

Transfer of HR Practices in IT MNCs in India: Literature review

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Abstract

With the advent of globalization and liberalization in Indian economy there has been a plethora of small-medium-large size companies entering the market to capture the ever growing demands of Indian and foreign consumers. Specially, it is IT sector which has seen a sea change in terms of growth, profit-margins and creating jobs in India. Needless to mention that more than 70 percent of these IT companies have their base in North America and find India as a favourable destination in order to get cost effectiveness. The success of these organisations is attributed to successful implementation of HRM practices and it often leads to a question as to how the transfer of these HR practices takes place from headquarters to subsidiaries. This paper begins with the importance of India being an emerging economy in the IT sector and how mushrooming of foreign MNCs have taken place in the last few decades. The next section deals with the literature on HRM practices followed in MNCs across the globe and in emerging economy like India. Third section addresses the question as to how these practices are transferred from the MNC HQ and what are the factors that inhibit or accelerate this transfer. This paper brings about the various aspects related to transfer of HR practices and whether these practices are transferred as is or modified according to the local needs.

Keywords: *IT sector, MNCs, HRM, transfer.*

1. Introduction

As is well known, IT/ITeS (Information technology/IT enabled services) particularly software development, have come up in India rather in a big

way during the 1990s and represent one of the most spectacular achievements of the Indian economy. The industry has grown at tremendous rate of 50 per cent per annum over the past several years. It is largely export-oriented, establishing India as an exporter of knowledge-intensive services, bringing in a number of other spillover benefits such as creating employment and also a new pool of entrepreneurship. The Indian IT sector is expected to triple its current annual revenue to reach US\$ 350 billion by financial year 2025.

It follows that India's cost-competitiveness in providing IT services, which is way lower than what we have in the US, continues to be the mainstay in the global sourcing market. At present, its employees are highly skilled technicians and professionals and its export value is in excess of US \$170 billion. Low workforce hiring costs and less expensive infrastructure have been the most notable advantage India has offered in setting up of Multinational Corporations (MNC) subsidiaries.

Currently, Indian market is established as one of the most important emerging markets as it was the world's third largest recipient of foreign direct investments, with American firms being the biggest investors. Presently, there are over 20,000 foreign companies operating in India, and this number is increasing as India's economy is expanding rapidly and the country has become an epicenter for back-office operations and research and development activities (Budhwar, 2001; Budhwar et al., 2006).

2. HRM practices in MNC

Several authors note that Human Resource Management (HRM) policies and practices are becoming crucial because they can act as mechanisms

for coordination and control of international operations. Further, managing human resources in an international context is more complex than in a domestic setup because of several differences between headquarters and the subsidiaries. In the light of globalization, it has been acknowledged that HRM constitutes a major constraint when MNCs try to implement global strategies, mainly because of the difference in cultural and institutional composition of each country in which a given MNC operates. As is well known, there are a large number of US and European MNCs in the IT sector having numerous subsidiaries often located in different cities of India. As would be expected, several studies on HRM practices of the MNCs as also their subsidiaries have been conducted; prominent among them may be brought under the focus.

Dowling and Welch (2004) identified various significant differences between managing human resources in an international context and in domestic one. Firstly, they bring an argument that there is relatively more HR work to be done when operating in an international scenario, since the HR function must engage in a number of activities which may not be necessarily found in domestic context like international taxation, international relocation and socialization, government relations and language translation services. They suggest that international context also requires a broader perspective with international HR managers being forced to consider a wide range of variables in their decision-making. They also point out fact about the dynamics of the subsidiaries' labour market, noting that, the workforce composition of parent country nationals, third country nationals and host country nationals will change, depending on how mature or old the MNC is. As the multinational ages, the reliance on expatriate employees as position fillers in subsidiaries reduces with the fact that the HR emphasis for the subsidiary must shift from smaller issues like the management of expatriates to a broader remit incorporating issues pertaining to host or third country employees who will require a different HR focus altogether.

Concomitantly, As-Saber et al. (1998) have analysed the role of efficient people management for achieving success in relationship between Indian and foreign partners, Ratnam (1998) has given an overview of HRM practices in multinational corporations, and other scholars (like Agarwal and Thite, 2003) have depicted the importance of HRM for successful operations in India. Relying on the resource-based view of the firm (Barney, 1991), it has been pointed out that the overall system of HRM

practices contribute in generating a competitive advantage for a firm. Foreign Direct Investments in internally consistent HRM practices that aim at the acquisition, development and motivation of the employees of the firm may produce employees who are valuable and rare (Becker and Huselid, 1998). More so often it is viewed that while some firms may observe and fairly easily imitate individual practices, the entire HRM system is much more difficult to copy or imitate (Barney and Wright, 1998).

Som (2006) reveals some common practices that are linked with superior organizational performance like linking HR strategies with overall organisational strategies, recruitment and selection of competent and skilled workforce and investment in their career planning and development; proactive performance appraisal systems such as employee stock option plan, open and a transparent work atmosphere, and other schemes for retention employees in the organization. Also, rightsizing of manpower, de-layering and decentralization of organizational practices and processes in order to enhance employee motivation and morale.

Although international HRM is more complex than domestic HRM, it would be relevant to understand the transfer of best practices from MNCs headquarters to its subsidiaries in different countries and the factors that inhibit or facilitate it. Let us take a closer look at the research on transfer of HR practices in MNCs across the globe.

3. Transfer of HR Practices

Managing HRM in IT sector has been relatively an uphill task for most MNCs that have set up their operations in India. Given the unique socio-cultural, political, legal and economic surroundings of India, the challenges placed before the efficient management of HR in the Indian context can be often demanding. Since HR plays a crucial role in the growth of any industry, the factors affecting the transfer of HRM practices from the parent MNC has relentlessly attracted research attention.

Thite Mohan, Adrian Wilkinson and Dhara Shah (2010), have conducted a research on the developing economies like China and India. The study develops a conceptual framework of global HR strategies and practices followed in MNCs from these developing economies across their subsidiaries in both developed and developing markets. Using data of an Indian MNC, their research provides insights into opportunities and constraints in cross national

transfer of HR policies and practices in global world. The authors concluded that despite the increasing trend towards the globalization of trade activities and cross-national convergence, significant differences remain in the way in which different countries organize business activities and especially employee management (Brewster, 2006). The cultural values dimensions proposed by Hofstede (1980) demonstrate the limitations of universalistic models of IHRM that emphasize only one best way. Their conceptual framework adopts a broad approach by examining the key factors like cultural differences, institutional differences, organizational differences and the link between them (Schuler, Budhwar, & Florkowski, 2002).

Any study on MNCs from emerging economies also needs to take into account the sector or industry it belongs (Colling & Clark, 2002) like IT services and manufacturing. For example, Indian MNCs in the service sector or IT industry tend to gain the positive benefits of internationalization better than manufacturing industry (Contractor et al., 2007). Their research framework adds value to IHRM by giving equal weightage to both the subsidiary level and to corporate headquarters within a firm (Ferner, 2009). Their study offers some interesting insights into the way MNCs from developing economies strategize and manage their operations in various parts of the globe. While Western MNCs have traditionally taken their domestic strengths to the rest of the world, the Indian MNCs in the services sector have typically grown first in the developed markets by leveraging on their skills and domain expertise and have pioneered the art of global off shoring services delivery model using a combination of onshore, offshore and near-shore local strategies. They also concluded that despite attempts to localize their workforce in different geographies, the global management team is still predominantly Indian but increasingly their systems and management mindset are becoming global.

Mathew, M., & Jain, H. C. (2008) have studied Indian IT sector using both qualitative and quantitative approaches. Data have been collected from large group of IT MNCs of Indian and foreign origin (U.S. and European) located in Bangalore and Hyderabad in India. They have assessed the flow of HRM practices and the differences in HR practices between Indian and foreign MNCs. They have found that the current business culture and level of technology of Indian IT MNCs is moderately similar to those of foreign MNCs, and more of US MNCs. There have found no difference between Indian and

foreign MNCs in HRM practices. They conclude that the unexpected similarity in international HRM practices is probably due to: the nature of information technology; closing levels of R&D between Indian and foreign MNCs, and; similar business cultures of Indian and foreign MNCs. IT intensive global organizations are likely to get a step closer to global HRM standardization.

The view that whatever is transferred by the MNC to its subsidiaries is assumed to be best practice is being questioned. As suggested that these MNCs are nationless organizations by Ohmae (1990), most MNCs in many respects appear to be strongly rooted in their country-of-origin (Hu 1992; Ruigrok/Van Tulder 1995).

In a similar vein, Harzing et al. (2001) find many differences between German and British MNCs in nearly all aspects of the headquarters-subsidiary relationship, to the extent that the country-of-origin effect is significant, the influence of MNCs in the globalization process becomes uncertain, and in internal MNC exchanges, MNC headquarters cannot be regarded to be representing the global standards and subsidiaries the local standards. Besides, not all the evidence points in the same direction. Lindholm (1999) found that the European MNC he studied adopted standardized performance management policies and practices both in its parent country and in overseas subsidiaries, and that these policies and practices had a broadly similar impact on the job satisfaction of host country employees in different subsidiaries.

Björkman Ingmar, Jon E. Lervik (2007) in their research provide an extensive evidence that planned transfers of management practices by the headquarters of MNCs to foreign subsidiaries are not always successful. Their research outlines a model of factors influencing the transfer of HR practices to MNC units abroad. The major conclusions of the study are that firstly it develops a more holistic understanding of the outcome of HR practice transfer as including three dimensions namely implementation, internalisation and integration. Secondly, it expands current explanations of transfers of practices to foreign units. The research also throws light on the fact that transfer of HR practices is a social process where there are various factors influencing the outcome of the process like the governance mechanisms used by the MNC, characteristics of the subsidiary's HR systems, the social relationship between the MNC headquarters

and subsidiary, and the transfer approach adopted by headquarter.

Rosenzweig and Singh (1991) in their research states that there are various factors that determine the relation between integration and adaptation, such as legal framework, industry to which the organisation belong to, technology, parent country culture, cultural distance, work force composition, type of subsidiary and dependence of the host country on the MNC. Their study focuses on drawing on the open-systems approach, as well as resource dependence and institutional theory, and emphasis is given to importance of both organisational and national environments. They argue that the MNC subsidiaries face dual pressures, there is a pull to achieve isomorphism with the local institutional environment, as well as they face an imperative for consistency within the organisation.

Rosenzweig and Nohria (1994) in their research hypothesize that HR practices will tend to be transferred in the following order, starting with the one that will most likely to be transferred will be participation, Executive Bonus, Training, Gender Composition, Benefits and Time off respectively. Their research states the fact that practices for which there are diffused and poorly defined local norms or which are seen as being critical to maintaining internal consistency or arriving at critical decisions are more likely to be transferred. On the other hand, practices for which there are well-defined local norms and which affect the rank-and-file of the affiliate organization are likely to conform most closely to the practices of local competitors. This conclusion focuses on internal differentiation of HR management practices within a MNC, instead of viewing it in terms of an overall orientation. The research recognizes the significance of host country effects as well as organizational strategies.

Björkman Ingmar and Pawan Budhwar (2007) have found in their research that HRM practices from the foreign parent organization do not impact the performance; on the contrary, local adaptation of HRM practices is directly related with the performance of foreign firms operating in India. They state that for MNCs in order to adapt HRM practices to resemble the practices of local companies, allows them to respond to local socio-economic and institutional considerations in a better manner. If the firms adopt practices that are seen established in the local context may improve the external legitimacy of the organisation and increase

the commitment of host country employees, both factors are likely to improve firm performance. The HRM practices of local organisations are likely to be compatible with its societal norms, such as the hierarchical nature of the Indian society.

Noorderhaven Niels G. and Anne-Wil Harzing (2003) in their research examine the role of country-of-origin effects in MNCs. Their research discusses both the sources of the country-of origin effect, and the mechanisms through which it manifests itself. The study throws light on the strength of the country-of-origin effect which is hypothesized to be moderated by factors related to both the home country and the MNC. The key results found in the research are that the sources of the effect lie in the culture and institutions of the home country of the MNC. Further, the research also studies the mechanisms through which the effect manifests itself are the continued hiring of home-country nationals by the MNC, and the embeddedness of the preferences of these home-country nationals in the procedures and processes as well as the organizational structures of the MNC.

A study by Newman and Nollen (1996) supports the idea that there is a positive relationship between organisational practices that were aligned with the cultural values of the host country (Hofstede's 1980) and the performance of foreign subsidiary. Therefore it is arguable that MNC subsidiaries with HRM practices similar to those of local firms may show superior performance. On the other hand, the HRM practices of local firms may not be effective for subsidiaries that follow local firms as to how they manage their employees, and therefore not necessarily be beneficial for these foreign-owned units especially those with globally integrated operations. A number of researchers have argued that national culture, institutions and the business environment are key factors that influence HRM practices and policies in a country (Budhwar and Sparrow, 2002; Paauwe and Boselie, 2007), and that these factors are likely to influence how people are managed in foreign investment enterprises (Rosenzweig and Nohria, 1994; Gunnigle et al., 2002). According to them HRM systems do improve organizational performance in the Indian subsidiaries of foreign MNCs. In their research, they examine empirically the relationship between foreign subsidiary uses of high involvement HRM system, globally standardized HRM practices, locally adapted HRM practices and integration of HRM and strategy and the subsidiary's performance.

4. Conclusion

The above research throws light on the effect of host country on the HR practices of the MNCs and transfer of HR policies and practices in a globalised world, especially with respect to IT sector. Previous research suggests that there is difference between managing HR at domestic level and international level, but it would also be interesting to know as to what factors contribute to transfer of these HR practices in MNCs. Although the literature talks about the impact of American HR practices worldwide especially in European and other Asian nations, but studying the influence of best practices followed in foreign MNCs in Indian IT sector would lead to newer insights.

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