CHAPTER III
PROFILE OF MULTINATIONAL CORPORATION

1.0 : Introduction:

An MNC or a multinational enterprise is a corporation that is registered in or has operations in more than one country. Being a large corporation which both produces and sells goods or services in various countries, it can also be termed as international corporation as it plays an important role in globalization. The first MNC was the Dutch East India Company, founded in March 20, 1602.

Corporations may make direct investment in another country either by buying a company in that country or by expanding operations of an existing business there. They may choose to locate in a special economic zone, which is a geographical region with more free market oriented economic and other laws, different from a country's typical or national laws. On the other hand, a subsidiary company is one that is completely or partly owned and wholly controlled by another company that owns more than half of the subsidiary's stock. With increasing globalization and the spread of MNC worldwide, there is continuous interest in examining their strategy and organization. MNC account for a quarter of the global GDP, and their foreign affiliates, "more than one-tenth of global GDP" and one-third of world exports-UNCTAD. This study is therefore of central interest to scholars of international business and HRM. While earlier literature on MNC focused on the IHRM strategies and decisions taken both in the headquarters’ and the local company, growing size and significance of MNC subsidiaries has shifted scholarly interest to understanding

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them at the level of local subsidiaries. Prahalad and Soz\(^2\) seminal work on global integration and local responsiveness documents the diverse pressures confronted by MNC as they expand globally and the strategies they pursue in response to these environment pressures. Although they proposed a broad framework, many earlier debates on how MNC should respond to these pressures were limited in scope. Ghoshal\(^3\) extended these discussions by adding considerations of subsidiary learning and innovation and in doing so, they highlighted the need for internal networking and coordinated decision-making across MNC organizations. They argued that such coordination is necessary to support inter unit learning and accelerate innovation in MNC. A framework to include transitional pressures on the MNC value chain and formalize the key role of managerial beliefs play in the strategic choices made by such organizations. In an empirical paper, they show that there are dual paths to better MNC performance, one being through subsidiary decision-making autonomy which encourages innovation, and another through networking which encourages inter unit learning and social networking.

2.0: Profile of MNC:

2.1: Global Perspective: Economics experts and various studies conducted across the globe envisage India and China to rule the world in the 21\(^{st}\) century. For over a century, the United States has been the largest economy in the world but with major developments having taken place since then, a palpable shift of focus is felt, from the United States and the rich countries of Europe to the two Asian giants, India and China. The rich countries of Europe have seen the greatest decline in global GDP


share by 4.9 percentage points, followed by the United States and Japan with a
decline of about one percentage point each. Within Asia, the rising share of China
and India has more than made up the declining global share of Japan since 1990.
During the seventies and the eighties, ASEAN countries and during the eighties,
South Korea along with China and India, contributed to the rising share of Asia in
world GDP. Expectations are that the share of the United States in world GDP is to
fall from twenty-one percent to eighteen percent and that of India to rise from six
percent to eleven percent in 2025, and hence, India will emerge as the third pole in
the global economy after the United States and China.

2.2: Local Perspective: By 2025 the Indian economy is projected to be about sixty
percent the size of the US Economy. The transformation into a tri-polar economy
will be complete by 2035, with the probability that the Indian economy would be a
little smaller than that of the United States but larger than that of Western Europe.
By 2035, India is likely to be a larger growth driver than the six largest countries in
the European Union, though its impact will be a little over half that of the United
States. India, which is now the fourth largest economy in terms of purchasing power
parity, is expected to overtake Japan and become the third major economic power
within ten years.

2.3: MNC and Globalization: Globalization has accelerated in recent years, a
development that has significant implications for the regulation and governance of
international business, trade and investment. International business implies no
fundamental shift in the underlying principles of trading or business functions but
simply more cross-border commercial transactions private and governmental. While
private companies undertake such transactions for profit, governments may or may
not have a similar motive. In recent years, the world has seen a tremendous
increase in global transactions and foreign trade, the main reason being more and more countries wanting to increase their profit or sales or protecting themselves from being eroded by competition. The main objectives which are influencing companies to engage in international business are expansion of sales, acquiring resources, minimizing competitive risk and diversification of sources of sales and supplies Johnson and Turner⁴. Besides, economic, cultural, technological, social and other factors also wield significant influence.

2.4: MNC Tax competition: Multinational corporations have played an important role in globalization as countries and sometimes sub national regions vie with one another to establish MNC facilities. This brings in its wake a host of benefits that include the subsequent tax revenue, employment generation and bustling economic activity. It is hardly surprising that countries and regional political districts compete and offer incentives such as tax breaks, pledges of governmental assistance, improved infrastructure, tax environmental and labour standards enforcement. This process can be characterized as a race to the bottom, a push towards greater autonomy for corporate bodies, or both. However, some scholars, for instance the Columbia economist Jagdish Bhagwati⁵, have argued that multinationals are engaged in a ‘race to the top.’ While a low tax burden or low labour costs would undoubtedly give MNC comparative advantage, there is no evidence to suggest that they deliberately avail themselves of tax environmental regulations or poor labour standards. As Bhagwati has pointed out, MNC profits are tied to operational efficiency, which includes a high degree of standardization. Thus, they are likely to

⁴ Johnson & Turner, “Toward a Definition of Mixed Methods Research”, Journal of Mixed Methods Research April 2007 Issue 1:pp 112-133,
tailor production processes with the most rigorous standards and in conformity to those jurisdictions where they operate, which almost always includes one or more of the following countries: the United States, Japan or the European Union. As for labour costs, while MNC clearly pay local workers much less as in Vietnam than they would in the United States. Though it is worth noting that higher American productivity linked to technology, means that any comparison is tricky, since in America the same company would probably hire far fewer people and automate whatever processes they perform in Vietnam with manual labour, it is also the case that they tend to pay a premium of between ten and hundred per cent on local labour rates. Finally, depending on the nature of the MNC, investment in any country reflects a desire for long-term returns. Costs associated with establishing plants, training workers, can be very high. Once established, they are quite vulnerable to predatory practices such as, expropriation, sudden contract renegotiation, arbitrary withdrawal or compulsory purchase of unnecessary licenses. Thus, both the negotiating power of MNC and the supposed 'race to the bottom' may be overstated, while the substantial benefits that MNC bring apart from tax revenues, are often understated. MNC can have a significant impact on government policy, because of size and primarily through the threat of market withdrawal. For example, in an effort to reduce health care costs, some countries have tried to force pharmaceutical companies to license their patented drugs to local competitors for a very low fee, thereby artificially lowering the price. Such threats have forced them to simply withdraw from the market, which often leads to limited availability of advanced drugs. Similar corporate and government confrontations have occurred when governments tried to force MNC to make their intellectual property public in an effort to help local entrepreneurs. Faced with
the option of losing a core competitive technological advantage or withdrawing from a national market, MNC would choose the latter, often causing governments to back-track or change policy. Countries most successful in such confrontations with MNC are large ones such as the United States and Brazil, which have viable indigenous market competitors.

2.5: Patents at MNC: Many MNC hold patents to prevent competitors from emerging. For example, Adidas holds patents on shoe designs, Siemens A.G. on equipment and infrastructure, and Microsoft benefits from software patents. Pharmaceutical companies lobby on international agreements to enforce patent laws on others.

2.6: Technology, Cultural and Political factors impact on MNC: For anti-corporate globalization movements, flexible local and global networks are preferred forms of organization as they encourage open participation. Intervening meetings, commissions discussing concrete tasks, and project areas are thus considered more productive than representation. In some organizations, there are even no formal members. Instead, people are allowed to participate as long as they agree with the network’s basic beliefs, which includes a personal removal from capitalism and systems seen as similar to it. The use of networking through technology is unevenly distributed among the organizations and movements. The groups with more available funds are able to incorporate newer technologies into the existing communication techniques. Smaller organizations with fewer resources, therefore, look for more innovative methods in order to take advantage of the low cost. Though the anti-corporate globalization movements may be viewed as unified, there exist numerous movements whose goals may overlap. However, each differs on their targeted issues, political subjectivity, ideologies, culture, and organizational
structure. Among the Fortune 500, all major MNC are American, Japanese or European, such as Nike, Coca-Cola, Wal-Mart, AOL, Toshiba, Honda and BMW. On one hand, they create jobs and wealth and improve technology in countries that are in need of such development and on the other, they may have undue political influence over governments, exploit developing nations and create a loss of jobs in their own home countries. With budgets exceeding those of many countries, large MNC can be seen as formidable power centers in global politics. Wal-Mart is bigger than Norway, Royal Dutch-Shell Group is bigger than South Africa and General Motors is over twice as big as Nigeria. Of the largest 100 economic actors in the world today, 51 are corporations and 49 are countries. It has been estimated that the world’s 500 largest companies control at least 70 percent of world trade, 80 percent of foreign investment, and 30 percent of global GDP. The 100 largest have assets of $28,813 billion, of which 40 percent are located outside their home countries.

Multinationals world over are termed so due to their ability to market their products and services in various countries. They can be dual national or national in terms of ownership, management and each of the various functions, such as marketing, production, finance, are considered separately. For example, Royal Dutch Shell Group is dual national in ownership and management but its products and services are at a multinational level. Prolasca in Nicaragua is national in production but multinational in ownership, marketing, finance and management. On the other hand, Unilever has emerged as a complete multinational now in terms of ownership as well as products and services, as per recent survey by McKinley Global Institute⁶ in 2013 on “Urban World—the shifting global.

⁶McKinley Global Institute, “Urban World—the shifting global business landscape”, MGI,USA,2013, pp 6-8
2.7: Impact on Developing Economies and Policy Implications in MNC:
The opportunities for developing economies are significant as well. Through the application of capital, technology and a range of skills, overseas investments of MNC have created positive economic value in host countries, across different industries and within different policy regimes. The single biggest effect evidenced has been the improvement in the standard of living, as consumers have directly benefited from lower prices, higher quality goods, and broader selection. Improved productivity and output in the sector and its suppliers have indirectly contributed to increasing national income. And despite often-cited worries, the impact on employment has either been neutral or positive in two-thirds of the cases. Investments by MNC allow developing economies to share the benefits of a global economy. Official incentives, trade barriers and other regulatory policies, though, can result. Case studies reveal that in virtually all cases, the impact of MNC investment on the host country ranges from positive to very positive. Rather than leading to an exploitation of lower-wage workers as some critics have charged, the investments have fostered innovation, productivity and an improved living standard. Therefore, governments seeking these advantages would be advised to favour policies of openness rather than regulation. When it comes to FDI, the strength of longstanding legacy advantages remains clear, 64 of the 150 Western European companies in the year 2012, Fortune Global 500, for example, were founded before 1900.

2.8: MNC Shaping Indian Economy: India has come a long way since its independence in 1947. Set to be a super power in the next decade, the Indian growth pattern has been based on the government policies and the participation of companies, both Indian and abroad. The first Prime Minister of independent India,
Jawaharlal Nehru had put the country on the path of economic development through the setting up of mega companies called the *maharatnas*. He believed that economic growth would ensure the true development of the country. During the first few decades, India grew consistently on the back of the *maharatnas*. The second phase of the development started in 1990s with the relaxation of the license raj. From there on, Indian entrepreneurs and MNC have together brokered the growth of the country. Private players have played a pivotal role since independence. The World Investment Report of the UNCTD in 2012 found that, till 2014, India would be the third best destination for FDI, after China and America. Price Water House Coopers estimates that India will become the world's third largest economy by 2050. The primary reasons behind, MNC coming to India are huge market, stable governments and their policies in addition to the educated young workforce.

2.9. Talent and Connectivity in MNC in India: Innovation from India has moved on from Ayurveda and yoga to cool internet products and application. The availability of strong technical as well as managerial talent has promoted India as a very attractive R&D destination. Management consulting company Zinnov says, India is home to about 200 wholly-owned centers of multinationals that deliver pure play IT and IT enabled services. Ten new centers have been set up over the last two years and by 2015, Zinnov estimates that close to 50 percent of the Fortune 500 companies will have their facilities in India. India's GDP has consistently grown at 8 percent in the last few years due to a robust infrastructure. This sector also provides immense potential to private companies under the public private partnership and has attracted several MNC in the recent past. A Price Water House Cooper report titled "Infrastructure in India" says that "foreign companies who do not acknowledge the opportunity in good time may miss out on a critical opportunity to establish a long-
term presence in one of the world's largest growth markets. Riding high on industrialization, the annual growth in road connectivity is projected at over 12 percent for passenger traffic and over 15 percent for cargo traffic, providing an opportunity in the sector. To strengthen rail connectivity, which is among the highest in the world, the government is expecting over 40 percent participation by private players. The Dedicated Freight Corridor project is designed to alleviate congestion on the rail routes between Delhi and Mumbai and, Delhi and Kolkata by building long distance, cargo only rail lines, at an estimated cost of $6-7 billion. While Siemens and Infrastructure Leasing and Financial Services Rail Limited, are constructing the Gurgaon Rapid Metro, a consortium of Hyundai Rotem, Mitsubishi Corporation and Mitsubishi Electric Corporation was responsible for the first wave of rolling stock for the Delhi Metro.

Other proposed initiatives include the development of manufacturing plants for rolling stock with long-term committed procurement for several years and the setting up of logistics parks. After the successful setting up of Delhi Metro, several other cities like Mumbai, Chennai including Bangalore are building metro rail. Indian Railways is also looking for private partners to help modernize railway stations to world-class levels and for projects focused on increasing connectivity with ports. The air and port traffic has also seen tremendous increase in the recent past. As a result, several foreign companies such as Boeing, which has been in India for the last 70 years, are playing a pivotal role in providing world-class airplanes and infrastructure. In the field of infrastructure development, companies like Larsen and Tubro and Punj Lloyd Group are working on several major projects. In the field of energy, GE India has been regularly innovating cleaner technologies for sustainable
harnessing of energy. Alstom is one of the many private players that are involved in mega power projects across the country.

2.10: Stages Of Evolution Of MNC: There are three stages of evolution of an MNC which are listed and described as follows:

1. Export Stage : Initial inquiries, firm rely on export agents Expansion of export sales, further expansion of foreign sales branch or assembly operations to save transport cost.

2. Foreign Production Stage-There is a limit to foreign sales, tariffs, non tariff barriers. Between direct foreign investment and licensing, once the firm chooses foreign production method of delivering goods to foreign markets, it must decide whether to establish a foreign production subsidiary or license the technology to a foreign firm.

3. Multinational stage: The company becomes a multinational enterprise when it begins to plan, organize and coordinate production, marketing, research and development, financing and staffing function. For each of these operations, the firm must find the best location.

2.11 Globalization: A Driver to Multinationals
Post 1991, after India faced the worst economic crunch in terms of its forex reserves, the then Finance Minister Manmohan Singh pioneered liberalization, which involved doing away with the License Raj and several trade barriers. Opening up the economy to private companies, MNC and foreign investors transformed India into a land of opportunities with the Industrial Policy of 1991 making trade boundaries more permeable.
For example, the Aditya Birla group got into acquiring or setting up joint ventures abroad, ITC ramped up its distribution channels in foreign markets to boost exports. Reliance Limited, globally sourced its raw material; companies such as Lupin, Arvind Mills, Maruti Limited increased their capacity to achieve global economies of scale; Chevro Shoes and Hero Cycles registered their brands in foreign markets; Asian Paints, CEAT and the UB Group started setting up offshore manufacturing facilities.

2.12: India Goes Global: Multinational companies in India represent a diverse portfolio of companies from different countries. Though American companies - the majority of MNC in India – account for about 37 percent of the turnover of the top 20 firms operating in India, the scenario has changed a lot of late. More enterprises from the European Union like Britain, France, The Netherlands, Italy, Germany, Belgium and Finland have either come or have outsourced their works to India. Examples include British MNC like British Petroleum and Vodafone, the Finnish mobile giant Nokia which has its second largest base in this country, French heavy engineering major Alstom and Pharma major Sanofi Aventis who have also started their operations here, oil companies and infrastructure builders from the Middle East. Tapping into the constantly growing electronics market are giants like Samsung and LG Electronics from South Korea as well as automobile giants like Fiat, Piaggio, Hyundai Motors and Ford Motors, most of whom have already reaped rich benefits for setting up shop in India.

2.13: Why are MNC In India: There are a number of reasons for MNC preferring India as a destination for business, some of the main ones being:
(1) Huge market potential of the country (2) Labour competitiveness (3) Macroeconomic stability. Apart from these, India is one of the fastest growing economies in the world. More significantly, the relaxing of the hitherto restrictive policy of the government towards FDI is a major contributor. Post financial liberalization of the country, the government has been relaxing many of its policies in a conscious and continual effort to attract foreign investments. As a result, a number of MNC have shown interest in the Indian market.

2.14 : MNC Modes of Operation In India: A multinational corporation is a large firm with its head office in one country and several business units operating overseas. The head office implies the prime operation base of the company. Thereafter to expand its operations, the multinational looks for markets in other countries. To gain competitive advantage as also to capture sizable market share in foreign markets, the multinational opts for various strategies, which may be forward integration or backward integration depending upon its core competencies and competitiveness in the respective sector. Another beneficial option is to acquire similar firms in other countries i.e. acquire similar units. While flexibility permits delivery of market specific products, efficiency allows delivery of low-cost products around the world.

2.15 : Organizational Design of Multinationals

A multinational must ensure that its foreign operations support the objective of the parent company. Centralized or decentralized decision making is a crucial factor to be considered in organizational design, which determines how organizations structure their sub units as well as control and coordinate to achieve their goals. The

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Export department or International division is a department that is created when export becomes a significant portion of a company's sales, necessitating greater coordination and control over its export operations. Managers in this department often control the pricing and promotion of products in the international markets. When a company uses a direct exporting strategy, sales representatives located in other countries may also report to this department. As companies evolve beyond initial participation strategies of exporting and licensing, they need more sophisticated organizational structures to implement more complex multinational strategies.

In a worldwide geographic structure, regions or large market countries become the geographical divisions of the MNC. This would be required to differentiate the company's product or services by country or by region. Semi autonomous regional or country-based sub units provide the much needed flexibility to tailor or develop products that meet the particular needs of the local or geographical market. Large differences in an area's product or service needs or in channels of distribution enhance the need for a geographic structure. Product divisions form the basic units of worldwide product strategies. Each product or service division assumes responsibility for strategy, producing and selling its products or services throughout the world which is essentially dictated by the product structure. Considering the scale of operations, an international strategy is usually considered, in which the company attempts to gain economies of scale by selling worldwide products with most upstream activities based at home. P&G is moving towards the worldwide product structure. To balance the benefits produced by geographic and product structures and coordinate a mixture of product and geographic sub units, some multinationals create a worldwide matrix structure, which enables a firm to pursue
global and local strategies at the same time. Geographical divisions focus on national responsiveness while product division's focus on finding global efficient. The matrix structure works well only when there are equal demands from the environment for local adaptation and for product standardization with its associated economies of scale. Without these near or equal demands the matrix structure turns out to be a geographic or product structure, based on the side from which competitive advantage could be gained. The Royal Dutch and Shell Group recently adopted the product structure after phasing out the worldwide matrix structure due to the bureaucracy it created. The transnational network structure represents the newest solution to the complex demand of being locally responsive while taking advantage of global economies of scale and seeking location advantages such as local sources of knowledge. Like the matrix, this network tries to get advantage of the various structural options as it combines functional, product and geographic sub units. However, unlike the symmetrical product structure the transnational neither has basic form nor a symmetry or balance between the geographic and product sides of the organization. Nodes, the units at the center of the network, coordinate product, functional and geographical information. Often, no two sub units are alike as different product-group units and geographical-area units have different structures. Rather, transnational units evolve to take advantage of resources, talent and market opportunities wherever they exist in the world. The Dutch multinational Phillips Electronics N.V. is one example of a transnational network.

When some major Indian business houses established green field manufacturing joint ventures abroad, most of them, with the exception of the AV Birla group, did not do very well. The group's own ventures abroad were as much the result of the
new business opportunity as of the frustration with the denial of industrial licenses in India. The situation has, of course, changed dramatically over the last decade. Of late, India Inc. is flying high not only over the Indian sky but also on the global path, leading to the emergence of Indian MNC. With each passing day Indian businesses are acquiring companies abroad and recruiting staff cutting across nationalities. While Asian Paints is painting the world red, Tata are rolling out Indicas from Birmingham and Sundram Fasteners has nailed home the fact that the Indian company is an entity to be reckoned with. When economic reforms in the early 1990s brought large MNC to India, a major challenge for them was to manage the interface of global corporate culture and India’s powerful, traditional and widely varying cultural practices.

2.16: Internationalism by India

Organizations now wish to increase market penetration and become more competitive, which means it becomes essential for them to concentrate on their core activities, so that they can add value to their value chains. Thus, forward thinking managers consider outsourcing to be a key strategy that not only reduces costs but also is a tool for adding value to business. It enables organizations to concentrate on their core business, carry out business re-engineering and provide information that is valid, timely and adequate to assist decision making at the top management level and, quality and cost control at the middle and lower levels. In the past few years, outsourcing to India has helped organizations worldwide to cut costs without compromising on quality. Moreover, these cost and quality advantages are coupled with the use of state-of-the-art technologies. Indian companies have created value and thereby helped organizations around the globe gain a competitive edge. With the situation seeing a dramatic change over the last decade, many Indian companies
are becoming multinationals. Indian direct investment abroad has now gone past the $10 billion mark and the driving forces are quite different from what they were during the ‘Permit Raj’. One can broadly classify Indian FDI under the following categories:

**Backward integration:** Many large Indian companies in basic industries, such as steel, viscose fiber, copper and so on, have acquired upstream companies in resource-rich countries such as Canada and Australia.

**Marketing:** Information technology and pharmaceutical sectors have established a large number of companies outside India. While some of them are trying to develop stand-alone local operations, most act as marketing hubs and market intelligence arms for the parent companies in India.

**Energy security:** Some of the largest foreign investments have been made by ONGC. Its subsidiary, ONGC Videsh, is now active in 15 countries in oil exploration. Other public sector companies like Indian Oil and Bharat Petroleum Corporation Limited are looking at retailing in Sri Lanka, Singapore and South-east Asia, while Hindustan Petroleum Corporation Limited was considering investing in a refinery in Saudi Arabia. Barring a major domestic oil find, Indian imports of oil will keep growing and, clearly, in an effort to improve India’s energy security, the ministry of petroleum is encouraging investments abroad, including laying of gas pipelines. In size, if not in number, the oil and gas sector will probably remain the largest single foreign investor in the foreseeable future.

**Forward integration:** Videsh Sanchar Nigam Limited(VSNL) and Reliance have bought underground telephone cable networks at what look like attractive prices,
from companies in bankruptcy, as a measure of integrating their domestic telephone networks in the international market.

**Business strategy:** Some Indian business groups are acquiring businesses abroad, in industrial countries as well, as a measure of conscious business strategy. Tatas are, leading the pack starting with the purchase of Tetley Tea some years back, National Steel in Singapore, Daewoo's commercial vehicle unit in South Korea, and so on. The Mahindra's have also bought tractor companies as a part of deliberate growth strategy. So have some in the auto-ancillary sector. Indian banks and a few insurance companies have been operating abroad for a long time though there has not been much expansion of their activities over the last decade. It is only recently that they seem to be looking at acquiring or developing business abroad, much of which is still focused on non-resident Indians. The hotel industry also does not seem to have grown abroad fast in the last decade. The attraction of Indian companies as employers has increased in recent years, as one can witness the ability of companies like Ranbaxy, Jet Airways and several of the Tata group to attract senior foreign nationals in top positions.

2.17: GDP of MNC in India: MNC have been bringing in foreign investments and thus are playing an important role in boosting the Indian economy as well as globalization. Till 1991, India was more or less a closed economy with a limited growth rate. Consequently, the contribution of the local industries to the country's GDP was also restricted with a perennial shortage of funds for Government, initiated-development projects. In an effort to revive industries and put the country on the right trajectory, the government, post 1991, began to open up various sectors such as infrastructure, automobile, tourism, IT, food and beverages, etc. to MNC. On their part, the MNC slowly but reluctantly began to pour capital investment,
technology and other valuable resources in the country causing a surge in GDP and up-liftment of the economy as a whole.

2.18: Strategy of MNC in India: Companies enlarge their jurisdiction beyond their native place when they get a wide scope to earn profits and such is the case of MNC that have flourished in India. Moreover, India has an ever widening market for different and new goods and services due to an ever increasing population and varying consumer taste. The government FDI policies have proved to be attractive, what with restrictive policies that stopped inflows having been withdrawn and the country showing much interest to bring in foreign investment. Besides the foreign directive policies, the labor competitive market, market competition and the macro-economic stability are some of the other key factors that entice foreign MNC to India.

Indian Exports: In 2012, exports stood at US$145 billion and imports were around US$217 billion. Textiles, jewelry, engineering goods and software are major export commodities while crude oil, machineries, fertilizers, and chemicals are major imports. India's most important trading partners are the United States, the European Union, and China.

Gross Domestic Product (GDP): India is the world's most-populous democracy and has one of the fastest economic growth rates in the world or 8.9 percent GDP increase in 2007, the second-fastest major economy in the world after China. MNC contribute to 20 percent of total GDP of India and 25 percent to Karnataka's GDP.

2.19: Indian MNC Sector Classification: So far, the Indian economy has been analyzed along with the way multinationals have added more value, increased the exports, GDP and productivity, resulting in an all-round development. Furthermore,
an analysis of the effect of MNC on various Indian industrial sectors is presented. Certain important sectors that are considered for the purpose are:

1. Manufacturing and Engineering: Automobiles/Aviation
2. Banking Finance Services and Insurance or BFSI
3. Fast Moving Consumer Goods or FMCG - Food and Beverages, Cosmetics.
4. IT-ITES or ICT, Information and Communication Technology - Telecommunications, Hardware and Software services.
5. Pharmacy, Health-care and Hospitality - Hospitals, Hotels and Tourism
6. Consulting Companies

2.20: MNC in Bangalore: The Government of Karnataka mandated the Karnataka Information and Communication Technology Group (KIG2020)\(^8\) to recommend a strategy that leverages Karnataka's global image in bringing Global MNC Investors - ICT and its thriving Knowledge Economy to achieve the following three core objectives by 2020. INR 400,000 crore of MNC-ICT revenues including exports from INR 135,000 crore in 2012. Two Million direct employment in ICT by 2020 from one million in 2013. One thousand new start-ups to be incubated by 2020. The KIG2020 team studied Karnataka's historical strengths in ICT and the synergy that exists between government, industry and academia to collaborate and create a road map for the state's future development in ICT. Balance the dominant ICT services economy with the Product and Innovation, economy and the emerging Electronics Systems Design and Manufacturing sector, trigger growth in seven Emerging ICT centers in Karnataka apart from Bangalore. Increase focus on new entrepreneurship and innovation through the Karnataka ICT Innovation Fund. This report addresses both the strategic and tactical recommendations for economic growth through ICT as

\(^8\)Karnataka Information and Communication Technology Group KIG2020-June2013 Report.
well as the overall infrastructure requirements to create “New Age Economic, Social and Ecological Growth” or NAESG that has a long term and sustainable impact. Contemporary growth theory has established the relationship between knowledge and productivity. As far back as 1996, the Organization for Economic Co-operation and Development or OECD had estimated that more than 50 percent of Gross Domestic Product in the major OECD economies was knowledge-based. The outsourcing of knowledge-intensive activities to India has contributed in making the services sector as the largest contributor to India’s GDP is 55 percent. With the growth of Information Technology, the last decade has seen India’s stock of knowledge capital grow several folds. The critical mass of knowledge now presents further potential to create innovation, entrepreneurship and improve the efficiency of capital.

2.20.1: Advantages of MNC in Karnataka: Home to MNC Companies, Karnataka is home to a third of the software companies contributing more than 35 percent of the national exports. Karnataka’s electronic, computer software, and biotechnology exports composed 63.5 percent of its total exports in the year 2009-10. Karnataka’s software exports contributed 21.4 percent to its Gross State Domestic Product with export CAGR of 13.5 percent and GSDP CAGR of 15.2 percent between year 2005 to 2012. Business Processing Outsourcing and ITeS companies grew to around 270 in number by CAGR of 13.4 percent from the years 2005 – 08, while hardware exports grew to US$825 million at CAGR of 14.4 percent in the referenced period. Nine of top ten leading IT companies on Forbes Global 2000 list have based the headquarters of their India operations in Bangalore. Karnataka contributes around half million IT professionals from its leading engineering institutes to India’s total IT workforce of around 2.5 million. Karnataka’s IT sector has attracted 44.6 percent
of total investments in the national IT industry in 2010-11. With investments of US$1,271.45 million, 47 of the 58 Special Economic Zones approved in the state are slated to drive the IT and ITES sector. Further, more than 400 out of the Global Fortune 500 Companies were outsourcing IT Services from Bangalore. Bangalore had around 85 Chip Design houses. Bangalore has more than 366 R&D houses. With more than million IT Professionals, Bangalore has continued to witness the clustering effect.

The Electronics manufacturing industry is the largest and fastest-growing manufacturing segment in the world. Its current value is estimated to be US$ 1.75 trillion and is expected to reach US$ 2.4 trillion by 2020. The domestic demand propelled by the growth in telecom equipment, consumer products and mobile handsets stands at US$ 45 billion and is projected to grow to US$ 400 billion by 2020. When combined with India’s growing strength in semiconductor chip design, Electronics Systems Design and Manufacturing (ESDM) can provide unprecedented opportunity for growth.

2.20.2: Karnataka Government on Growth of MNC Companies:

The overall macro economic situation during 2012-13 was that of continued uncertainty and challenges. The developing and emerging economies like ours are affected by global economic slowdown. On account of external global pressures and subdued industrial activity and declining service sector the Country has seen growth of 5 percent in 2012-13. Government of India in the 2013-14 budget had indicated the growth for 2013-14 could be in the range of 6.1 to 6.7 percent. The Economic Advisory Council to the Prime Minister in its April 2013 report has estimated growth at 6.4 percent.
2.20.3: GDP of Bangalore: What was known as the Pensioners' Paradise 10 years back, has grown 10-fold today and a study reveals that the rupee millionaire club in Karnataka's capital is the most crowded in India. Bangalore has the largest number of households with an annual income of INR 1 million or more. With an estimated population of 6.5 million, Bangalore is one of India's most populous cities. Bangalore's main business activity is information technology and information technology-enabled services. Being the leading contributor to India's IT industry, the city is often referred to as the Silicon Valley of India. Software majors, Infosys and Wipro being headquartered in the city. Businesses involving large corporate that are either multinational companies or Indian firms dealing with or catering to MNC employ a very large workforce in Bangalore.

And although the city's infrastructure has been unable to keep pace with the rapid growth of the city, Bangalore still remains one of India's boom towns. Bangalore GDP is $ 83 billion is 4th Largest city behind Mumbai, Delhi and Kolkata. The State Plan size for 2012-13 was fixed at Rs. 42,030 crore. This included support of Rs.35,290 crore from the State budgetary resources and Rs.6,740 crore as resources of Public Sector Enterprises. Annual Plan for Karnataka at Rs.47,000 crore for 2013-14. MNC Investments will be appropriated from to increase the exports in the Information Technology sector from the current level of Rs.1.35 lakh crores to Rs.4 lakh crores by 2020. Similarly, it is proposed to implement IT Group recommendations in a phased manner starting from the year 2013-14 so as to increase jobs from one million to 2 million during the same period.

Karnataka Government Budget-2013-14. Published by Information Department – August 2013
3.0: IHRM in Global MNC:

It is not easy to provide a precise definition of international human resource management. What an HR manager does in a multinational corporation varies from firm to firm. It also depends on whether the manager is located in a global corporation’s headquarters or on site in a foreign subsidiary.

Broadly defined, **International Human Resource Management**\(^{10}\) is the process of procuring, allocating, and effectively utilizing human resources in a multinational corporation. If the MNC is simply exporting its products, with only a few small offices in foreign locations, then the task of the international HR manager is relatively simple. However, in global firms human resource managers must achieve two somewhat conflicting strategic objectives. First, they must integrate human resource policies and practices across a number of subsidiaries in different countries so that overall corporate objectives can be achieved. At the same time, the approach to HRM must be sufficiently flexible to allow for significant differences in the type of HR policies and practices that are most effective in different business and cultural settings. This problem of balancing integration of control and coordination from HQ and differentiation of flexibility in policies and practices at the local subsidiary level, have long been acknowledged as common dilemmas facing HR and other functional managers in global corporations. Although some argue that IHRM is not unlike HRM in a domestic setting, others point out that there are significant differences. Specifically compared with domestic HRM, IHRM (1) encompasses more functions, (2) has more heterogeneous functions, (3) involves constantly changing

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perspectives, (4) requires more involvement in employees' personal lives, (5) is influenced by more external sources, and (6) involves a greater level of risk than typical domestic HRM. When compared with domestic human resource management, IHRM requires a much broader perspective on even the most common HR activities. This is particularly so, for HR managers operating from a MNC headquarters. The number and variety of IHRM activities are daunting. International HR managers must deal with issues as varied as international taxation; international relocation and orientation; various other administrative services for expatriates; selecting, training and appraising local and international employees; and managing relations with host governments in a number of countries around the world. Even when dealing with one particular HR functional area such as compensation, the international HR manager is faced with a great variety of national and international pay issues. For example, while dealing with pay issues, the HQ-based HR manager must coordinate pay systems in different countries with different currencies that may change in relative value to one another over time. An American expatriate in Tokyo who receives a salary of $100,000 may suddenly find the buying power of that salary dramatically diminished if the Japanese yen strengthens in value relative to the US dollar. In the case of fringe benefits provided to host company employees, some interesting complications might arise. For instance, it is common in the United States to provide health insurance benefits to employees and the employee's family, which usually means spouse and children. In some countries however, the term "family" may include a more extended group of relatives—multiple spouses, aunts, uncles, grandparents, nephews, and nieces. How does the firm's benefit plan deal with these different definitions of family? A final aspect of the broader scope of IHRM is that the HQ-based manager deals with employee groups that have different
cultural backgrounds. The HQ manager must coordinate policies and procedures to manage expatriates from the firm's home country or parent country nationals, or PNC, host-country nationals or HCN, as well as third country nationals - TCN, e.g. a French manager working for an American MNC in the firm's Nigerian subsidiary, in subsidiaries around the world.

Although such issues are important for the HQ-based manager, they are also relevant to the HR manager located in a subsidiary. This manager must develop HR systems that are not only acceptable to the host country but also compatible with company-wide systems being developed by his or her HQ-based counterpart. These policies and practices must effectively balance the needs and desires of local employees, PCN and TCN. It is at the subsidiary level that the increased involvement of IHRM in the personal lives of employees becomes particularly apparent. It is not unusual for subsidiary HR managers to be involved in arranging housing, health-care, transportation, education, and recreation activities for expatriate and local staff.

IHRM activities are also influenced by a greater number of external forces than are domestic HR activities. The HQ-based manager may have to set equal employment opportunity policies that meet the legal requirements of both the home country and a number of host countries. Because of the visibility that foreign firms tend to have in host countries, especially in developing countries, subsidiary HR managers may have to deal with ministers, other political figures, and a great variety of social and economic interest groups than would normally be encountered in a purely domestic HRM. It is difficult to find any comprehensive work that does not pay attention to the concept of organizational commitment. The exemplary work on Organizational Commitment or OC was carried out by social scientists who proposed a trichotomic classification. Effective Commitment relates to emotional attachment, continuance
commitment, emphasizes cost-consciousness, close to calculative commitment and Normative Commitment reflects obligation consciousness. Researchers have noted that organizational processes and practices deserve attention as potential determinants of OC and believed that employee perceptions of organizational policies reflect a sense of reciprocity and the levels of concern that the organization appears to have, for its employees.

Overall, research has shown that individuals and organizations are adversely affected by low commitment and benefit from high commitment. However, the changing employment scenario in a dynamic environment has disrupted employee commitment. OC in Multinational Companies, therefore, is a topic of growing importance to scholars and practitioners. It is thus worth looking at the status of OC among Indian executives working in multinationals operating in India. Most studies have examined the impact of certain variables on OC, measuring OC with the help of traditional descriptions. However, authors Awasthy, et.al\textsuperscript{11} their article Organizational Commitment and Continuance have pointed out that it is difficult to make a significant contribution because of the way commitment has been studied. There doesn't seem to be enough work done in this area, in the Indian context. Most of the earlier studies have adopted the questionnaire method to examine OC. Considering these gaps in literature, the current research study adopted the qualitative-approach. As described earlier in Chapter II, "The grounded theory and the interpretive approach were adopted to understand the nature of OC in the present business environment. Interpretive social research focuses on what events and objects mean to people, on how they perceive what happens to them and around

\textsuperscript{11}Awasthy,RichaGupta,Rajen."OrganizationalCommitment"by.Publication: Indian Journal of Industrial Relations Publisher: Shri Ram Centre for Industrial Relations and Human Resources Audience: ISSN: 0019-5286 Date: Jan,2010 Source Volume: 45 Source Issue: 3 Page 102-115.
them, and how they adapt their behavior in the light of these meanings and perspectives. An effort has been made to understand employee perceptions and intentions with regard to their association with the organization. The objective of the study, was to understand what is happening to multinational companies in India, as per the lived-in experiences of employees. The employees commitment towards the organization is based mainly on their perceptions about the four organizational practices: organizational structure, management style, HR practices and non-work practices. A few case studies is analyzed to compare functioning of global IHRM Department.

3.1: Internationalization-HRM strategies in MNC from Emerging Economies

With the rapid rise of multinationals from emerging economies, there is a need for better understanding of the deployment and diffusion of managerial strategies from their perspective. This study focused on Indian multinationals to provide insights and guidance into the motives, strategic opportunities and constraints in cross national transfer of international management policies and practices in a multi-polar world. Using interview data of over 90 senior managers in eight Indian MNC across their subsidiaries in both developed and developing markets, the study finds that they follow a unique approach to their international growth & people management that is grounded in their Indian heritage. They adopt a wide range of differentiation strategies underpinned by innovation and an overarching corporate philosophy. They predominantly follow an 'adaptive approach' to managing their subsidiaries in

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developed markets whereas it is highly localized when it comes to managing developing market subsidiaries. Their HR strategies closely mirror their business strategies and focus on employee growth and engagement.

3.2: Indian MNC HR Managers: Indians have been quick learners in internationalization both in scale and speed. One of the core strengths of Indian firms is to extract maximum value from even ailing businesses by applying innovative and cost effective methods that they have developed over the years in an extremely resource constrained and uncertain domestic environment. Their unique approach to international growth, which we label as 'compassionate capitalism' manifests in several ways, such as a preference for sustainable growth without compromising core values, long-term commitment to their businesses despite economic turbulence's, faith in the management team of the acquired overseas companies and commitment to employees in terms of job security and investment in training. The 'fire in the belly' attitude of emerging multinationals is evident in the way they are pushing the top management in the companies that they have acquired abroad to stretch their goals. Indian MNC do face multiple hurdles in furthering their internationalization strategies. For example, despite their growing global reputation, they still face problems recruiting talent at higher levels due to poor perception of their employer brand. Our case study sites show clear signs of an 'adaptive approach' in managing subsidiaries in developed markets. While their management philosophy is grounded in Indian heritage that focuses on social mission and employee welfare, they have adopted several best practices from developed markets, such as metrics driven performance management. However, unlike Western multinationals which tend to adopt an ethnocentric approach to managing subsidiaries in developing markets, Indian multinationals seem to adopt a highly
localized approach as reflected in their staffing and decision making process. With regard to HR strategies and practices, Indian multinationals are clearly focused on linking HR strategy to business strategy and harnessing the potential of intellectual capital by creating an environment of trust and transparency, adopting a long-term vision in managing performance and business cycles, investing heavily in employee training, providing internal growth opportunities, empowering employees, integrating people, culture and systems, and being a good corporate citizen by working with and for the local communities. They recognize that to become a truly global corporation, they need to develop a global mindset and employee base. While this vision is being somewhat hampered by the liabilities of country of origin, foreignness, newness and smallness, they are steadily acquiring the critical mass to differentiate themselves as innovative global players. Implications for Practice

While Western MNC have traditionally taken their domestic strengths ‘outward’ to the rest of the world, the Indian MNC in the services sector have typically grown first in the developed markets by leveraging on their skills and domain expertise. Most of their overseas growth has occurred in the last decade and in a very short span of time, they have spread their global network, mainly via setting up 100 percent subsidiaries or acquisitions. Despite attempts to localize their workforce in different geographies, their global management team is still predominantly Indian but increasingly their systems and to some extent their management mindset are becoming-global. Increasing investment by emerging economies in developed as well as emerging markets, particularly via mergers and acquisitions means that there is a greater need for management practitioners to understand the ways in which MNC from emerging economies strategize and act in diffusing and coordinating management practices. For too long, international HR management literature and

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practice have been embedded in Western thinking and concepts with little cross-pollination. Accordingly, re-examining the management approaches and practices of MNC from newer industrialized and developing economies such as India that facilitates 'travel of ideas' is likely to remain a key research issue for the next decade, given the speed of economic development and the increasing influence and numbers employed by such companies.

4.0: HRM in Indian MNC based in Bangalore

4.1: The Indian HRM context: The industry of HR services in India has been around for more than three decades. In the pre-liberalization era, the industry was an insignificant part of the national gross domestic product. Post 1991, the service sector in India grew in eminence and has steadily emerged as the biggest pie of the national GDP. Mostly driven by IT and ITES services, The overall industry has steadily matured both in the global as well as the India-to-India market. The HR services sector, however, driven by brick and mortar businesses and traditional delivery models has fallen behind as compared with other highly mature service sectors and the global market. Over the last few years, the HR industry has witnessed some radical evolutionary leaps led primarily by technology and the growth of domestic home grown multinationals. While there are some variable opinions on the exact size of the industry, owing specifically to the variance in opinion on temp staffing and education, the industry is estimated to be over Rs. 30,000 crores. Out of this, the segment of recruitment accounts for a majority of the industry which is over percent. Some of the other services that command a big market share include Learning and Development, outsourcing, technology, and consulting and advisory services. Compared to other mature HR service economies in the West, most experts believe that there are size able opportunities in India yet to
be explored. Ironically, with the exception of Info Edge, there are no public companies in this space. Varun Talwar, CEO of The HR Fund, highlights that the recruitment space presents huge opportunities for companies to go public because recruitment remains the top challenge for Chief Human Resource Officers. The need for specialization at an industry, skill, and local level will drive consolidation and pave the way for large home grown public companies. The emergence of large public companies will depend on how effectively companies are able to attract finance and create plans for scaling up. The technology space presents immense opportunities for growth and innovation driven mostly by cloud, social media, and consumer technologies. While in all other geographies, the evolution of services has followed a common path, there is a large opportunity in India to leapfrog if companies can efficiently utilize technology. The future of the industry will be largely driven by a combination of social, cloud, and mobile technologies, commonly referred as SOCOMO. John Sumser, Principal Analyst at HRx Analysts and Founder and Editor-in-Chief of HR Examiner, highlights that HR services across the world matured at three levels. The first level involves the execution of the administrative layer of HR activities, such as payroll and benefits. At the next level of maturity, service companies manage talent management processes, involving the use of data to deploy talent, identify training and development opportunities, and track performance. The highest level of maturity is about development and evolution of the human capital, that overlays administrative and talent management processes, for operating the company. It is interesting to note that there are instances where Indian organizations have successfully utilized technology to develop highly advanced service functions as compared to other developed markets. Owing to the maturity of the technology market in India, it is possible that the HR service sector
in India will skip the traditional maturity path and evolve in an atypical manner. Gorman, CEO at CMG Group, mentions that another key development that will affect the industry globally is the changing demographic composition of the workforce. The constitution of the workforce has changed radically and digital natives will comprise a majority of the workforce in a few years. This is an indication that innovation will have a significant impact on the industry in the coming years. The recent spurt in large-scale acquisitions is changing the landscape of HR services and will affect how investors will look at this space. Emerging organizations and emerging technologies in human capital management will become the prime focus for venture capital investments. Niche services fuel by technology are making their way into this space and attracting investments in the West. These services are more plug and play solutions that address specific needs in organizations. An example is background and reference checking solutions that use social technology to connect with a candidate’s former employer or a former colleague to verify credibility of claims made in a candidate’s resume or an interview. There are a number of solutions emerging in performance management. Niche solutions that use social technology and business software, to help provide ongoing feedback against critical Key performance indicators and connect individual and organizational goals are cropping up. Market experts believe that similar trends will reflect in India in the coming months. There are several opportunities for the sector and the outlook for the coming months will continue to remain positive. In line with the global outlook for the industry, consolidation is expected across most of the segments. However, consolidation is expected to be more prominent in some of the segments, including technology, outsourcing, and recruitment. The coming few months will see more industry associations being formed, owing to the need to
build a unified voice and share best practices. The Indian Staffing Federation, which came into existence in 2011 is one such example. Industry consortium, such as CII will likely play a crucial role in this. The demand side challenges and increasing pressure on HR organizations in India will compel the creation of new services. The imminent skills shortage, changing nature of the workforce composition and the growing influence of social media will likely drive the introduction of new services such as employer brand consulting, and online and computer based skill services. As the demand landscape intensifies, service providers will likely introduce new and innovative products in the areas of talent and performance management, engagement, and retention. Most experts are unanimous in their opinion that innovation will be the key propeller of growth in the industry. The demand for HR services will move away from pure cost efficient toward value conversations. As seen globally, the coming times may likely see larger, integrated, multi year, multi service deals in India. There is expected to be an increase in organizations looking for managed services, a type of service where a single provider manages the end-to-end service of a particular program. An example would be a managed recruiting service that includes vendor management, assessments, and candidate selection. The Recruitment Process Outsourcing or RPO space will also likely see fervent activity. The industry, however, will continue to be affected by the low maturity of the HR function in India. HR professionals continue to find it difficult to make and drive a strong business case on the value of employing HR services to their CEO. Experts also believe that HR service companies are not doing enough to educate the buyer. In the absence of use-case scenarios and a weak business case, the opportunity for the buyer to move up the HR service value chain becomes difficult.
The introduction of large global players will likely constitute a threat to home grown companies. Home grown companies face two key challenges - the inability to scale and the inability to attract funds. A typical example is the segment of HR consulting where global companies rule the roost. These large corporations are acquiring smaller organizations that find it difficult to compete with the scale and presence of the global players. In the age of talent competition, entrepreneurs in India need to open up to the idea of hiring specialist talent, such as CMO and CTO. The path to growth for the HR industry lies in the diversification of the service portfolio to cover a broader spectrum of services. Service companies have a huge role to play in educating the market on value-based conversations that rise above mere cost conversations. As an industry, providers have to continue their focus on hiring skilled talent and innovation as part of their long term strategic plan.

4.2: The HR Buyer: Walking the path to maturity:

HR in India, starting from independence until the mid 70s was purely transactional and focused on industrial relations. From the 70s, the focus shifted to personnel management and this continued until the early 90s. HR, as a function, evolved post liberalization era when global business standards were introduced and the competition for talent intensified. The HR buyer began to look keenly into recruitment services to gain access to a larger pool of quality talent. As business complexity grew, management of the employee life cycle became more challenging and HR functions started feeling the pressure to manage the scale and complexity of a larger and more diverse workforce. While recruitment is still the predominant preference, the last 10 years have seen organizations open up to a broad spectrum of HR services. There are three markets of HR buyers in India? multinational corporations with access to global markets, home grown owner-promoted companies, SME and small companies. The
multinational corporations are the largest consumers of HR services in India, and home grown Indian companies are far behind the curve in terms of adoption maturity. Large MNC who have significant service budgets, however, typically address their need for value-added HR services at an international scale and Indian players have to compete with global players in a more mature market. Education and awareness about HR services among home grown owner-promoted and small scale companies is low and hence, the bulk of the business for service companies comes from the lower spectrum of the value chain, such as compensation benchmarking, transactional activities, and administrative services. The HR buyer in India is yet to mature enough to consume high-value services such as leadership development and succession management. Another problem in the buyer community is that HR professionals in India are not skilled to build a solid business case for investment in services. As K. Ram kumar, Executive Director, at ICICI illustrates, “the role of the HR professional while explaining the value of services to the CEO is like that of a doctor or an engineer diagnosing a problem to a client. Excessive use of technical jargon dissolves the value and leads to a weak business case. HR professionals in India lack the maturity to drive the business case.” Few services will likely see a spurt in demand in the coming months. According to Prince Augustin, EVP-Human Capital and Leadership Development at Mahindra and Mahindra, skilling and education are two sectors where buyers and service providers will collaborate. Sudeep Banerjee, Head-Organizational Capability at Bharti Airtel, forecasts that the HR buyer will be keen to employ integrated HR services to manage the complete horizon of a particular function, such as talent management. The outlook for 2013 will be of stable investments, but the real growth of investments will come across the next 10 years. Opportunities are available with broad spectrum of available
services, richer high value-added services expected in the future. Large opportunity in L&D technology to scale-up skilling programs. And threats are the inability to drive the business case, lack of substantial successful implementation case examples, low maturity of the market.

4.3: Recruitment at Indian MNC: Working towards incremental growth and sustainability, the recruitment industry is probably one of the oldest among the service industries in the world and it is still the largest segment of the HR industry with an annual turnover of over $400 billion globally. It started post World War II, predominantly in war affected countries, where there was a large influx of employable people returning to jobs, giving rise to the temporary staffing industry.

In India, recruitment services started about 20 years back when the economy got liberalized and there was a sudden spike in the demand for talent. More than 99 percent of the 20,000 players in the industry comprises niche or boutique firms, which operate either in one city, one industry, or with one client. The last 5 years has seen the emergence of large home grown players along with most of the renowned global players establishing a sizeable presence. The recruitment market, globally and in India, is dominated by staffing that comprises around 75 percent of the market. Staffing is a large volume business with thousands of people employed in this segment. Temporary staffing in India, however, is a relatively new phenomenon and has been around only in the last 12-13 years. The staffing industry is valued at an estimated Rs. 16,000 crores and the permanent recruitment business is valued at approximately Rs.4,000 crores in India. The permanent recruitment segment includes recruiting, contingency and executive search and comprises about 15 percent of the market. 10 percent of the market is comprised of recruitment consultancy services, including assessments, salary benchmarking services, and
satisfaction surveys. Technology companies, including portals constitute the remaining 5 percent of the recruitment market in India. Kamal Karanth, CEO at Kelly Services India highlights that staffing presents huge opportunities for the industry. In India there are 13 lakh temp workers presently in the organized sector and estimates by the Indian Staffing Federation project that the demand will swell to 9 million, across the next 10 years. Managed services, or services where a single provider manages the overall staffing span of a company, is another key area where large recruitment companies will be looking to diversify. For home grown companies, two challenges will likely be key areas for concern, scaling up, and the ability to find the right people. E.Balaji, MD and CEO at Randstad India, highlights that for global companies, understanding the dynamics and characteristics of the Indian market will be a core challenge. Another core challenge for most recruiting companies across 2013 will be low operating margins. Ashok Reddy, CEO at Teamlease, highlights that it will be essential to look at, to scale the business and make the business independent of one or two core people. While the outlook for 2013 is expected to remain fairly static, the recruiting industry will likely witness changes in terms of consolidation, new delivery models, and a greater reliance on technology. Opportunities in staffing shows size able growth, specialized talent search in STEM, and IT, RPO, Managed solutions and threats are longer recruiting cycles, stagnant growth outlook, question on ability to scale, availability of talent pool.

4.4: Learning and Development at MNC: From grassroots to global leadership, the second largest service segment of the industry, learning and development services is witnessing tectonic shifts, driven primarily by demand for more skilled manpower in the corporate sector. The learning segment in India comprises learning at all levels, from school education to corporate training. As such, it is difficult to arrive at an
accurate estimate of the size of the industry. From information gathered from global studies and interviews with industry experts, People Matters estimates the size of the industry to be worth approximately Rs. 7,000 crores in India.

The demographic composition of the workforce is dramatically changing, with more personnel from the rural sector and tier II cities entering the organized sector. While it is widely recognized that a very small percentage of academic courses in India churn out professionals who are fit to join the corporate workforce, the last 5 years have seen a large number of corporations hiring professionals at the grassroots level and grooming them per their requirements. The influence of technology has changed attitudes and outlook toward learning and development both among organizations and among talent. In the coming times, the emphasis on leadership and management development, technology, and specialized training at the grassroots level will shape the direction of learning and development services in the country. Substantial opportunities exist in government partnerships and many service providers will be looking to re-position their business model to tap the huge potential market. Sanjeev Duggal, CEO at Centum Learning, highlights that in the five year plan, the government has allotted Rs.35,000 crores, for learning and skilling. With the penetration of end-user devices and social media growing at an unprecedented pace, spending in learning and development technology will see significant increase. Vinay Kumar, Director and Principal Consultant at C2C Consulting, highlights that with increasing globalization and M&A activity, organizations are likely to increase spending in leadership learning, technical training, and cross-cultural development to meet their demand for global and technical leadership. Sureish Nathan, Vice President & Managing Director -Asia Pacific at Centre for Creative Leadership, believes that the APAC market presents significant expansion opportunities as the
market is more mature and there are opportunities for cost arbitrage. The service industry lacks qualified trainers and the talent shortage is one of the most significant challenges that CEO of LND companies face. Vinay Kumar highlights that there are only ten Certified Global Facilitators in India, out of which six work internally in companies. The lack of certified professional trainers in India can potentially hinder the growth and maturity of the market. Some industry experts believe that the slowdown has in fact, affected the industry positively because this has given organizations the opportunity to rationalize their workforce spend and invest in LND. With the government policy fueling changes, the LND industry in India has a positive growth outlook in the coming months. Opportunities are with Government and academic partnerships, Asia-Pacific, marketing new technology space, particularly in social media and consumer technologies and threats are due to low maturity of the buyer, longer sales cycles, lack of qualified trainers, moving buyers from commodity to value.

4.5: Outsourcing and Niche Services: Global playing field, local advantage, HR outsourcing and niche service providers constitute the third largest revenue segment in the industry. From a construct perspective, this segment has two predominant types of service arrangements project based or single contract deals and large scale multi-year arrangements. These services typically cover the complete breadth of the employment life cycle and include services such as candidate assessments, payroll and benefits, RPO, training process outsourcing, engagement, performance management and exit and outplacement services. The market comprises global players that are apt in multi-functional process outsourcing services, pure play global HR process experts, and domestic home grown players. Post liberalization, Indian corporations have steadily witnessed more global players entering the market.
equipped with best-of-breed business practices. These disruptive developments exposed Indian corporations to competitive threats unprecedented in the erstwhile closed economy times. In response, Indian corporations adapted through expansion into global geographies, diversifying product and service lines, and introducing global best practices. HCM thus evolved as a crucial component of organizational strategy. With the HR function shifting to a strategic focus, the need for process-level partnerships is increasingly gaining importance. Year 2013 reflected the impact of the economic slowdown on the job market. Attraction and retention of high quality talent has become a critical ingredient of organizational success. With lesser jobs, the competition for quality talent has intensified. While the trend is expected to continue across the next few months, value-based services such as assessments and RPO have seen a consequent rise in demand. According to Smitha Affinwalla, Head of Consulting at DDI, as the HR market in India is maturing, the need for depth of value increases. There is an increasing need for service providers in this space to understand the need of the market. Rajesh Ranjan, Vice President at Everest Group, highlights that there is a huge opportunity for home grown Indian corporations in this space as they have a deeper understanding of the market and have the means and resources to respond in indigenous ways. At the same time, global organizations are trying to scale up operations in the Indian market and the space will likely see consolidation in the coming years. Technology will play a pivotal role in driving the next generation of opportunities in this space. According to Pankaj Bansal, CEO of People Strong HR Services, there are significant opportunities in the payroll and benefits space with the Indian market likely to witness the emergence of large home grown players co-existing alongside global corporations. Opportunities for Players in India will continue to leverage the labour arbitrage advantage, Emergence of large
home grown players, large opportunities in the SME sector and threats are from sales conversations are typically difficult in less mature markets.

4.6: HR Consulting in MNC: Exploring new frontiers of value delivery, the consulting space in India is crowded with all the major global players like PwC, Deloitte, E&Y, having a significant presence. Consulting, by definition is a service that helps a client address a specific business challenge. Consulting services in India comprise strategy consultants, niche boutique consultants, recruitment consultants, business consultants, IP or knowledge consultants, leadership consultants, and system integrator. There are various market categories in the consulting space with varying size and maturities. There are four categories of HR consulting organizations in India, MNC that have been in India for a long time, MNC that are new entrants or are looking to enter the Indian market, large Indian corporate, and SME and smaller corporations. Each of these markets have different levels of maturity and demands. The consulting space in India has seen some changes in the last couple of years. Economic conditions and cost pressures have shrunk consulting budgets in organizations, thereby making it difficult for small players to sustain. As a result, consolidation has taken place, and there exists fewer players in India but on a larger scale. Consulting organizations in India unanimously agree that the Indian market has a lot of untapped opportunity. Additionally, Indian multinational corporations looking to enter outside markets are largely under served and it presents significant green field opportunities. Price Water House Cooper, is optimistic that the outlook for consulting service will be positive in 2013 and highlights that some services like compensation, evaluation, and recruitment will be evergreen. People-based services and analytic will likely come up in a big way. There will likely be high demand for value-based services including learning solutions, social media
services for recruiting and branding, and performance management. At the same time, the market is witnessing pressures on margins and costs, both from the supply as well as the demand side. Consulting organizations in India are also worried about the dearth of skilled talent. To differentiate their market stature, consulting organizations will be looking to broaden their portfolio of services, hire quality talent, and increase focus on value-based service positioning. Compared to the West, consulting services in India are still in the early stages of maturity. PSU and home grown companies, looking seriously at HR service delivery optimization, will introduce more maturity in the consulting space in terms of pricing structures and service expectations. Opportunities will be in PSU and home grown companies, SME and Indian multinationals, Consolidation in the market, Analytic and people-based services while threats are due to relative low maturity compared to other markets, dearth of quality talent and demand side cost pressures.

4.7: HR Technology in MNC: Building the base for future growth, HR technology was the late entrant in the technology space in India. While other enterprise technology platforms have seen a great deal of evolution, the HR technology space is far behind other technology sectors in terms of maturity. HR technology developed in the West in three phases or layers. The first layer comprised automation of administrative tasks, such as payroll and benefit. The next layer comprised management of the talent life cycle within the organization, starting from recruitment to training and deployment. The highest level of technology maturity was seen in the form of integrated solutions that manage the entire human capital of the organization. Global experts, however, believe that development of the HR technology space in India has been unlike the West and technology providers are pioneering disruptive products that could potentially affect the global HR technology
industry. The HR technology market is a highly fragmented space with a number of niche players offering off-the-shelf standardized solutions to large global players providing comprehensive human capital management solutions. Essentially, three types of players comprise the HR technology market in India, niche core HR off-the-shelf providers, including standard payroll and administration solutions, solutions that cater to optimization and efficiency of HR management, such as analytic, performance, engagement, workforce solutions and comprehensive enterprise solutions providers. The market is mostly made up of small and large Indian corporations, though the last 5 years has seen the introduction of many global players. A number of trends are affecting the HR technology space, including the evolution of cloud-based services, increasing penetration of mobile computing, and the changing demographic distribution of the workforce. Owing these developments organizations are gradually realizing the need for anytime information availability, new ways to manage performance and efficiency, and develop new ways to engage talent and customers. Various sector opportunities will likely drive market growth in this sector. With FDI opening up, there will be more requirements for retail companies to manage talent and performance. The hospitality industry too will likely see an increased influx of talent and a greater need for technology to manage the workforce. Among the other sectors, PSU and manufacturing organizations will be looking to optimize efficiency and optimize organizational performance.

Disruptive technologies, pioneered in India, will likely shape the global direction of the HR technology market. With the workforce becoming diverse and more distributed, the HR technology industry will likely see a surge in demand for analytics and big data. More global companies with analytic capabilities will likely seek entry into the Indian market and existing players will be looking to ramp up
their product capabilities. While the outlook for 2013 for HR technology will not be of exponential growth, the space will see companies trying to establish presence and build a base for the future. Thus opportunities are in retail and hospitality. Emergence of disruptive technologies, such as gamification, larger HR technology budgets from the demand side, Cloud-based and analytics services and threats are low maturity on the demand side, market skepticism from failed implementations, lack of use-case scenarios to drive business expansion.

5.0: Profile of Respondents:

Human Resources Management Professionals from various MNC were interviewed and surveyed and their profile like age, qualification, designation and responses were recorded and discussed in Chapter-V.

5.1 Summary of Key Information from the MNC Studies -

Internet based research, about MNC operating in Bangalore with reference to the study of Impact on external environment factors from IHRM perspective, was analyzed and results recorded.

1. Global Economics: Experts and various studies conducted across the globe envisage India and China to rule the World in the 21st century. China and India, contributed to the rising share of Asia in World GDP. Expectations are that the share of the US in World GDP is to fall from twenty-one percent to eighteen percent and that of India to rise from six percent to eleven percent in 2025, and hence the India will emerge as the third pole in the global economy after the US and China.

2. The rise of emerging economies has presented multinational corporations with unprecedented market opportunities and the ability to tap into an increasingly skilled
labour force. There are some 8,000 distinct large companies worldwide with revenue of $1 billion or more, and three out of four are based in developed regions. An additional 7,000 companies to grow to this size by 2025 and seven out of ten of these new entrants are likely to be based in emerging regions.

3. **Indian MNC Perceptive**: Gross Domestic Product of an economy requires contribution from major industries to be healthy. India is a largely an agrarian economy, so agriculture makes major contribution to the Indian GDP. In terms of US Dollar exchange rate, India Economy is the twelfth largest. Hence apart from agriculture, Industrial products and services also contribute for growth of India’s economy. A major contribution for industries and services comes from MNC operating in India and Bangalore.

*Key indicators For India IN Year 2013*: Population of 1.241.5 Millions, GDP of US$ 1824.8 Billion or 1.825 Trillion. GDP per Capita was at US$1.492, GDP(PPP) as share of World Total is 5.63. Inflation or Consumer Price Index was at 8.4 percent and Unemployment stood at 6.8 percent.

4. **Karnataka**: Karnataka’s software exports contributed 21.4 percent to its Gross State Domestic Product (GSDP) with export CAGR of 13.5 percent and GSDP CAGR of 15.2 percent between for year 2005 - 2010. BPO, ITeS companies grew to around 270 in number by CAGR of 13.4 percent from the years 2005 – 08, while hardware exports grew to US$825 million at CAGR of 14.4 percent in the referenced period. Bangalore GDP is $ 83 billion is 4th Largest city behind Mumbai, Delhi and Kolkata. The State Plan size for 2012-13 was fixed at Rs. 42,030 crores. This included support of Rs.35,290 crores from the State budgetary resources and Rs.6,740 crores as resources of Public Sector Enterprises. Annual Plan for Karnataka at Rs.47,000 crores for 2013-14. MNC Investments will be appropriated from to
increase the exports in the Information Technology sector from the current level of Rs.1.35 lakh crores to Rs.4 lakh crores by 2020.

5. There are several global mega trends that are reshaping the IT/ BPO space. BPO is likely to grow from US$ 500 Billion to US$ 1.5 Trillion by 2020. India's contribution in this can grow from the current US$ 100 Billion comprising US$ 69 Billion exports and US$ 31 Billion domestic market to US$ 300 Billion comprising US$ 225 Billion exports and US$ 75 Billion domestic market. Of this, Karnataka's contribution to IT/ BPO exports has been US$ 26 Billion consisting of 25 percent. Recognizing the required change has the potential to increase employment in the IT and BPO sector from the current 8 lakh to 20 lakh by 2020.

6. IHRM –MNC in Bangalore - Future trends and road map: A number of trends are affecting the HR technology space, including the evolution of cloud-based services, increasing penetration of mobile computing, and the changing demographic distribution of the workforce. With FDI opening up, there will be more requirements for retail companies to manage talent and performance. The hospitality industry too will likely see an increased influx of talent and a greater need for technology to manage the workforce. Disruptive technologies, pioneered in India, will likely shape the global direction of the HR technology market. With the workforce becoming diverse and more distributed, the HR technology industry will likely see a surge in demand for analytics and big data. While the outlook for 2013 for HR technology will not be of exponential growth, the space will see companies trying to establish presence and build a base for the future.
Conclusion:

Thus this chapter summarizes the Profile of MNC Organization globally and those operating in India. The Profile parameters considered were characteristics of MNC organization, nature of operations, turnover, Profits, sector Classification, economic impact, Country GDP, definitions, advantages and disadvantages.

Secondly, the HRM of MNC organization from Global and Indian perspective were discussed from those MNC operating out of Bangalore. Also, global IHRM best practices of different countries are analyzed to enumerate the factors that need to be considered. A brief strategy and internationalization factors are discussed with reference to developing economy like India. Profile of HRM from Indian MNC perspective are also discussed in order to compare the factors both micro and macro, internal and external, that impact the growth and development of business.

Thus, this chapter has set the framework of dependent and independent factors that was considered while collecting data from the respondents. Database of HR Professionals were developed from information collected through questionnaire about MNC.