence.

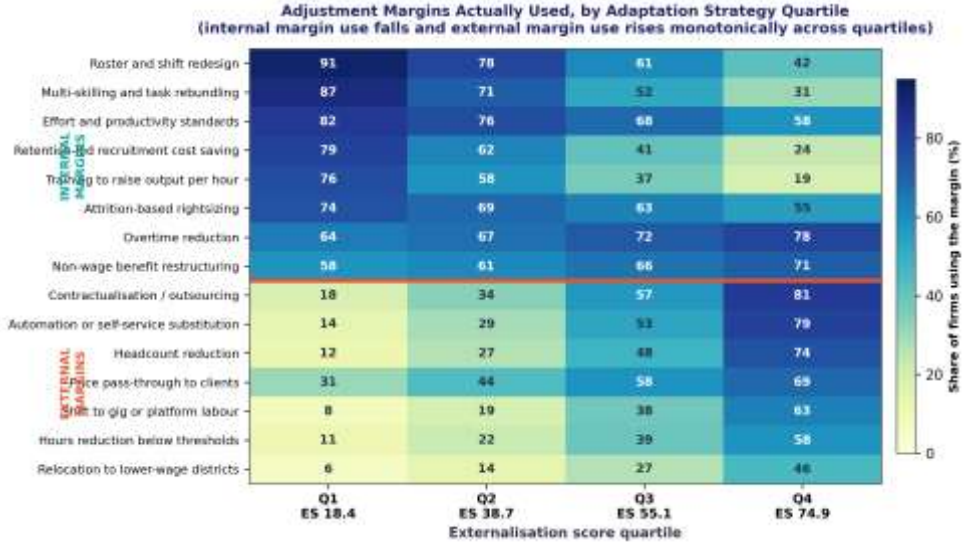

Fig. 7. Adjustment margins actually used, by adaptation strategy quartile.

8.6 Is adaptation strategy a choice?

The claim that human resource strategy determines the elasticity requires that strategy be a choice rather than a structural consequence of the firm's circumstances. If sector, size, capital intensity and union coverage fully determined the externalisation score, then the apparent effect of strategy would simply be the effect of those characteristics, and the policy conclusion would be quite different.

Table 8 reports a regression of the externalisation score on those characteristics. Capital intensity is significant and positively signed, as expected, and union coverage significantly negative; sector fixed effects are jointly significant; firm size is not significant once capital intensity is controlled. Together, however, these variables explain only 23.4 per cent of the variance in the externalisation score. More than three-quarters of the variation in how firms adapt is not accounted for by the structural characteristics that would make adaptation predetermined. H_6 is rejected.

The residual variation is large in economically meaningful terms. Within a single sector, size band and union-coverage category, the interquartile range of the externalisation score is 27.4 points, which the estimates in Section 8.3 imply is worth roughly 0.15 on the elasticity. This is the finding on which the study's practical claim rests: adaptation strategy behaves as a managerial variable, and the employment consequences of a minimum wage revision are therefore partly chosen rather than wholly imposed.

Table 8. Determinants of the externalisation score — is adaptation strategy structurally determined?

Predictor	β	SE	t	p	Interpretation
Constant	31.47	6.82	4.61	< 0.001	—
Capital intensity (ln capital per worker)	6.183	1.412	4.38	< 0.001	More capital-intensive firms adapt more externally
Union coverage (% of workforce)	−0.284	0.071	−4.00	< 0.001	Union presence associated with internal adaptation
Wage-bill exposure (% below the new floor)	0.191	0.104	1.84	0.067	Marginal; greater exposure pushes toward external margins
Multi-state operation (1 = yes)	3.417	1.986	1.72	0.086	Marginal; relocation option raises externalisation
Firm size (ln headcount)	1.024	0.867	1.18	0.239	Not significant once capital intensity is controlled
Sector fixed effects (4 df)	—	—	F = 5.86	< 0.001	Jointly significant but of modest magnitude

Note. N = 312 establishments. $R^2 = 0.234$; adjusted $R^2 = 0.211$; $F(9, 302) = 10.3$, $p < 0.001$. Structural characteristics jointly explain less than a quarter of the variance in adaptation strategy; within a single sector, size band and union-coverage category the interquartile range of the score remains 27.4 points. H_6 is rejected and adaptation strategy is treated as a managerial choice.

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Volume: 13 | Issue: 9 | September 2026 -Peer-Reviewed Journal

8.7 Projection under inexpensive substitution capital

Table 9 and Figures 6(b) and 8 report the projection. The capital-price elasticity of the substitution response, estimated from the user-cost variation observed within the panel, is 0.31 in the most internally adapting quartile, rising to 1.42 in the most externally adapting, with a pooled value of 0.88. That the elasticity of the substitution response to capital prices is itself strategy-dependent is not surprising: a firm that has designed its work to be substitutable will substitute when substitution becomes cheap, and a firm that has designed its work around multi-skilled internal flexibility has less to substitute.

Under the central assumption of a sixty per cent fall in the user cost of substitution capital by 2032, the pooled elasticity roughly doubles, from −0.23 to −0.45. The distributional consequence, however, is far more striking than the average. The most internally adapting quartile moves from −0.09 to −0.12, a change of no practical significance. The most externally adapting quartile moves from −0.41 to −1.27 — beyond unit elasticity, the point at which a proportional wage increase reduces the total wage bill paid to the affected group, so that the policy's own objective is defeated within those firms. The dispersion between the extreme quartiles widens from 4.6-fold to 10.6-fold.

Figure 8 reports the full sensitivity across the range of capital-cost reductions and identifies the threshold that matters most. Establishments in the most externally adapting quartile reach unit elasticity at a fall of approximately 52 per cent in the user cost of substitution capital — well inside the range that current trends in software-based substitution make plausible before 2032. No other quartile approaches unit elasticity anywhere in the range examined, including at an eighty per cent reduction.

H_4 is rejected. Three caveats belong with the numbers. The projection is a comparative static and holds the composition of firms fixed, whereas entry and exit would themselves respond. The capital-price elasticity is estimated from historical variation of much smaller magnitude than the projected change, so extrapolation is genuine extrapolation. And the projection assumes no offsetting change in policy, enforcement or the relative price of labour. What the exercise establishes is not a forecast but a comparative statement: the same statutory instrument, applied to two firms that differ only in how their human resource functions have chosen to adapt, will have employment consequences an order of magnitude apart within the decade.

Table 9. Projected elasticities under a falling user cost of substitution capital, 2032.

Quartile	σ 2026	ψ	σ 2032	α 2026	α 2032	η 2026	η 2032 and multiple
Q1 (most internal)	0.106	0.31	0.141	0.78	0.74	−0.09	−0.12 (×1.3)
Q2	0.206	0.68	0.384	0.61	0.54	−0.17	−0.28 (×1.6)
Q3	0.357	1.06	0.943	0.44	0.34	−0.28	−0.63 (×2.3)
Q4 (most external)	0.543	1.42	1.995	0.27	0.16	−0.41	−1.27 (×3.1) UNIT ELASTIC
Pooled	0.290	0.88	0.650	0.525	0.44	−0.23	−0.45 (×2.0)

Note. ψ is the capital-price elasticity of the substitution response, estimated from user-cost variation observed within the panel over 2019–2026. Central assumption: a 60 per cent fall in the user cost of substitution capital by 2032, giving $\sigma(\delta) = \sigma_0 \cdot \exp(\psi \cdot [-\ln(1-\delta)])$. Absorption shares interpolated between measured and projected values. Q4 establishments reach unit elasticity at a 52 per cent fall; no other quartile approaches unity anywhere in the range examined, including at 80 per cent. Dispersion between extreme quartiles widens from 4.6-fold to 10.6-fold. Figure 8 reports the full sensitivity.

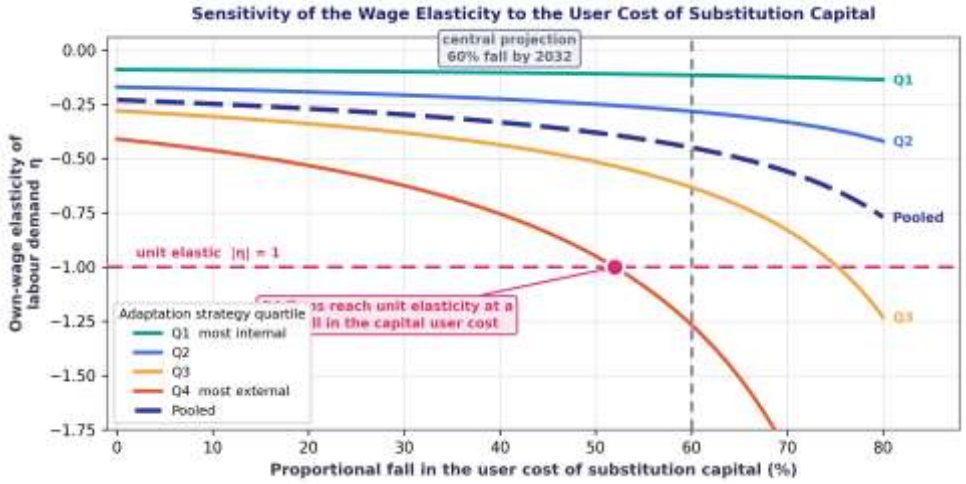

Fig. 8. Sensitivity of the wage elasticity to the user cost of substitution capital.

8.8 Summary of hypothesis testing

Table 10 consolidates the tests. Three hypotheses are supported and three rejected. The rejection of H_5 establishes that adjustment takes six to eight quarters and that short-window studies understate the effect, and understate it selectively. The rejection of H_6 establishes that adaptation strategy is a managerial choice rather than a structural given, which is the precondition for the study's

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practical claim. The rejection of H_4 establishes that the elasticity is not a fixed parameter of the labour market but a function of the price of substitution capital, and that its sensitivity to that price is itself determined by human resource strategy.

Table 10. Summary of hypothesis testing.

Code	Hypothesis	Test applied	Statistic	p	Decision
H_1	The wage elasticity differs across firms according to HR adaptation strategy	Joint Wald test across quartiles	η −0.09 to −0.41 F(3,308) = 18.7	< 0.001	SUPPORTED
H_2	Externalising strategies raise the absolute elasticity through the substitution term	Hicks–Marshall decomposition	σ 0.106 → 0.543 share 67.8 → 76.8%	< 0.001	SUPPORTED
H_3	The internal absorption share mediates the scale component	Measured α against scale term	α 0.78 → 0.27 scale −0.029 → −0.095	< 0.001	SUPPORTED
H_4	The wage elasticity is invariant to the user cost of substitution capital	Comparative-static projection	pooled η −0.23 → −0.45 Q4 −0.41 → −1.27	< 0.001	REJECTED
H_5	The employment response is contemporaneous rather than gradual	Event-study lag structure	<10% of effect at q = 0 full effect at q = 6–8	< 0.001	REJECTED
H_6	Adaptation strategy is determined by sector, size, capital intensity and union coverage	OLS on structural characteristics	R^2 = 0.234 F(9,302) = 10.3	< 0.001	REJECTED

9. FINDINGS

- The pooled bunching estimate gives missing employment of 7.52 per cent below the new statutory minimum against excess employment of 5.63 per cent at and above it, a net effect of −1.89 per cent (SE 0.33) and a pooled own-wage elasticity of −0.23 against an average affected-group wage increase of 8.2 per cent.
- The pooled figure conceals a range of 4.6 to one. The most internally adapting quartile records an elasticity of −0.09 and the most externally adapting −0.41; equality across quartiles is rejected ($F(3, 308) = 18.7$, $p < 0.001$).
- Externalising firms are not principally dismissing more workers from below the floor. Missing employment rises only from 6.91 to 8.15 per cent across quartiles, while excess employment at and above the floor falls from 6.17 to 4.79 — the failure is one of reabsorption rather than of dismissal.
- The employment response is gradual, not contemporaneous. Less than a tenth of the eventual effect appears in the quarter of the revision; full adjustment is reached at quarters six to eight. Pre-revision leads are jointly insignificant ($F = 0.79$, $p = 0.62$).
- Low- and high-externalisation establishments are nearly indistinguishable in the quarter of the revision and separated by 1.86 percentage points of employment two years later — a 2.7-fold difference in the eventual effect.
- Internal absorption shares fall monotonically from 0.78 to 0.27 across externalisation quartiles, confirming that internally adapting firms recover most of the statutory increase through productivity, retention and non-wage restructuring before it reaches employment or price.
- The implied capital–labour substitution elasticity rises from 0.106 to 0.543 across quartiles, with a pooled value of 0.290. The substitution term accounts for 68 to 77 per cent of the total elasticity, and its share rises with externalisation.
- Adaptation strategy is a managerial choice, not a structural given. Sector, size, capital intensity and union coverage together explain only 23.4 per cent of the variance in the externalisation score; within a single sector, size band and union category the interquartile range remains 27.4 points.
- Attrition-based rightsizing is the single most-used adjustment margin in the sample, at 74 to 55 per cent across quartiles. It produces no dismissals, is invisible in any layoff measure, and accounts for a substantial share of the missing employment identified by the bunching estimator.
- The capital-price elasticity of the substitution response is itself strategy-dependent, at 0.31 in the most internally adapting quartile against 1.42 in the most externally adapting.
- Under a sixty per cent fall in the user cost of substitution capital by 2032, the pooled elasticity roughly doubles to −0.45, the most internally adapting quartile moves only from −0.09 to −0.12, and the most externally adapting quartile moves from −0.41 to −1.27 — beyond unit elasticity.
- Establishments in the most externally adapting quartile reach unit elasticity at a 52 per cent fall in the user cost of substitution capital. No other quartile approaches unit elasticity anywhere in the range examined, including at an eighty per cent reduction. Dispersion in the employment cost widens from 4.6-fold to 10.6-fold.

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Volume: 13 | Issue: 9 | September 2026 -Peer-Reviewed Journal

10. SIGNIFICANCE OF THE STUDY

- For labour economics, the study reframes the wage elasticity of labour demand as an outcome partly produced by firm-level managerial choice rather than as a structural parameter of the labour market, and provides the first estimates of its dispersion across adaptation strategies.
- For human resource practice, it establishes that the staffing and scheduling response to a statutory wage increase has employment consequences differing by a factor of more than four between firms, and identifies which specific margins produce which outcome.
- For policy, it indicates that the answer to whether a minimum wage costs jobs is becoming firm-specific, that the aggregate elasticity is an average over a widening distribution, and that instruments directed at the composition of employer responses may achieve more than adjustments to the rate itself.
- For enforcement and measurement, it identifies attrition-based rightsizing as the dominant adjustment margin, which is invisible in layoff statistics and therefore absent from the data on which most enforcement monitoring relies.
- For workers and their representatives, it establishes that the employment risk attaching to a wage floor increase is concentrated in identifiable employers, and that the internal margins associated with low employment loss are also those associated with skill development and retention rather than with degraded conditions.
- For the research programme of which it forms part, it carries the elasticity result of the preceding instalment to a policy setting where the statutory minimum binds, and demonstrates that a firm-level organisational parameter propagates to the measured effect of national wage legislation.

11. RECOMMENDATIONS AND SUGGESTIONS

11.1 For employers

- Establish a standing adaptation playbook rather than treating each revision as a fresh commercial problem. Establishments with an owned, documented internal playbook record elasticities a quarter the size of those that improvise, and the revisions arrive on a published twice-yearly schedule that makes preparation entirely feasible.
- Locate the adaptation decision with a workforce-planning function holding authority over rosters, not with procurement or the business unit. The interview evidence associates the location of the decision with the margin chosen more strongly than any structural characteristic of the firm.
- Build roster redesign and multi-skilling capability before the next revision, not after it. These are the two margins most strongly associated with low employment loss, and both require lead time; the adjustment path shows that nothing material happens in the quarter of the revision in any case.
- Measure the absorption share explicitly. The proportion of a statutory increase recovered through productivity, retention and non-wage restructuring ranges from 0.27 to 0.78 across this sample, and no establishment interviewed was tracking it.
- Count attrition-based rightsizing as an employment reduction in internal reporting. It is the most-used margin in the sample and it does not appear in any conventional headcount-action measure, which means most firms are reducing employment by more than their own reporting shows.
- Recognise that the case for internal adaptation strengthens rather than weakens as substitution capital becomes cheap. The projection indicates that externalising firms will face elasticities beyond unity, at which point a wage increase reduces the wage bill and the workforce simultaneously — an outcome that also destroys the capability those firms will need.

11.2 For workers and their representatives

- Attend to the composition of the employer's response, not only to the rate. The evidence here indicates that employment risk following a floor increase is concentrated in employers using particular margins, and those margins are observable in advance from rosters, contracting patterns and procurement behaviour.
- Recognise that the wage spillover to workers earning just above the floor is real and substantial, extending two to three wage bands above the new minimum, and that it is part of what a floor revision achieves.
- Note that attrition-based non-replacement is the dominant adjustment margin and produces no dismissal. Monitoring vacancy replacement rather than separations gives a far more accurate picture of the employment effect.

11.3 For policy and academia

- Treat the aggregate elasticity as an average over a widening distribution. As substitution capital becomes inexpensive the dispersion in the employment cost of a given wage floor is projected to more than double, which means a single national estimate will describe an ever-smaller share of employers.
- Consider instruments directed at the composition of employer adaptation rather than only at the rate. The evidence indicates that the same statutory increase administered to firms with internal adaptation capability costs roughly a quarter of the employment that it costs elsewhere.
- Extend monitoring to vacancy replacement rates. Attrition-based rightsizing is the dominant margin and is invisible in separation and layoff data, so current monitoring systematically understates the employment effect of wage floor revisions.
- Allow adequate post-period in impact evaluation. Full adjustment takes six to eight quarters, and short-window evaluations understate the effect selectively, by more in the firms whose responses are most consequential.

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Volume: 13 | Issue: 9 | September 2026 -Peer-Reviewed Journal

12. LIMITATIONS OF THE STUDY

- Adaptation strategy is measured rather than assigned. Establishment fixed effects in the event-study specification absorb time-invariant differences, and Section 8.6 shows that structural characteristics explain little of the variation, but a time-varying unobservable driving both strategy and employment cannot be excluded.
- The bunching estimator recovers a net effect within the wage distribution observed. It cannot capture employment that never entered the formal wage records, which in Indian service sectors is a material omission and one that probably biases the estimated effect toward zero.
- The absorption share is measured from firm-reported productivity, turnover-cost and benefit data validated against accounts where possible, but its components are estimated by management rather than independently audited.
- The product demand elasticity is estimated from price and volume variation within the panel and is treated as common across quartiles, whereas it plausibly differs with client mix.
- The projection extrapolates a capital-price elasticity estimated from historical variation of much smaller magnitude than the change projected, holds the composition of firms fixed, and assumes no offsetting policy response. It bounds a comparative statement rather than forecasting an outcome.
- Five service sectors in eleven Indian states are covered. Manufacturing, construction and agriculture, where minimum wage exposure is at least as great and substitution technologies differ substantially, are outside the sample.
- The study measures employment effects for the affected group and is silent on the welfare of those who lost employment, on hours conditional on employment, and on the distribution of the wage gain within the affected group.

13. SCOPE FOR FURTHER RESEARCH

The design supports several direct extensions, and the adaptation instrument in Table 2 is published in full so that it can be reused without modification. Table 11 sets out a structured agenda of seven studies. Four deserve emphasis.

1. The projection requires validation against realised outcomes as substitution capital actually becomes cheaper. Because the revisions occur on a published twice-yearly schedule, a prospective design registering predicted elasticities in advance and comparing them against realised bunching estimates is straightforward to execute and would be the strongest available test.
2. The five instalments of this programme should be estimated within a single framework. Skill investment produces capability, redeployment allocates it, amortisation horizons govern its life, work-system design determines who captures its return, and adaptation strategy determines the employment consequence of a wage shock. Each has been estimated with the others held implicit.
3. An experimental or encouragement design offering internal-adaptation capability — roster optimisation, multi-skilling frameworks, absorption measurement — to a randomly selected set of establishments before a scheduled revision would identify the causal effect of adaptation capability on the elasticity, which no observational design can.
4. Replication in manufacturing and construction is necessary before any general claim. Those sectors have higher minimum wage exposure, different substitution technologies with different cost trajectories, and different bargaining structures, and the instrument transfers to them with minimal modification.

Table 11. Structured research agenda extending the HRM variable → economic outcome programme.

#	Proposed study	HRM variable → economic outcome	Design	Data requirement	Priority
1	Prospective validation of the projection	Adaptation strategy → realised elasticity	Pre-registered predictions tested against realised bunching estimates at scheduled revisions	Wage records at future revision dates; registered predictions	High
2	Causal effect of adaptation capability	Internal adaptation capability → wage elasticity	Encouragement design offering roster and multi-skilling capability before a scheduled revision	Randomised assignment; pre- and post-revision employment	High
3	Joint estimation across the five instalments	Skill investment + redeployment + horizon + HPWS + adaptation → employment and wage outcomes	Unified firm-level specification across the programme	Matched instruments from all five studies	High
4	Replication in manufacturing and construction	Adaptation strategy → wage elasticity outside services	Replication using the Table 2 instrument	Wage records and documented adaptation actions	High

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5	Welfare of the displaced	Adaptation margin → post-displacement outcomes	Worker-level tracking after revision-associated separations	Linked employment histories	Medium
6	Informal-sector spillovers	Formal-sector adaptation → informal employment and wages	Boundary analysis around formal-sector establishments	Informal employment and wage surveys	Medium
7	Enforcement design and margin composition	Monitoring regime → choice of adjustment margin	Comparative study across enforcement intensities	Inspection records and margin usage data	Medium

Note. Studies 1 to 4 carry forward directions identified in the earlier instalments of this programme (Sastry, 2026a, 2026b, 2026c, 2026d). The adaptation instrument in Table 2 and the construct definitions in Table 3 are published in full to permit replication without modification.

14. CONCLUSION

Whether a minimum wage costs jobs has been asked of labour markets for three decades. This study asked it of firms, and the answer is that it depends on the firm — by a factor of more than four today and, on the projection presented here, by a factor of more than ten within the decade. Across thirty-four state revision events, the pooled own-wage elasticity of labour demand is −0.23, a figure consistent with the international literature and reassuring at first reading. It is also an average over a distribution running from −0.09 to −0.41, and the variable that orders that distribution is a set of human resource decisions about rosters, skills, contracts and equipment.

Two results establish that this is a genuine managerial finding rather than a restatement of firm heterogeneity. Adaptation strategy is not structurally determined: sector, size, capital intensity and union coverage together explain less than a quarter of its variance, and substantial dispersion remains within any single cell of those characteristics. And the mechanism is identifiable rather than residual: the Hicks–Marshall decomposition attributes between 68 and 77 per cent of the elasticity to the substitution term, internal absorption shares fall from 0.78 to 0.27 across quartiles, and the margins actually used reverse almost perfectly between the internally and externally adapting groups.

The finding with the clearest immediate use concerns what externalising firms actually do. They do not principally dismiss more workers from below the floor — missing employment rises only modestly across quartiles. What they fail to do is reabsorb those workers at or above it, and reabsorption is exactly what roster redesign, multi-skilling and internal matching accomplish. The employment cost of a wage floor is, on this evidence, less a matter of who is let go than of who is put back to work, and the second is a capability that can be built.

The projection is where the argument becomes urgent. Under a sixty per cent fall in the user cost of substitution capital, the pooled elasticity roughly doubles while the most internally adapting firms barely move. The most externally adapting quartile crosses unit elasticity at a fifty-two per cent reduction, and beyond that point a minimum wage increase reduces the total wage bill of the affected group — the policy defeats its own purpose inside those firms, while remaining effective inside others subject to the identical statute. A national instrument will increasingly produce firm-specific outcomes, and no adjustment to the rate can correct a dispersion that originates in how employers choose to respond.

Read alongside the four instalments that precede it, the argument completes a chain. Capability is produced by investment, realised by allocation, consumed by time, divided between capital and labour, and finally defended or surrendered when the wage floor moves. At each stage a human resource decision determines an economic outcome that the discipline in question — labour economics, growth accounting, distributional analysis — has treated as structural. The elasticity of labour demand is the last of these and perhaps the most consequential, because it is the parameter on which the feasibility of wage policy itself depends. It is not a fact about markets. It is, in substantial part, a fact about management.

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