CHAPTER – 1

INTRODUCTION
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1.1. INTRODUCTION TO HUMAN RESOURCE MANAGEMENT:

The term ‘human resource management’ (HRM) and ‘human resources’ (HR) have largely replaced the term ‘personnel management’ as a description of the processes involved in managing people in organizations. The concept of HRM underpins all the activities described in, and the aim is to provide a framework for what follows by defining the concepts of HRM and an HR system, describing the various models of HRM and discussing its aims and characteristics. This continues with a review of reservations about HRM and the relationship between HRM and personnel management and concludes with a discussion of the impact HRM can make on organizational performance.

Human Resource Management is defined as the people who staff and manage the organization. It comprises of the functions and principles that are applied to retain, training, developing, and compensating the employees in an organization. It is also applicable to non-business organizations, such as education, healthcare etc. Human Resource Management is defined as the set of activities, programs, and functions that are designed to maximize both organizations as well as employee effectiveness.

Scope of HRM without a doubt is vast. All the activities of employees, from the time of his entry into an organization until he leaves, come under the horizon of HRM. The divisions included in HRM are Recruitment, Payroll, Performance Management, Training and Development, Retention, Industrial Relation, etc. Out of all these divisions, one such important division is training and development.

1.1.1. HUMAN RESOURCE MANAGEMENT DEFINED

Human resource management is defined as a strategic and coherent approach to the management of an organization’s most valued assets – the people working there who individually and collectively contribute to the achievement of its objectives. Storey(1989) believes that HRM can be regarded as a ‘set of interrelated policies with an ideological and philosophical underpinning’. He suggests four aspects that constitute the meaningful version of the HRM:
1. A particular constellation of beliefs and assumptions;
2. A strategic thrust informing decisions about people management;
3. The central involvement of line managers; and
4. Reliance upon a set of ‘levers’ to shape the employment relationship

**The Harvard framework**

The experts of HRM were Beer, Spector, Lawrence, Quinn Mills, & Walton (1984) of the Harvard School who developed what Boxall (1992) calls the ‘Harvard framework’. This framework is based on the belief that the problems of historical personnel management can only be solved when general managers develop a viewpoint of how they wish to see employees involved in and developed by the enterprise, and of what HRM policies and practices may achieve those goals. Without either a central philosophy or a strategic vision – which can be provided only by general managers – HRM is likely to remain a set of independent activities, each guided by its own practice tradition.

Beer and his colleagues believed that ‘Today, many pressures are demanding a broader, more comprehensive and more strategic perspective with regard to the organization’s human resources.’ These pressures have created a need for: ‘A longer-term perspective in managing people and consideration of people as potential asset rather than merely a variable cost.’ They were the first to underline the HRM tenet that it belongs to line managers. They also stated that: ‘Human resource management involves all management decisions and action that affect the nature of the relationship between the organization and its employees – its human resources.

The Harvard school suggested that HRM had two characteristic features: 1) line managers accepts more responsibility for ensuring the alignment of competitive strategy and personnel policies; 2) personnel have the mission of setting policies that govern how personnel activities are developed and implemented in ways that make them more mutually reinforcing. The Harvard framework as modelled by Beer, Spector, Lawrence, Quinn Mills, & Walton (1984)is shown in Figure 1.1.
1.1.2. **AIMS OF HRM**

The overall purpose of human resource management is to ensure that the organization is able to achieve success through people. As Ulrich and Lake (1990) remark: ‘HRM systems can be the source of organizational capabilities that allow firms to learn and capitalize on new opportunities.’ HRM strategies aim to support programs for improving organizational effectiveness by developing policies in such areas as knowledge management, talent management and generally creating ‘a great place to work’. More specifically, HR strategies can be concerned with the development of continuous improvement and customer relations policies.

**Policy Goals of HRM**

The models of HRM, the aims set out above and other definitions of HRM have been detailed by Caldwell (2004) into 12 policy goals:

1. Managing people as assets that are fundamental to the competitive advantage of the organization.
2. Aligning HRM policies with business policies and corporate strategy.
3. Developing a close fit of HR policies, procedures and systems with one another.
4. Creating a flatter and more flexible organization capable of responding more quickly to change.
5. Encouraging team working and co-operation across internal organizational boundaries.
6. Creating a strong customer-first philosophy throughout the organization.
7. Empowering employees to manage their own self-development and learning
8. Developing reward strategies designed to support a performance-driven culture.
9. Improving employee involvement through better internal communication.
10. Building greater employee commitment to the organization.
11. Increasing line management responsibility for HR policies.
12. Developing the facilitating role of managers as enablers

1.2. INTRODUCTION TO RECRUITMENT AND SELECTION

RECRUITMENT AND SELECTION

Recruitment performs the essential function of drawing an important resource – human capital – into the organization (Barber A., 1998). According to Barber “Recruitment includes those practices and activities carried on by the organization with the primary purpose of identifying and attracting potential employees”. Similarly Newell & Shackleton (2000) refer to recruitment as “the process of attracting people who might make a contribution to the particular organization”. Both these definitions highlight a primary objective of recruiting, and that is to identify and attract future employees.

Whereas recruitment is aimed at attracting individuals to an organization, selection is aimed at identifying the most qualified from among those individuals. Bratton (2003) define selection as “the process by which managers and others use specific instruments to choose from a pool of applicants a person or persons most likely to succeed in the job(s), given management goals and legal requirements”.

1.2.1. IMPORTANCE OF RECRUITMENT AND SELECTION

In an increasingly global and sophisticated marketplace, recruitment and selection has become an essential tool for organizations in ensuring that they have the
human resources necessary to achieve their current strategic direction and to continue innovating and growing in the future. Recruitment and selection has become increasingly important as one way of delivering behaviors seen as necessary to support organizational strategies (Iles P., 2001).

According to Kilibarda & Fonda (1997), good recruitment and selection practices can minimize the risks of failing to achieve the business strategy and of incurring needless costs as:

1. Business and organizational strategies can be jeopardized if the people who are appointed are not capable of contributing effectively, if appointments are not timely, or if no appointment is made.
2. Unnecessary expense can arise due to the costs of training and replacements since poor recruits may perform badly and/or leave their employment. Remedial costs and inefficiency in the recruitment process itself also contribute to increased costs.

Effective recruitment and selection can also provide significant improvements in productivity and employee morale (Farnham & Pimlott, 1995) and allow organizations to build a workforce of most able employees who collectively provide a superior product or service (Robertson, Bartram, & Callinan, 1996). The profitability and even the survival of an enterprise usually depends upon the caliber of the workforce and it has been argued that the costs of ineffectual commercial viability can often be attributed to decades of in effective recruitment and selection methods (Terpstra, D., 1996)

### 1.2.2. HR CHALLENGES IN RECRUITMENT

Recruitment is a function that requires business perspective, expertise, ability to find and match the best potential candidate for the organization, diplomacy, marketing skills (as to sell the position to the candidate) and wisdom to align the recruitment processes for the benefit of the organization. The HR professionals – handling the recruitment function of the organization- are constantly facing new challenges. The biggest challenge for such professionals is to source or recruit the best people or potential candidate for the organization.
In the last few years, the job market has undergone some fundamental changes in terms of technologies, sources of recruitment, competition in the market etc. In an already saturated job market, where the practices like poaching and raiding are gaining momentum, HR professionals are constantly facing new challenges in one of their most important functions- recruitment. They have to face and conquer the various challenges to find the best candidates for their organizations (Naukari.com, 2012)

The major challenges faced by the HR in recruitment are:

1. **Adaptability to globalization** – The HR professionals are expected and required to keep in tune with the changing times, i.e. the changes taking place across the globe. HR should maintain the timeliness of the process

2. **Lack of motivation** – Recruitment is considered to be a thankless job. Even if the organization is achieving results, the HR department or professionals are not thanked for recruiting the right employees and performers.

3. **Process analysis** – The immediacy and speed of the recruitment process are the main concerns of the HR in recruitment. The process should be flexible, adaptive and responsive to the immediate requirements. The recruitment process should also cost effective.

4. **Strategic prioritization** – The emerging new systems are both an opportunity as well as a challenge for the HR professionals. Therefore, reviewing staffing needs and prioritizing the tasks to meet the changes in the market has become a challenge for the recruitment professionals.

1.2.3. **RECENT TRENDS IN RECRUITMENT**

The following trends are being seen in recruitment:

**OUTSOURCING**

In India, the HR processes are being outsourced from more than a decade now. A company may draw required personnel from outsourcing firms. The outsourcing firms help the organization with the initial screening of the candidates according to the needs of the organization and creating a suitable pool of talent for the final selection by the organization. Outsourcing firms develop their human resource pool
by employing people for them and make available personnel to various companies as per their needs. In turn, the outsourcing firms or the intermediaries charge the organizations for their services.

Advantages of outsourcing are:

1. A Company need not plan for human resources much in advance
2. Value creation, operational flexibility and competitive advantage
3. Turning the management's focus to strategic level processes of HRM
4. The company is free from salary negotiations, weeding the unsuitable resumes/candidates.
5. A company can save a lot of its resources and time

**POACHING/RAIDING:**

“Buying talent” (rather than developing it) is the latest mantra being followed by the organizations today. Poaching means employing a competent and experienced person already working with another reputed company in the same or different industry, the organization might be a competitor in the industry. A company can attract talent from another firm by offering attractive pay packages and other terms and conditions, better than the current employer of the candidate. But it is seen as an unethical practice and not openly talked about. Indian software and the retail sector are the sectors facing the most severe brunt of poaching today. It has become a challenge for human resource managers to face and tackle poaching, as it weakens the competitive strength of the firm.

**E-RECRUITMENT**

Many big organizations use the Internet as a source of recruitment. E-Recruitment is the use of technology to assist the recruitment process. They advertise job vacancies through the world wide web. The job seekers send their applications or curriculum vitae i.e. CV through email using the Internet. Alternatively job seekers place their CV’s on world wide web, which can be drawn by prospective employees depending upon their requirements.
Advantages of recruitment are:

a. Low cost.

b. No intermediaries.

c. Reduction in time for recruitment.

d. Recruitment of the right type of people.

e. Efficiency of recruitment process.

1.2.4. RECRUITMENT STRATEGIES IN IT INDUSTRY

Recruitment is the most crucial roles of the human resource professionals. The level of performance of an organization depends on the effectiveness of its recruitment function. Organizations have developed and follow recruitment strategies to hire the best talent for their organization and to utilize their resources optimally. A successful recruitment strategy should be well planned and practical to attract more and better talent to apply in the organization.

For formulating an effective and successful recruitment strategy, the strategy should cover the following elements:

1. Identifying and prioritizing jobs -

Requirements keep rising at various levels in every organization; it is almost a never-ending process. It is impossible to fill all the positions immediately. Therefore, there is a need to identify the positions requiring immediate attention and action. To maintain the quality of the recruitment activities, it is useful to prioritize the vacancies whether to focus on all vacancies equally or focusing on key jobs first.

2. Candidates to target -

The recruitment process can be effective only if the organization completely understands the requirements of the type of candidates that are required and will be beneficial for the organization. This covers the following parameters as well:

A. Performance level required: Different strategies are required for focusing on hiring high performers and average performers.

B. Experience level required: the strategy should be clear as to what is the experience level required by the organization. The candidate’s experience can range from being a fresher to experienced senior professionals.
C. Category of the candidate: the strategy should clearly define the target candidate. He/she can be from the same industry, different industry, unemployed, top performers in the industry etc.

3. Sources of recruitment -
   The strategy should define various sources (external and internal) of recruitment. Which are the sources to be used and focused for the recruitment purposes for various positions. Employee referral is one of the most effective sources of recruitment.

4. Trained recruiters -
   The recruitment professionals conducting the interviews and the other recruitment activities should be well-trained and experienced to conduct the activities. They should also be aware of the major parameters and skills (e.g., behavioral, technical etc.) to focus while interviewing and selecting a candidate.

5. How to evaluate the candidates -
   The various parameters and the ways to judge them i.e. the entire recruitment process should be planned in advance. Like the rounds of technical interviews, HR interviews, written tests, psychometric tests etc.

1.3. INTRODUCTION TO TRAINING & DEVELOPMENT

Training is a planned and systematic attempt to alter or develop knowledge/skill, attitude through the learning experience, so as to achieve effective performance in an activity or range of activities. It is a very important aspect of any organization. According to Flippo (1961), training is the act of increasing the knowledge and skill of an employee for doing a particular job. It provides employees with the knowledge and skills to perform more effectively. This allows them to meet present job requirements and also prepares them to meet the unavoidable changes that occur in their jobs. However, training is an opportunity to learn. What is learned depends on several factors, such as the design and execution of training, the inspiration and learning style of the trainees, and the learning environment of the organization.

Taylor (1961) conceptualized training as a means to bring about a continuous improvement in the quality of work performed; it would equip them with the necessary knowledge, skill, abilities and attitude to perform their jobs.
Chowdhary (1986) remarked: Training is a process, which enables the trainees to achieve the goals and objectives of his/her organizations. Singh (1995) defined training as the process of changing attitudes, improving knowledge and developing skills of the persons/employees of an organization so as to enable them to perform their jobs effectively.

1.3.1. Role of Training in Organization.

Training is a short-term process utilizing a systematic and planned procedure by which non-managerial personnel learn technical knowledge and skills for a definite purpose. It is the most significant technique of human resource development. It plays quite an important role in achieving the individual and organizational objectives. It aims at an organized assessment of the business environment including the external as well as the internal environment, and accordingly ensures the management of available resource to improve the individual’s knowledge, skill and capabilities in order to cope up with the business challenges and attain the competitive advantage for organizational excellence.


There are several kinds of training methods used by trainer’s in organizations. The designer of a training program needs to recognize each of these to determine the best method for meeting the training objectives. Some of the methods are lecture method, case study method, conference, in-basket method, the T-group training, role play exercise, induction training, cross functional training, creativity training, diversity training, refresher training, and safety training. Besides, there are various innovative and modern training techniques used by renowned Indian companies tabulated in the exhibit.

Table 1.1: Modern Training Techniques

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<tr>
<th>Modern Techniques</th>
<th>Training Techniques</th>
<th>Hallmarks</th>
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<tbody>
<tr>
<td>1. Ice Breakers</td>
<td>Games to get team members know each other.</td>
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<td>2. Leadership Games</td>
<td>An exercise to teach different styles of leadership.</td>
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<td>3. Skill Games</td>
<td>Tests to develop analytical skills.</td>
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<td>4. Communication Games</td>
<td>Exercises to build bias-free listening and talking skills.</td>
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<td>5. Strategic Planners</td>
<td>Games to test the ability to plan ahead.</td>
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<td>6. Team Building</td>
<td>Games Exercises requiring collaborative efforts.</td>
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<td>7. Role Reversal</td>
<td>Games Brings out ideas that are not often expressed.</td>
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<tr>
<td>8. Doubling</td>
<td>Brings out ideas that are not often expressed.</td>
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<td>9. Tag Teams</td>
<td>One role played alternately by two participants.</td>
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<td>10. Mirroring</td>
<td>Training with an external perspective.</td>
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<td>11. Monodrama</td>
<td>Insight into a given situation.</td>
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<td>13. Structured Role Playing</td>
<td>Role plays with predetermined objectives.</td>
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<td>14. Multiple Role Playing</td>
<td>Providing a common focus of discussion.</td>
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<td>15. Built-in-tension</td>
<td>Teaching the importance of resolving matters.</td>
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<td>16. Shadowing</td>
<td>Working under a senior to watch and learn.</td>
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<tr>
<td>17. Outward Bound Training</td>
<td>Adventure sports for teams.</td>
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<td>18. 9+1+23</td>
<td>Self-assessment by a leader of leadership skills.</td>
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<tr>
<td>19. Lateral Thinking</td>
<td>Thinking randomly to come up with new ideas.</td>
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<tr>
<td>20. Morphological Analysis</td>
<td>Listing of alternative solutions to problems.</td>
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<tr>
<td>21. Gordon Technique</td>
<td>Steering a discussion to crystallize solution.</td>
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<tr>
<td>23. Cross-cultural Training</td>
<td>Programs to teach specifics of varied cultures.</td>
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Source: Business Today, January 7-21; 1996

1.3.3. Corporate Training Initiation in India.

In the last 10 years, business organizations in India have made outstanding progress in terms of their training initiatives. This is mainly due to the boost in competition and because of the entry of multinational companies in India, which has required them to look for various alternatives to develop organizational effectiveness.

Indian organizations have realized the significance of corporate training. Training is considered as more of a retention tool than as a cost to the organization. Not only have organizations increased their investment in training and development practices, but they have also systematized training policies and practices right from the training need analysis to training evaluation and feedback. Today, human resource is a foundation of competitive advantage for all organizations. Therefore, the training system in the Indian industry has been distorted to create a smarter workforce and yield the best results. The optimum utilization of human resource is the target of any company and training is a tool to increase business outcomes. It is required in each area of company like sales, marketing, human resource, relationship building, logistics, production, etc(Dwivedi & Ladiwal, 2011)
1.3.4. **Training & Development in Indian IT Industry.**

India is a hot destination for IT-based industries not only for cost savings, but also for talented human resources and their leadership capabilities. Indian IT companies undertake human resources development programs through various training initiatives for knowledge and skills acquisition of their human resources. Most IT service companies have addressed strategic issues in human resources development more progressively to sustain in competitive global markets and also to retain their valuable talents for future growth. This industry adopts frequently changing IT environment that requires new sets of skills and business intelligence. Thus, training and development in this industry is particularly very important. The IT companies in India spend a good amount of financial resources to keep their manpower update and to equip with latest skill sets and business knowledge. Sometimes this amounts to a percent of their revenue earnings. The top twenty Indian IT service companies spend about 5% of their revenue earnings on average.

Today’s diversified workforce in knowledge-based industries witnesses its evolving job demands and its changing skills and knowledge that is quite different from manufacturing industries. Today’s society is enmeshed in an information revolution and the goal is not to train the workforce to adapt to existing jobs, rather the goal is to enable the workforce to adapt to changing jobs. Today’s IT service companies have downsized and flattened organizational structures, that is, they have fewer middle-level managers. The IT professionals are more autonomous and the work environment itself is more exciting than other industries. Job descriptions tied to narrowly defined tasks become almost obsolete. Individual professionals are very quality conscious, and they know that quality is a key to sustain in the competitive global marketplace. These individual professionals need to be more responsive, faster at innovative, flexibility and highly trained.

The way to respond to the demands of change is to create a learning organization. In the learning organization, the organization itself learns not only from its former errors but also from its past successes. In the learning organization, the rewards for success are high and the risks of failure are low, thus encourage people to try something new, something innovative. In the learning organization, individuals are
empowered to do their jobs well and creatively. Individuals with this freedom are more committed to their jobs, take more initiative, and have a broader sense of responsibility in their work.

To create learning organization mandates, IT service companies invest a substantial amount of training and development function. Sometimes IT service companies to impart high-end training to their key personnel, which cost them a portion of their revenues. This phenomenon also recognizes the IT professionals as high-worth human capitals. The organizations measure the return on investments (ROI) for training and development function not only from the view points of revenues earned, but also from the viewpoints of the rate of retention and rate of attrition. If the high-worth human capitals cannot be retained on a long term basis, the particular company may have a pessimistic impact on revenue earning and company image to the clients.

Training facilitates development in the perspectives of individuals as well as in the perspectives of the company. Individuals acquire knowledge and skills to begin forefront of the designing or implementing teams. Their knowledge and skill sets would become in much demand within the industry, so the individuals are going ahead in their career after training along with experience. Sometimes, acquired skills and knowledge becomes so precious, companies tend to retain these individuals and create space for growth across careers. Training leads the company in achieving clients’ confidence through quality products and services. The latest development in the technological landscapes can be incorporated into clients’ systems. This way, clients can fulfill their organizational goals and objectives after implementing the systems.

Training in the IT service industry is one of the essential functions that require focused strategies and policies. The IT companies want to create a corporate culture in training and development in achieving organizational excellence. They undertake a training needs assessment (TNA) process on a regular basis. TNA means searching out and discovering who in the organization needs to learn what and with what priority. The questions that must be asked of people in an organization to identify learning needs must begin with business plans and projects and ideas about strategic direction. TNA requires a systematic approach to identify what the professionals of an
IT service company need to learn in order for the company to achieve its goals. In most IT companies' individual professionals have to develop their skill sets as and when needed. In some companies, individual professionals participate in training programs on a regular basis.

Companies provide various kinds of training to individual professionals, like induction training, soft-skills development training, IT skills development training, quality assurance training, management skills development training. There is classroom training, on-the-job training, computer-based training (CBT), web based training (WBT) and other training methodologies that are adopted across the organizations. But in India classroom training and on-the-job training are more popular. CBT and WBT are e-learning methods, which are becoming popular in IT service companies.

Some training programs are conducted within the organization involving either internal trainers or external trainers or mixed with them. This is again conducted within a region or within the country or in a global office located abroad. Some big IT service companies in India have established training institutes for their respective organizations. Some of them are: Infosys Leadership Institute (InfosysTechnologies), Tata Management Training Centre (Tata Consultancy Services), Wipro Academy of Software Excellence (Wipro Technologies), Relnis Academy (Reliance Info Comm), Cognizant Academy (Cognizant Technology Solutions). Most of them are engaged in providing training not only on core IT skills, but also on managerial skills to make the respective companies achieving their long-term objectives. These training centers conduct tailor-made training programs appropriate for the organizational requirements.

Some IT companies organize training programs through external training centers. These centers conduct training courses on behalf of these IT service companies adopting industry standards and engaging expert trainers. They sometimes conduct international certification programmes for specific skill sets, like, Oracle Certification, Microsoft Certification, Sun Certification, etc. Sometimes the IT service companies sponsor their professionals into short-term training courses and management development programmes conducted by reputed institutions, like, Indian Institutes of Technology (IITs), Indian Institutes of Management (IIMs), Indian
Institutes of Information Technology (IIITs), National Institutes of Technology (NITs), etc. This way companies facilitate overall development and growth of the organizations and create new leaders to face the challenges in the competitive global marketplace.

Since 2003, for using a training function as a strategic business tool, American Society for Training and development (ASTD) gives honor to those organizations that show organization-wide achievement. It is proud of the nation that Indian organizations are participating and are awarded every year by ASTD for representing excellence in training function. In the year 2008, four organizations from India were able to get an entry in the winner list of 40 best organizations. These organizations were: Reliance Industries Limited, Nagothane manufacturing division having strength of 2,157 employees, Infosys Technologies Limited has 79,016 employees, Wipro Limited is having 60,000 employee strength, and ICICI Bank Limited with employee strength of 40,880. This is an optimistic sign which clearly shows that organizations operating in India are also very serious about their learning and development function. They are giving priority to this area and are able to integrate it into their organizational goals. In fact, the top management is taking interest in mentoring and leadership. For example, Narayana Murthy of Infosys is now acting as Chairman of the board as well as Chief Mentor. In this way, they prepare the next generation leaders for the company.

1.4. INTRODUCTION TO EMPLOYEE RETENTION

The turnover of key employees can have a disproportionate impact on the business and the peoples' organizations wish to retain are probably the ones most likely to leave. Reed (2001) claims that: High employee turnover, as a consequence of quick career advancement and multiple job opportunities, has come to be known as a negative "spill-over effect" of industrial growth (Sahu & Gupta, 1999) Apart from voluntary movement of workers during prosperity, downsizing of structure by organizations, referred to as a purposeful reduction in the size of an organization’s workforce Cascio (1993) under periods of structural changes and recession, is a major dimension of employee turnover. On the face of such large scale volatility of labor, today's employers prefer to have a stable, committed and yet flexible workforce, the employees in which are willing to learn and develop; employers also face the strategic
problem of choosing incompetent staff for retrenchment and quality staff for retention. Retaining a healthy team of committed and productive employees, therefore, is necessary to maintain corporate strategic advantage (Mak & Sockel, 2001). Hence organizations must design appropriate strategies to retain their quality employees. These strategies may involve dimensions ranging from lucrative compensation packages to involving employees in every sphere of the functioning of the organization.

Designing of retention strategies that are organization-specific would be determined by factors like corporate competitive strategy, the importance of human resource as a driving factor and the immediacy of the situation. Retention strategy of any organization may have the following dimensions:

1. **Whom to Retain**: Murty (2004) identifies three categories of employees—those who would need to be retained indefinitely; those who are critical to the organization in the short run and those who are easily replaceable. Once such sets of employees are identified, any organization can easily customize its retention strategies in order to encourage organizational loyalty among employees. Those who fall under the first category may be offered lucrative compensation packages and schemes, which may have long term positive repercussions. Those who are critical to the organization in the short run would be those whose supply would be lesser in the short run or those who would be critical to any project that necessitates completion in the short run. They would thus be the 'celebrities' in the watch of the market (Murty, 2004). The retention of such critical talents would necessitate offers which would shine bright in the short run. The third category of employees, who are easily replaceable, has the least priority in retention; they may be offered voluntary separation from the organization.

2. **Way to Retain**: It will become significantly more important in the years ahead to recognize the commitment of individuals to an organization, as well as the organization’s need to create an environment in which one would be willing to stay (Harris J., 2000). The impact of excessive employee turnover in organizations has been found to have engendered far-reaching consequences, even to the extent of jeopardizing efforts to attain organizational objectives (Abbasi & Hollman, 2000). Further indicate that when an organization loses a critical employee, there is a negative
impact on innovation and major delays in delivery of services to customers, consequently affecting the profitability of the organization. Fitz-Enz(1997) indicated that when direct and indirect costs are combined, total turnover cost of an employee is a minimum of one year's pay and benefits, or a maximum of two years' pay and benefits. Fitz-Enz(1997) also stated that the average company loses approximately $1 million with every ten managerial and professional employees who leave the organization. These apart, the organization also loses strategic knowledge with the departure of its critical employees. An organization also has to bear the cost of training a new recruit on the loss of departing employees. As pointed out by the American Management Association, the cost of replacing an employee is approximately 30 per cent of his annual salary. Direct costs of employee turnover may include separation costs (including severance pay, cost of exit interview, outplacement fees, etc.) and replacement cost (including hiring costs, sourcing expenses, time spent in interviewing, induction or orientation and training costs, etc.). Indirect costs of losing an employee would include loss of productivity (due to the loss of a productive employee and reduced productivity of new employees, till they are fully trained); new competitive pressures on account of losing top performers to a potential competitor firm and lost sales and lost customers resulting from departure of an experienced employee.

3. How to Retain: The very first step towards effective retention is the acceptance of the reality that movement of employees is governed not only by the organization, but also by the market. Fast moving markets require fast-moving organizations that are continually refreshed with new talent. No company can insulate its employees from knowing about the attractive opportunities thrown open to them by the aggressive recruiters in the market (Murty, 2004). The retention strategy of any organization would aim at increasing interest in the job, which would lead to satisfaction, which in turn would lead to motivation. Job satisfaction is an important motivator for employee performances; it is a causal antecedent to organizational commitment (Mowday, Porter, & Steers, 1982); and negatively related to turnover and absenteeism (Muchinsky P., 1977). It has been found to be related to turnover and performance of Information Systems workers. have demonstrated that employees with high job satisfaction are highly motivated and have little desire to leave their jobs. Productivity
of employees and retention of such productive employees can be linked to factors like competitive pay and benefits, good working conditions, advancement and growth opportunities, etc. Productivity of workers can thus be attributed as a function of how well such workers are motivated.

Understanding the different dimensions of a job that may increase satisfaction or, at least, reduce dissatisfaction would be the very first step towards designing a strategy for retention of quality staff. This would enable organizations to determine what their staff do and do not like about their job and the work environment. Once such areas are identified, organizations can go for improving employee satisfaction in tandem with employees’ concerns, which in turn, would have a direct effect on their level of motivation. Satisfaction would thus raise the likelihood that the organizations are able to retain such employees, as these satisfied employees would be less likely to look for another job.

In many large organizations, HR recruitment and retention strategies revolve around creating a competitive compensation and benefits package. However, smaller companies consider attracting the best talent is a lost cause for them because they cannot offer the most competitive compensation packages that their big brothers offer (Raju P. , 2004). Companies reputed as top retainers realize that the organizational characteristic that their competitors can more easily duplicate is money (Brannick J. , 2001). Non-monetary strategies are also widely used by companies to retain top talent. Organizations however need to develop the right mix of monetary and non-monetary elements in a retention strategy, depending on a variety of factors like the nature of the job, demand and supply conditions of a particular skill set and ability to pay of the organization. Besides, as suggested by empirical studies, bond between employees and their organization may be strengthened by a number of factors like job scope, job challenge, occupational commitment, job involvement and job satisfaction, thus leading to organizational commitment, which in turn is considered a desirable trait, since it appears to result in lower employee turnover and contributes to greater productivity.

1.4.1. RETENTION STRATEGY: THE TREND IN INDIAN IT INDUSTRY

The problem of retention has become even more pronounced in the Indian IT industry, owing to the higher mobility of IT professionals. IT the world over has been
continually experiencing a volatile demand-supply equation. New career horizons within the industry have multiplied the prospects of mobility of IT professionals among different companies; a growing number of such employees no longer want to spend their career with the same employer or occupation. Professional loyalty has replaced the age-old concept of organizational loyalty (Das H., 1996). Retention strategies in this industry yield to careful analysis, on account of their wide diversity. It is in this industry that the period of prosperity has witnessed the twin forces of alluring talent from rival companies on the one hand and retaining key professionals on the other, with the working principle being "Cage them at any cost, or simply lose them"; the phase of recession has seen retrenchment of less productive professionals and retention of only selected performers; finally recovery of the industry has seen lavish spending of IT companies to retain key performers being replaced by 'intelligent' spending and a focus on building long-standing stronger relationship between the employer and the employees.

Employee retention is a method in which the employees are motivated to remain within the organization until the completion of a project or their retirement. It is beneficial for the organization as well as the employee. Attrition is another organization term which is the number of employees who are leaving the organizing before finishing the project or their retirement. Employee retention and attrition is ‘flip side’ of each other. It is the time period during which an employee does the assigned task independently and starts adding value to the organization. As the employee is a matter of great concern for the organization(s), many organizations including

IT industries are investing in the retention phase of employees. In the same way, for reducing the attrition rate good retention practices has to be adopted and performed.

In today’s scenario, attrition is one of the major challenges in IT industry globally as well as in India. According to a recent survey conducted by All India Management Association (AIMA) on CEO’s and HR managers of different IT organizations, attrition is the second important issue related to the HR department. In any organization, the employee life cycle is divided into five parts: selection and
hiring, induction and orientation, retention, ongoing performance management and career development given in Figure 1. (Costelle D., 2006)

**Figure 1.2: Employee Life Cycle**

![Employee Life Cycle Diagram]


1.5. **INTRODUCTION TO CAREER PLANNING & DEVELOPMENT**

**CAREER MANAGEMENT DEFINITION**

Career management is concerned with providing opportunities for people to progress and develop their careers and ensuring that the organization has the flow of talent it needs. The elements of career management are the provision of learning and development opportunities, career planning and management succession planning.

**AIMS**

For employees, the aims of career management policies are first, to give individuals the guidance, support and encouragement they need if they are to fulfill their potential and achieve a successful career with the organization in tune with their talents and aspirations. Secondly, the aim is to provide men and women of promise with a sequence of learning activities and experience that will equip them for whatever level of responsibility they have the ability to reach.

For the organization, the aim of career management is to meet the objectives of its talent management policies, which are to ensure that there is a talent flow that creates and maintains the required talent pool.

Career management calls for an approach that explicitly takes into account both organizational needs and employee interests. As described by Hirsh and Carter (2002), it encompasses recruitment, personal development plans, lateral moves,
special assignments at home or abroad, development positions, career bridges, lateral moves, and support for employees who want to develop. It calls for creativity in identifying ways to provide development opportunities and enhance employee loyalty.

1.5.1. CAREER DYNAMICS

Career planning should be based on an understanding of career dynamics. This is concerned with how careers progress – the ways in which people move through their careers either upwards when they are promoted, or by enlarging or enriching their roles to take on greater responsibilities or make more use of their skills and abilities. The three stages of career progression – expanding, establishing and maturing – are illustrated in Figure 1.3. This also shows how individuals progress or fail to progress at different rates through these stages.

![Figure 1.3: Career Progression Curves](image)

Source: Armstrong Handbook of Human Resource Management Practice

1.5.2. THE PROCESS OF CAREER MANAGEMENT

The process of career management is illustrated in Figure 1.4.

![Figure 1.4: The Process of Career Management](image)

CAREER MANAGEMENT POLICIES:

The organization needs to decide on the extent to which it ‘makes or buys’ talented people. Should it grow its own talent (a promotion from within policy) or should it rely on external recruitment (bringing ‘fresh blood’ into the organization)? The policy may be to recruit potential high performers who will be good at their present job and are rewarded accordingly. If they are really good, they will be promoted and the enterprise will get what it wants. Deliberately to train managers for a future that may never happen is considered a waste of time. In contrast and less frequently, employers who believe in long-term career planning develop structured approaches to career management. These include elaborate reviews of performance and potential, assessment centers to identify talent or confirm that it is there, ‘high-flyer’ schemes, and planned job moves in line with a predetermined program.

There may also be policies for dealing with the ‘plateaued’ manager who has got so far but will get no further. Some managers in this position may be reconciled to reaching the end of the ‘rat race’ but continues to work effectively. Others will become bored, frustrated and unproductive, especially rising stars on the wane. The policy may be to provide for steps to be taken to reshape their careers so that they still have challenging work at the same level, even if this does not involve promotion up the hierarchy. Alternatively, the policy may need to recognize that some managers will have to be encouraged to start new careers elsewhere. In the latter case, career counseling advice should be provided, possibly through ‘outplacement’ consultants who provide such a service.

TALENT AUDITS

This review the stocks of talent available and the flows required by reference to demand and supply forecasts and performance and potential assessments. They provide the basis for succession and career planning.

PERFORMANCE AND POTENTIAL ASSESSMENTS

The aim of performance and potential assessment is to identify training and development needs, provide guidance on possible directions in which an individual’s
career might go, and indicate who has potential for promotion. This information can be obtained from performance management processes.

Assessment of potential can be carried out formally by managers following a performance review. They may be asked to identify people who have very high potential, some potential, or no potential at all. They may also be asked to indicate when individuals will be ready for promotion and how far they are likely to get. The problem with this sort of assessment is that managers find it difficult to forecast the future for the people they are reviewing – good performance in the current job does not guarantee that individuals will be able to cope with wider responsibilities, especially if this involves moving into management. And managers may not necessarily be aware of the qualities required for long-term promotion. But the organization

Does need information on those with potential and assessors should be encouraged in their comments section at least to indicate that this is someone who is not only performing well in the present job but may perform well in higher-level jobs.

DEMAND AND SUPPLY FORECASTS

Demand and supply forecasts are provided by the use of human resource planning and modelling techniques. In larger organizations, modelling is a particularly fruitful method to use because it allows for sensitivity analysis of the impact of different assumptions about the future.

Expert systems, can also be used where this is an extensive database on flows, attribute requirements (person specifications), and performance and potential assessments. Such systems can establish relationships between the opportunities and the personal attributes they demand, so that careers advisers can take a set of personal attributes and identify the most appropriate available opportunities. At the career planning stage, they can also identify people with the correct abilities and skills for particular jobs and provide information on the career management programs required to ensure that attributes and jobs are matched and careers progress at an appropriate rate.
There is a limit, however, to sophistication. There are so many variables and unpredictable changes in both supply and demand factors that it may be possible to conduct only an annual check to see what the relationship is between the numbers of managers who will definitely retire over the next four or five years and the numbers at the next level who have the potential to succeed them. If this comparison reveals a serious imbalance, then steps can be taken to reduce or even eliminate the deficit, or to consider other types of deployment for those who are unlikely to progress.

SUCESSION PLANNING

Succession planning is the process of assessing and auditing the talent in the organization in order to answer three fundamental questions:

i) Are there enough potential successors available – a supply of people coming through who can take key roles in the longer term?
ii) Are they good enough?
iii) Do they have the right skills and attributes for the future?

Succession planning is based on the information supplied by talent audits, supply and demand forecasts and performance and potential reviewers. In some large organizations in which demand and supply forecasts can be made accurately, highly formalized succession planning processes exist based on the sort of management succession schedule illustrated in Figure 1.5.

**Figure 1.5: Management Succession Schedule**

<table>
<thead>
<tr>
<th>MANAGEMENT SUCCESSION SCHEDULE</th>
<th>Department</th>
<th>Director/manager:</th>
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</thead>
<tbody>
<tr>
<td><strong>Existing managers</strong></td>
<td><strong>Potential successors</strong></td>
<td></td>
</tr>
<tr>
<td>Name</td>
<td>Position</td>
<td>Due for replacement</td>
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Source: Amstrong Handbook of Human Resource Management Practice

However, Hirsh (2000) points out that the focus of succession planning has shifted from identifying successors for posts towards providing for the development
of those successors by creating ‘talent pools’. This is because it is difficult in the changeable environment in which most organizations exist to predict succession requirements. There is also the problem of making reliable assessments of potential or ‘promotability’. Another issue raised by Hirsh is that organizations fear that too much talk of ‘careers’ gives employees unrealistic expectations of promotion. It can be difficult to talk about the future in a volatile business. ‘The result has been that many managers feel no one wants to talk about their career prospects and the organization would secretly like them to stay just where they are. This situation leads to frustration and demotivation.’

CAREER PLANNING

Career planning uses all the information provided by the organization’s assessments of requirements, the assessments of performance, and potential and management succession plans, and translates it into the form of individual career development programs and general arrangements for management development, career counseling and mentoring.

It is possible to define career progression in terms of what people are required to know and be able to do to carry out work at progressive levels of responsibility or contribution. These levels can be described as competency bands. For each band, the experience and training needed to achieve the competency level would be defined in order to produce a career map incorporating ‘aiming points’ for individuals, as illustrated in Figure 1.6, who would be made aware of the competency levels they must reach in order to achieve progress in their careers. This would help them to plan their own development, although support and guidance should be provided by their managers, HR specialists and, if they exist, management development advisers or mentors. The provision of additional experience and training could be arranged as appropriate, but it would be important to clarify what individual employees need to do for themselves if they want to progress within the organization.
Career family grade structures, as described in Chapter 4, formal career planning along these lines may be the ideal, but as noted by Hirsh et al. (2000), there has been a shift from managed career moves to more open internal job markets. The process of internal job application has become the main way in which employees manage their careers.

1.5.3. TALENT MANAGEMENT FOR KNOWLEDGE WORKERS

Knowledge workers are defined as workers whose skills or knowledge are inextricably linked with the product or service of their employing organizations. The term therefore embraces such diverse groups as lawyers, accountants, software designers, web designers, academics, marketers and media workers. More and more work is being defined by some kind of knowledge elements. According to (Swart & Kinnie, 2004) the effective management of knowledge workers presents organizations with a number of dilemmas. Choices have to be made between the retention of knowledge and knowledge workers, and the desire of knowledge workers to increase their employability. Tension also exists between the need to develop organization-specific knowledge and the wish of knowledge workers to develop transferable knowledge. The firm may want to appropriate the value of that knowledge, but workers may want to retain ownership of their knowledge.

Swart and Kinnie (2004) argue that an understanding of these dilemmas is improved by a greater appreciation of where professional workers get their primary source of identification – is it from their profession, the organization that employs them, the team or the client? Their loyalty may be to their professional mission rather
than their employer. Professional research staff or academics may be committed to achieving professional status and recognition above any forms of performance recognition that the employing organization might be able to offer.

Organizations differ hugely in the ways in which they manage their talent. Some aim to integrate all or most of these activities, others concentrate on one or two such as talent audits and succession planning.

1.6. INTRODUCTION TO PERFORMANCE APPRAISAL
1.6.1. DEFINITION

The performance appraisal is the assessment of an individual's performance in a performance in a systematic way, the performance being measured against such factors as job knowledge, quality and quantity of output, initiative, leadership abilities, supervision, dependability, cooperation, judgment, versatility etc. assessment should not be confined to the past performance alone. Potentials of the employee for the future performance must also be assessed.

A more comprehensive definition is, “Performance appraisal is a formal structured system of measuring and evaluating an employee's job and how the employee can perform effectively in the future so that the employee, organization all be benefited. (Randall & Schuler, 1981)

The Human Resource Industry has gained importance in recent times. The managers and executives have started realizing that the employees are valuable assets. The IT companies have started investing more in Human Resource Management in order to find out a better fit through the recruitment and selection process and to retain those employees for long in their organization. Human Resource Management deals with recruitment, selection, employee retention and managing employee relations (Koontz & Weihrich, 2005). Performance appraisal, also known as employee appraisal, is a method by which the job performance of an employee is evaluated (generally in terms of quality, quantity, cost and time). Performance appraisal is a part of career development.

Also, in recent times, a major problem that threatens the IT companies is employee turnover. There are various reasons for an employee leaving an organization. The reasons could be performance appraisal, better salary packages
offered by a company's competitors and increasing career opportunities. Generally, the aims of a performance appraisal are to (Patterson T., 1987):

a. Give feedback on performance to employees.
b. Identify employee training needs.
c. Document criteria used to allocate organizational rewards.
d. Form a basis for personnel decisions: salary increases, promotions, disciplinary actions, etc.
e. Provide the opportunity for organizational diagnosis and development.
f. Facilitate communication between employee and administration
g. Validate selection techniques and human resource policies to meet federal Equal Employment Opportunity requirements.

The majority of the IT companies has a separate Human Resource wing which comprises of specialists in the field to take care of the processes mentioned above. Thus, the main function of Human Resource Management is to help the organization to achieve its goals and objectives by identifying people with extraordinary skills and motivating them in order to achieve the organizational objectives. Human Resource Management also aims at controlling the various factors that affect performance appraisal processes (Koontz & Weihrich, 2005). In our research we will be focusing on the performance appraisal processes firms.

Performance appraisal is one of the popular concepts among the multinational and local companies. The concept has been defined by, (DeVries D., Morrison, Shullman, & Gerlac, 1981) as the process which allows firms to measure and consequently evaluate an employee's achievements and behavior over a certain period of time. In olden days, getting into a job is not an easy task. But in recent times, it is easy for talented individuals and the companies often look for skilled candidates and involve in performance appraisal processes regularly. In this competitive world, the success of a company often depends on the skills, capability and efficiency of an employee working in an organization. For the purpose of talent acquisition most of the IT companies involve in regular and periodic performance appraisal processes. According to Margulies (2012), a common approach to assessing performance is to use a numerical or a scalar rating system whereby managers are asked to score an individual against a number of objectives/attributes. In some companies, employees
receive assessments from their manager, peers, subordinates and customers while also performing a self-assessment. This is known as 360° appraisal and it forms good communication pattern. The most popular methods that are being used as performance appraisal process are: Management by objectives, 360 degree appraisal, Behavioral Observation Scale, Behaviorally Anchored Rating Scale. Performance appraisal plays very important role in performance management. In itself it is not performance management, but it is just a one of the range of tools that can be used to manage performance. Because this task is most usually carried out by line managers rather than HR professionals, it should be kept in mind that they understand their role in performance management and how performance appraisal contributes to the overall aims of performance management.

1.6.2. NEED FOR PERFORMANCE APPRAISAL

Performance appraisals provide the opportunity for the employee and supervisor to communicate on a one-to-one basis. This interaction may occur on an informal level throughout the year, but it probably lacks consideration of any substantive issues. Committee functions and weekly business meetings can contribute to the overall communication process, but evaluations offer a more formal setting in which accomplishments, individual goals and objectives, and institutional goals and objectives can be addressed. Since so many aspects of the evaluation process are intricately connected to the decision-making process in the organization, it could vitally advise that a forum should exist in which employee behavior can be linked to the organization. Understanding that individual goals and objectives relate directly to institutional initiatives is imperative if partnerships are going to be developed within and outside the organization. Because innovations in technology occur with such rapidity and impact the entire firm, the relationship between individual and institutional goals must be clearly articulated.

Besides serving as a conduit for mutual feedback between the supervisor and employee, performance appraisals can be an effective motivational tool. The degree to which performance appraisals are productive largely depends on the attitude maintained by both the evaluator and the person being evaluated. Individuals, who approach the process in a positive frame of mind and sincerely value the experience, normally have no problem modifying their behavior (Lindsey J., 1990). The end
result is generally a more productive environment for the supervisor, employee, and the institution.

Another reason for conducting performance appraisals in companies is to ensure that staff training occurs on a regular basis. Because of the need for more efficient service and greater productivity, staffs are often asked to change their work habits or modify their behavior. Such issues as downsizing and restricted budgets are directly responsible for these demands. These aspects are especially prevalent in today's electronically-oriented work environment. Too often technological advancements are implemented without the necessary amount of technical training. Instead of creating a more productive workplace, employees begin to produce less and develop both the psychological and physical effects of techno stress. The mental stress that emerges can be very problematic not only for the individual, but for the organization as well. Effective and regularly scheduled performance appraisals can detect these potential problems before they arise (Brinkerhoff & Kanter, 1980). By providing adequate training, employees become more productive. These same individuals also realize that the company administration is sensitive to both their environmental needs and psychological ones as well.

According to Bergeil & et al., (2009), the effective management of employee turnover has long been a crucial issue for organizations. Not only are the economic costs of turnover very high, but the unmanaged departure of employees interrupts social and communication structures and decreases cohesion and commitment among those employees who stay. Thus, it is hardly surprising that employee retention continues to be of great interest both to practicing managers and organizational researchers. The questions that challenge researchers and practitioners, therefore, are “Why do people leave?” and “Why do they stay?” By appraising their performance or establishing communication we may get answers for above questions. Leaving aside the issue of whether these are conceptually distinct questions, over the years researchers at best have developed only partial answers to them (Mitchell T., Holtom, Lee, & Sablynski, 2001).

The current thinking is that people stay if they are satisfied with their jobs and committed to their organizations, but leave if they are not. However, work and job-related attitudes play only a relatively small role in employee retention and leaving
(Griffeth, Horn, & Gaertner, 2000). Consequently, factors other than job satisfaction and organizational commitment are important for understanding turnover. A relatively new approach to this issue has been offered by Mitchell, Holtom, Lee, Sablynski, & Erez (2001). These researchers argue that job embeddedness is a direct antecedent both of intent to quit and voluntary turnover. A number of studies have followed this research direction and found that job embeddedness explained significant incremental variance in turnover beyond that explained by job satisfaction and organizational commitment (Lee T., Mitchell, Sablynski, & Burton, 2004). However, how job embeddedness is developed or what factors cause employees embedded in their jobs to keep them from leaving the organization still requires investigation.

1.7. HISTORY OF INDIAN IT INDUSTRY:

The software industry has come a long way. And like all big events of history, it happened part by design and part by accident. In the 70s, not many people in India understood the word "software" and there was no separate software industry. Throughout the 70s, multinationals like IBM and ICL (UK) were the largest providers of hardware to the industry—and it came bundled with the operating systems and a few basic packages. Larger enterprises—including the Indian defense and public sectors—which needed customized applications, had their own teams that did everything from installing systems to writing software.

In fact, when specific software applications began to get popular, stand-alone boxes were made for them. Few will remember now but at the Manufacturer’s CSI Exhibition in 1983, there were 21 different "word processing machines" on display. The concept of stand-alone word processing software did not exist. Later, when local companies bloomed after IBM’s exit, they too had their own proprietary operating systems—which ran a few of their own programs.

The growth of Indian IT industry has been phenomenal in the recent decade. It grew from a 2 billion dollar industry in 1994 to 60 billion dollar industry in 2009 (NASSCOM IT industry fact sheet 2009, 2011). While the global IT industry grew at a rate of 9.4% per year from 2004-2008 (Global IT service: Industry profile, 2009), CAGR of Indian IT industry was around 31% for the same period (TCS Annual
Report - 2008, 2011). Out of the 60 billion dollar revenue in 2009, 47 billion dollars were exports contributing heavily to the Indian economy.

**Figure 1.7. Revenue Growth of Indian ITS Industry**

![Graph showing revenue growth of Indian ITS Industry from 2003 to 2009.](image)


Indian IT industry also created lot of jobs. 45% of all urban jobs created in India between 1995 and 2005 were by Indian IT industry. Industry employed 2.23 million people in 2009 compared to half a million people in 2002 and the number of employees employed by IT industry is growing rapidly and expected to give employment to 30 million people with around 13.5 million direct employees by 202011 (NASSCOM 2020 Perspective Report, 2011). Apart from lifting the life of millions of people, Indian IT industry also improved the image of the India to the outside world. The mindset of the world seeing India as a country beset with poverty is changing to a nation of IT superpower. IT industry brought benefits like empowering human assets, enabling environment for innovation and facilitating social development apart from contributing to the economy of India and improving the brand image of India. The success of IT industry is reflected on the growth of other Industries as well.
Indian IT industry can be traced back to the 1970s when Tata entered the business as Tata consultancy services. They sent promising engineers from India to US to work on projects of US companies after a small in house training (Krishnan & Vallabhaneni, 2010), this is generally referred as body shopping. Other companies followed the same model and most of the development took place at the client’s site as telecom facilities in India were not so developed during that time. Indian immigrants in US played a big part in the growth of IT industry in India (Saxenian, 2006). They were instrumental in influencing the policy decisions of Indian government and convincing multinational corporations where they were part of to set up their offices in India. In 1985 at a time when India had a closed economy, government allowed Texas instruments to set up their development center in India and allowed direct transfer to their headquarters in the US. This has led to off shoring of software development to India and growth of offshore software development centers in India. Indian companies slowly built up their project management capabilities and opening up of Indian economy and improvements in telecommunication facilities helped the growth of the industry. Indian immigrants helped multinational corporations setting their offices in India by moving to India and smoothening up the processes and taking care of the local issues like culture and infrastructure. The Indian
industry invested heavily on the quality processes. Indian companies were the first to get CMM level 5 certification, the highest level of software development quality certification. Another characteristic in the growth of Indian IT industry is that without competing with the US companies, they complemented the operations of US companies by acting as suppliers in the sense of providing maintenance and support services for their IT systems. English knowledge capability of Indians and abundant availability of highly educated individuals also helped in the growth of the industry.

Table 1.2. Revenues and Employees of IT Companies in India

<table>
<thead>
<tr>
<th>Company name</th>
<th>Revenue (in billion USD)</th>
<th>Net Profit (in billion USD)</th>
<th>Number of employees (as of Dec 2010)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCS</td>
<td>6.682</td>
<td>1.557</td>
<td>186,914</td>
</tr>
<tr>
<td>Wipro</td>
<td>6.04</td>
<td>1.031</td>
<td>119,491</td>
</tr>
<tr>
<td>Infosys</td>
<td>5.061</td>
<td>1.383</td>
<td>127,779</td>
</tr>
<tr>
<td>HCL</td>
<td>2.701</td>
<td>0.280</td>
<td>77,000</td>
</tr>
</tbody>
</table>

Source: Annual Reports of the Companies

1.7.1. THE GLOBAL SCENARIO OF IT INDUSTRY:

Countries around the globe have become more information and knowledge-intensive, giving rise to the phenomenon of the knowledge-based economy. The increasing importance of knowledge to economies is a truly international trend which affects all levels of development. In major Organization developed countries, an increasing proportion of Gross Domestic Product (GDP) is now attributed to knowledge-based industries, telecommunications, computer and information services, finance, insurance, and other business services (Scoreboard of Indicators, 1998a). Knowledge-based industries are not only growing faster but also account for an increasing proportion of trade in most developed economies. Policymakers have therefore come to recognize the growing importance of knowledge and intellectual assets as principal sources of value, productivity and growth, where global interaction is increasingly in the form of knowledge exchange. Although countries recognize the growing importance of knowledge-based activity and exchange in their economic and social well-being, there are nevertheless, major gaps between developed and developing countries in abilities to generate harness and trade knowledge-based goods and assets.
The computer software and services industry is a key example of knowledge production, as the value of what a software company produces is almost entirely in the knowledge embodied in its products and services. It is a fast growing industry producing high value services for its customers. Although it is dominated by firms based in major industrialized countries of the world, it continues to offer great prospects for economic growth and industrial development within developing economies.

The internationalization of computer software and service activity came late compared with the manufacturing industry and many other service activities. Only hardware manufacturers served international markets in the period up to the mid-1970s. However, by the end of the 1980s, the international spread in the coverage of the industry had taken off. Packaged software was becoming more readily available and exported; more specialist systems and software houses were expanding and were soon followed by the major IT service outsourcing companies, for example EDS and Cap Gemini, Sogeti. This was in turn replaced by the rise of more complete computer software and services “majors”, such as United States-based Microsoft and Oracle Corporations.

It is important to recognize that although there are substantial differences in size and growth of the computer software and services industry between developed countries and developing countries, there are also substantial variations in computer software and services growth among developing countries. Newly industrialized countries, such as Singapore and Malaysia, although important in national development and policy terms, have not received recognition as software and service centers as has India.

This international expansion of the sector has been dominated by the major industrialized economies both in terms of demand and supply. In terms of demand, it was estimated that developed countries accounted for nearly 97 per cent of the world market in the early 1980s (Software: An Emerging Industry, Information Computer Communications Policy (ICCP) , 1985). There has been little change in this location pattern. Similarly, in 1990, vendors of United States software and related services still dominated the global computer software and services market. United States firms accounted for 57 per cent of the estimated $110 billion world market in software and
related services. Japan, France, Germany, the United Kingdom and Canada accounted for a further 37 per cent. The developers together with Euro stat have produced recent but more narrowly defined data on international trade in computer and information services in 1996 that clearly shows the prominent position of the United States in terms of net Receipts, but in terms of credits, the United Kingdom, Germany and Spain feature strongly. Countries are now seeking to emulate India’s computer software growth strategy. However, the question remains: what factors led to India’s success and is these factors applicable for other countries to follow? These issues will be explored after a more detailed appraisal of India’s software development.

Growth in the SW&ITes industry comes from both developed economies, such as the US, the UK, Europe and Japan, and emerging ones including China and India (part of Asia-Pacific). However, much like other matured industries, cost pressures drive workflow from developed economies to developing economies. The US accounts for the major share of the market, followed by the EU (excluding the UK), Japan, Asia-Pacific (excluding Japan), and the UK (Figure 1.7). Developed economies are more or less at a saturation point and the industry is now looking towards developing economies. Some sub-sectors including process management and application development, which can be beneficially outsourced to low cost and high skilled labor markets including India and China, are driving the growth of the industry.

**Figure 1.9. Regional Composition in the Global Software Market**

![Figure 7.1: Regional composition in the global software market (2005)](image)

*Source: Cygnus Business Consulting & Research, 2007*
1.8. THE GROWTH OF INDIAN IT INDUSTRY:

The information technology sector has been playing a key role in fuelling the Indian economic performance which has been stellar without robust GDP growth. India’s total IT industry’s (including hardware) share in the global market stands at 7% in the IT segment the share is 4% while in the ITES space the share is 2%. The industry is dominated by large integrated players consisting of both Indian and International service providers. During the year, the share of Indian providers went up to 65-70% due to the emerging trend of monetization of captives. MNCs however continued to make deeper inroads into the industry and strengthened their Indian delivery centers during 2008.

The continuing contribution of this sector to the Indian economy is evident from the fact that revenue generated from this sector has grown from 1.2% in FY 1998 to a 5.8% in the FY2009. The net value added by this sector to the economy is estimated at 3.5-4% in the FY 2009(Hrsharish)\(^1\).

India's software and services exports have been rising rapidly. The annual growth rate ranges between 20 -22% in IT services and nearly 55 % in IT-enabled services (ITES), such as call centres, Business Process Outsourcing (BPO) and other administrative support operations. Together they are predicted to grow at 25% pa till 2010. The IT industry is highly export oriented and the exporters are predominantly Indian. The Indian BPOs (ITES) are moving up the value chain, handling high end data for airline information, insurance, banking sector and mortgage companies, enterprise resource planning, among others. Some of the companies have already moved into significantly higher value added segments such as mission-critical applications, development and support, product design, HR Management, knowledge process outsourcing for pharmaceutical companies and large complex projects.

Software exports make up 20 % of India's total export revenue in 2003-04, up from 4.9 % in 1997. This figure is expected to go up to 44% of annual exports by 2010. Though India accounts for just about 3 % of the world market for information technology services, this sector has been growing at a scorching pace, helped by a

large pool of English-speaking workers, nearly 4 million engineers and the increasing tribe of tech-savvy entrepreneurs in the country.

The Information Technology industry currently accounts for almost 4.8% of India's GDP. It will account for 7% of India's GDP by 2010. Software and IT enabled services have emerged as a niche sector for India. This was one of the fastest growing sectors in the last decade with a compound annual growth rate exceeding 50 per cent. Software service exports increased from US $ 0.50 million in 1990 to $5.9 billion in 2000-01 to 23.6 billion dollars in 2005-06 recording a 34% growth. A compound annual growth of over 25% per annum is expected over the next 5 years even on the expanding base. The impact on the economy of projected software and IT enabled services exports of $ 60 billion by 2010 is likely to be profound. One manifestation is that India notched up a current account surplus in 2001-02, for the first time in 24 years. India further needs an open environment under GATS to promote exports of services through outsourcing and off-shoring.

1.8.1.1. Revenue

The Indian Software & services industry has grown at a remarkable pace since 2001-02. The overall Indian Software & Services industry revenue is estimated to have grown from US$ 10.2 billion in 2001-02 to reach US $ 88.0 billion in 2011-12. Despite the severe global recession, the industry grew at a modest rate of 7.5% in 2011-12. IT-ITES industry’s growth trends are given in the table 1.2 below.

**Table 1.3 IT-ITES Industry Revenue Trends**

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</thead>
<tbody>
<tr>
<td>IT-ITES Exports</td>
<td>7.6</td>
<td>9.5</td>
<td>12.9</td>
<td>17.7</td>
<td>23.6</td>
<td>31.1</td>
<td>40.4</td>
<td>46.3</td>
<td>47.0</td>
<td>50.0</td>
<td>59.0</td>
</tr>
<tr>
<td>IT-ITES Domestic</td>
<td>2.6</td>
<td>3.0</td>
<td>3.8</td>
<td>4.8</td>
<td>6.7</td>
<td>8.2</td>
<td>11.7</td>
<td>12.4</td>
<td>22.0</td>
<td>24.0</td>
<td>29.0</td>
</tr>
<tr>
<td>Total</td>
<td>10.2</td>
<td>12.5</td>
<td>16.7</td>
<td>22.5</td>
<td>30.3</td>
<td>39.3</td>
<td>52.0</td>
<td>58.7</td>
<td>59.0</td>
<td>74.0</td>
<td>88.0</td>
</tr>
</tbody>
</table>

Source: (NASSCOM-McKinsey, 2001-2009)

As per NASSCOM, the industry is diversified across three major focus segments – IT Services, BPO and software products & Engineering services. While IT Services have been the mainstay of the industry, BPO and Engineering services sector
have built upon the India value proposition and today there exists integrated service providers across the three focus areas as well as niche providers. The major three components of IT Services sector are custom application development, application management and support and training. Other significant components are IT consulting, systems integration, Infrastructure Services (IS) outsourcing, network consulting & integration and software testing.

Among the verticals serviced by India’s IT-ITES-BPO industry those that account for the largest share of revenue are banking, financial services and insurance (BFSI-41%), Hi-Tech/Telecom (20%), manufacturing (17%), retail (8%), with smaller contributions coming from media, publishing and entertainment, construction and utilities, health care and airlines and transportation. Important industry verticals being serviced by the BPO segment are insurance, retail banking, travel and hospitality, auto manufacturing, telecom and pharmaceuticals. Horizontals such as Customer Interaction and Support (CIS), Finance and Accounting (F&A) and Human Resource Management (HRM) are important areas in the BPO segment.

1.8.1.2. Domestic Market

Though the IT-BPO sector is export driven, the domestic market is also significant. The revenue from the domestic Software & Services market is estimated to have grown from US $ 2.6 billion in 2001-02 to US $ 12.4 billion in 2008-09 a CAGR of about 22.2 per cent.

In the Domestic verticals of the Indian IT-ITES Industry the IT Services segment continues to dominate domestic portfolio of the industry. Its share however has declined from 80.8% in 2001-02 to 66.9% in 2008-09. The ITES - BPO segment in the domestic market has witnessed noticeable growth over the past few years. The share of ITES-BPO industry in the domestic market is estimated to have increased from 3.8% in 2001-02 to 15.3% in 2008-09.
Table 1. 4. Segment wise Export Revenue trends in IT-ITES Industry

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</thead>
<tbody>
<tr>
<td>IT Service</td>
<td>2.1</td>
<td>2.4</td>
<td>3.1</td>
<td>3.5</td>
<td>4.5</td>
<td>5.5</td>
<td>7.9</td>
<td>8.3</td>
<td>19.5</td>
</tr>
<tr>
<td>ITES-BPO</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>0.6</td>
<td>0.9</td>
<td>1.1</td>
<td>1.6</td>
<td>1.9</td>
<td>44.5</td>
</tr>
<tr>
<td>Software Products, Engineering Services</td>
<td>0.4</td>
<td>0.4</td>
<td>0.4</td>
<td>0.7</td>
<td>1.3</td>
<td>1.6</td>
<td>2.2</td>
<td>2.2</td>
<td>23.7</td>
</tr>
<tr>
<td>Total IT-ITES</td>
<td>2.6</td>
<td>3.0</td>
<td>3.8</td>
<td>4.8</td>
<td>6.7</td>
<td>8.2</td>
<td>11.7</td>
<td>12.4</td>
<td>22.2</td>
</tr>
</tbody>
</table>

Source: NASSCOM-Mckinsey, 2001-2009

1.8.1.3. Export Destinations

USA & UK continues to be major markets for the IT software and services exports. However the share of the USA has declined from 68.3 percent in FY2005 to 60 per cent in FY2008, whereas that of Europe has increased from 23.1 per cent to 31 per cent over the same period. Markets across Continental Europe and the Asia Pacific are also witnessing significant year-on-year growth.

Table 1. 5. Export Destinations

<table>
<thead>
<tr>
<th>Market</th>
<th>FY05</th>
<th>FY06</th>
<th>FY07</th>
<th>FY08</th>
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<tbody>
<tr>
<td>Americas</td>
<td>68.30%</td>
<td>67.18%</td>
<td>61.40%</td>
<td>60%</td>
</tr>
<tr>
<td>Europe (incl. UK)</td>
<td>23.10%</td>
<td>25.13%</td>
<td>30.10%</td>
<td>31%</td>
</tr>
<tr>
<td>Rest of the World (incl. APAC)</td>
<td>8.60%</td>
<td>7.69%</td>
<td>8.50%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: NASSCOM-Mckinsey, 2001-2009

1.8.1.4. Employment

The total IT Software and Services employment is 2.20 million in 2008-09, as compared to 0.52 million in 2001-02. This represents a net addition of 1.68 million to the industry employee base since 2001-02. The indirect employment attributed by the sector is about 8.0 million in 2008-09. This translates to the creation of about 10.20 million job opportunities attributed to the growth of this sector.

IT-ITES Exports constitute the major source of employment for employment in this industry and its share has increased over the years. The share of IT-ITES Exports segment in total employment of the IT Software & Services Industry has
grown from 52.9% in 2001-02 to 77.6% in 2008-09 whereas, the share of the domestic market in total employment of the IT Software & Services Industry has declined from 47.1% in 2001-02 to 22.6% in 2008-09².

Table 1.6. Employment in IT-ITES Industry

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>IT Services &amp; Exports</td>
<td>0.17</td>
<td>0.21</td>
<td>0.30</td>
<td>0.39</td>
<td>0.51</td>
<td>0.69</td>
<td>0.86</td>
<td>0.92</td>
</tr>
<tr>
<td>BPO Exports</td>
<td>0.11</td>
<td>0.18</td>
<td>0.22</td>
<td>0.32</td>
<td>0.42</td>
<td>0.55</td>
<td>0.70</td>
<td>0.79</td>
</tr>
<tr>
<td>Domestic Market</td>
<td>0.25</td>
<td>0.29</td>
<td>0.32</td>
<td>0.35</td>
<td>0.38</td>
<td>0.38</td>
<td>0.45</td>
<td>0.50</td>
</tr>
<tr>
<td>Total Employment</td>
<td>0.52</td>
<td>0.67</td>
<td>0.83</td>
<td>1.06</td>
<td>1.29</td>
<td>1.62</td>
<td>2.01</td>
<td>2.21</td>
</tr>
</tbody>
</table>

Source: NASSCOM-Mckinsey, 2001-2009

1.9. MOTIVATIONAL FACTORS FOR THE GROWTH OF IT INDUSTRY IN INDIA:

Information Technology (IT), a knowledge-based industry, has the tremendous potential of becoming an engine of accelerated economic growth, productivity improvement in all sectors of the economy and means of efficient governance. It enhances access to information, protects consumers, provides access to government services, makes skill formation and training more effective, improves delivery health services, and promotes transparency. It provides a tremendous employment potential and linkages between government and the people both in the rural and urban level. Investment in knowledge-based industries will determine the level of the country’s dominant position in the world economy in the next two decades.

The IT-ITES industry in India has today become a growth engine for the economy contributing substantially to increase in the GDP. Urban Employment and expertise to achieve the vision of a powerful and resilient India. While the Indian economy has been impacted by the global slowdown, the IT-ITES industry has displayed resilience and tenacity in countering the unpredictable conditions and reiterating the viability of India’s fundamental value proposition.

²http://deity.gov.in/content/overall-performance#tab1
The main reasons for the successful establishment of software companies in India and its strong performance can be attributed to the following.

1.9.1. COST ADVANTAGE:
Given the labor market conditions in India, there exists substantial cost arbitrage for performing services from India. This along with a large pool of talented and English people labor force was the genesis of the IT sector’s dominance in the world IT service industry.

Breadth of Service offering and innovative service offerings have evolved application development to high-end integrated IT solutions.

1.9.2. QUALITY/ MATURITY OF PROCESS:
Having made its mark as a center of the low-cost and wide range of service offerings, the Indian IT/ITES sector has also provided its mettle in the quality of the service offerings as demonstrated by the fact that it hosts more than 55% of SEI CMM level five firms and the highest number of ISO certifies companies.

1.9.3. EASE OF SCALABILITY:
The vast and trained labor pool of technically competent English speaking people has made it easy for the Indian companies to enter and exit the industry. Moreover, the ease with which a company can scale its operations (up and down) has been a great value driver for the success of the Indian IT/ITES service sectors growth story.

1.9.4. EXPORT PROMOTION SCHEMES

- Software Technology Parks (STPs)
- Special Economic Zones (SEZ) Scheme

After the economic reforms of 1991-92, liberalization of external trade, elimination of duties on imports of information technology products, relaxation of controls on both inward and outward investments and foreign exchange and the fiscal measures taken by the Government of India and the individual State Governments specifically for IT and ITES have been major contributory factors for the sector to flourish in India and for the country to be able to acquire a dominant position in
offshore services in the world. The major fiscal incentives provided by the Government of India have been for the Export Oriented Units (EOU), Software Technology Parks (STP), and Special Economic Zones (SEZ).

1.9.5. SOFTWARE TECHNOLOGY PARKS (STPs)

For the promotion of Software exports from the country, the Software Technology Parks of India was set up 1991 as an Autonomous Society under the Department of Information Technology. The services rendered by STPI for the Software exporting community have been statutory services, data communications servers, incubation facilities, training and value added services. STPI has played a key developmental role in the promotion of software exports with a special focus on SMEs and start up units. The STP Scheme has been extremely successful in fostering the growth of the software industry. The exports made by STP Units have grown many folds over the years. Today the exports made by STPI registered unit during 2008-09 are INR 215571 Crores about 90% of total software exports from the Country.

The STPI Scheme is lauded as one of the most effective schemes for the promotion of exports of IT and ITES. The 51 STPI centers that have been set up since the inception of the program have given a major boost to IT and ITES exports. Apart from exemption from customs duty available for capital goods (with a few exemptions) there are also exemptions from service tax, excise duty, and rebate for payment of Central Sales Tax. But the most important incentive available is 100 percent exemption from Income Tax on export profits, which has been extended till 31st March 2011. The strength of the scheme lies in the fact that, it is a virtual scheme, which allows, software companies to set up operations in the most convenient and cheapest locations and plan their investment and growth solely driven by business needs. STP Scheme is a pan India Scheme, which has centers spread across India, over 8000 units are registered under STP Scheme.

1.9.5.1. FUNCTIONS OF STPI:

The STPI performs all functions necessary to fulfill its objectives, including the following:-
a) To establish Software Technology Parks at various locations in the country.
b) To establish and manage the infrastructural resources such as communication facilities, core computers, buildings, amenities etc. in these Parks and to provide services to the users (who undertake software development for export purposes) for development and export of software through data link and to render similar services to the users other than exporters.
c) To undertake other export promotional activities such as technology assessments, market analysis, market segmentation etc.
d) To organize specialized training in the field of software technology for skill development.
e) To work closely with the respective State Governments and act as an interface between Industry and Government.
f) To create an incubation with plug and play facilities with low operation cost in order to promote small and medium entrepreneurs.
g) To promote secondary and tertiary locations by establishing STPI facilities to promote the STP/EHTP Scheme.
h) To encourage entrepreneurship, by regularly organizing Entrepreneur Development Programs.
i) To assist State Governments in formulating IT policies and liaison for promoting IT industries in the respective states to achieve higher cumulative growth of exports from all parts of the country.
j) To enhance quality and security standards in the IT industries.
k) To work jointly with venture capitalists for providing financial assistance to the IT industries.

1.9.5.2. **Benefits Under STPI Scheme:**

- Income Tax benefits under Section 10 A & 10 B of the IT Act upto 31st March 2011.
- Customs Duty Exemption in full on imports.
- Central Excise Duty Exemption in full on indigenous procurement.
- Central Sales Tax Reimbursement on indigenous purchase against from C.
- All relevant equipment / goods including second hand equipment can be imported (except prohibited items).
- Equipment can also be imported on loan basis/lease.
- 100% FDI is permitted through automatic route.
- Sales in the DTA up to 50% of the FOB value of exports permissible.
- Use of computer imported for training permissible subject to certain conditions.
- Depreciation on computers at accelerated rates up to 100% over 5 years is permitted.
- Computers can be donated over two years of use to recognize non-commercial Educational Institutions/Hospitals without payment of duty.
- Export proceeds will be realized within 12 months.
- Units will be allowed to retain 100% of its export earnings in the EEFC account.

1.9.6. SPECIAL ECONOMIC ZONES (SEZ) SCHEME:

In 2005, the Ministry of Commerce, Government of India has enacted the Special Economic Zone (SEZ) Act, with an objective of providing an internationally competitive and hassle free environment for exports\(^3\). A SEZ is defined as a "specifically demarked duty-free enclave and shall deemed to be foreign territory (out of Customs jurisdiction) for the purpose of trade operations and duties and tariffs". The SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006. It provides a drastic simplification of procedures and a single window clearance policy on matters relating to central and state governments. The scheme is ideal for bigger Industries and has a significant impact on future Exports and employment.

The SEZ Scheme offers similar benefits to SEZ units as compared to those under STPI in respect of indirect taxes, with some minor differences in operational details. There is however a significant difference, in respect of income tax holiday. In SEZ Scheme the exemption from income tax is tapered down over 15 years from the date of commencement of manufacture. There is a 100% exemption on export profits from income tax for the first five years, 50% for the next five years and 50% for the five years subject to transfer of profits to special reserves.

\(^3\)Ministry of Information Technology.
The SEZ policy aims at creating competitive, convenient and integrated Zones offering World class infrastructure, utilities and services for globally oriented businesses. The SEZ Act 2005 envisages a key role for the State Governments in Export Promotion and the creation of related infrastructure. A few salient features of SEZ scheme are as under:

- Special Economic Zones (SEZs) are being set up to enable hassle free manufacturing and trading for export purposes.
- Sales from Domestic Tariff Area (DTA) to SEZs are being treated as physical export. This entitles domestic suppliers to Drawback/ DEPB benefits, CST exemption and Service Tax exemption.
- 100% Income Tax exemption on export profits available to SEZ units for 5 years, 50% for next 5 years and 50% of ploughed back profits for 5 years thereafter.

This scheme, which is ideal for bigger Industries, has a significant impact on future Exports & employment. STPI Directors are acting as Development Commissioners for IT/ITeS SEZs.

**Table: 1.7. Characteristics of STPI and SEZ in India**

<table>
<thead>
<tr>
<th>Parameters</th>
<th>STPI</th>
<th>SEZ</th>
<th>Parameters STPI SEZ</th>
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<tbody>
<tr>
<td>Term 10 years</td>
<td>15 years</td>
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<td>Term 10 years</td>
<td>15 years</td>
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<td>Fiscal benefits</td>
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<tr>
<td>• 100 per cent tax holiday on export profits</td>
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<td></td>
<td>• 100 per cent tax holiday on exports for first five years</td>
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<tr>
<td>• Exemption from excise duties and customs</td>
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<td>• Exemption from excise duties and customs</td>
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<tr>
<td>Location and size restrictions</td>
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<tr>
<td>• No location constraints</td>
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<td>• Restricted to prescribed zones with a minimum area of 25 acres</td>
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<tr>
<td>• 23 per cent STPI units in tier II and III cities</td>
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Source: Nasscom, Aranca Research, STPI
1.10. HR PRACTICES IN INDIAN IT INDUSTRY:

Under present market forces and strict competition, the software companies are forced to be competitive, software companies must seek ways to become more efficient, productive flexible and innovative under constant pressure to improve results.

The traditional ways of gaining competitive advantage have to be supplemented with organizational capability i.e. the firm ability to manage people (Ulrich & Lake, 1990). Organizational capability to relate to hiring and retaining competent employees and developing competencies through effective human resource management practices (Ulrich & Lake, 1990). Indeed sustainable competitive advantage (Kundu et al., 2004).

High performances work practices provide a number of important sources of enhanced organizational performance (Peterson, West, Lawthom, & Nickell, 1997). HR system have important, practical impacts on the survival and financial performance of firms and on the productivity and quality of work life of the people in them (Cascio W., 1998).

Organization's growth depends on their environment. Because the organization does not control the resources it needs, resource acquisition may be problematic and uncertain. Others who control resources may be undependable, particularly when resources are scarce.

**Figure 1.10 Management Practices Distribution**

Organizations transact with others for necessary resources, and control over resources provides others with power over the organization. Survival of the
organization is partially explained by the ability to cope with environmental contingencies; negotiating exchanges to insure the continuation of needed resources is the focus of much organizational action. When HR practices are viewed as strategic and tactical tools by which an organization achieves its goals, then these assumptions strongly influence the HR practices that are selected as shown in (Fig.1.10). If a high technology competence is required by an organization, and there is a limited supply of the skill or capability in the labor market, then an appropriate response within this theoretical framework would be to compete with other companies by offering more attractive employment incentives. This could be achieved a variety of ways: pay, benefits, time off provisions, work structure, work location, work rules, organizational culture, etc. Thus, the focus would be on creating an advantageous position in comparison with other employers in attracting individuals with the required competencies.

1.10.1. NATURE OF EMPLOYMENT AND WORK:

The type of work and terms and conditions of employment varies widely in the industry, depending largely on the type of company and type and location of work.

As noted above, the largest employers of software engineers and other IT professionals are the four major software services companies with revenues of more than US$ 1 billion. With workforces of more than 50,000 each, they corner a large share of the software labor market. These companies provide a range of software services primarily to customers outside of India, including software development, enterprise applications, system maintenance, and so on. Fresh recruits in these companies typically are posted to one of the Indian offices after the training period, where they work for one or two years before getting their first ‘on-site’ assignment. Most software engineers are sent on such assignments several times in their careers, which range from short-term stints of a few weeks to a few months, to long-term assignments of a year or more. However, with the trend towards offshoring, often only one or two team members on a project are deputed to the customer’s site. A key feature of work in these companies is the fact that they are services companies, which depend on contracts with customers to carry out projects. As in any service industry,
customer satisfaction is a top priority, and employees are given extensive training and orientation towards this end.

Most of the MNC ODCs in India differ from the Indian services companies in at least two important respects. First, they generally work on product development projects for their parent companies. Although in many cases the Indian teams are consigned to lower-end coding and testing of software products, a few companies have substantial research divisions and execute complete projects in Bangalore. Second, the nature of the relationship with the ‘customer’ (the parent company or a division of it) differs: although in most cases, technically an Indian ODC is an independent entity for whom the parent company is the ‘customer’, it is not a strict ‘service’ relationship and so there is less emphasis on customer satisfaction compared to services companies. Because MNC employees are not catering to external customers, their work is generally perceived to be less demanding. Like software engineers employed by Indian services companies, MNC employees also travel abroad, usually to another office of the parent company for training, ‘transfer of technology’, or other such assignments. The length of stay abroad is often shorter than in the case of on-site assignments. However, much of their work is carried out through ‘virtual teams’.

Employees of large Indian services, consultancy, and products companies and MNC ODCs can be considered to be the ‘cream’ of the software profession. At the lower end are those who work in small companies (except for high-end startups) or as temporary workers, whose jobs are less well-paid and quite insecure due to the high level of instability of companies in this industry.

The low end of the Indian software services industry is ‘body shopping’, a system of contract labor in which employment consultants in India recruit software engineers and place them with clients abroad to work on specific projects, taking a large cut of their salaries as their fee. In this system, the Indian companies simply supply software professionals (‘bodies’) according to given specifications, which are then supervised by the local contracting company. ‘Body shopped’ techies provide a relatively cheap source of skilled labor for businesses in the U.S. and other developed countries. By supplying software professionals temporarily and only for the length of
time needed, body shops help companies to reduce the costs of keeping a large permanent labor force or of contracting out the work locally. This is true for all forms of temporary contract labor organized by recruitment agencies, but the transnational character of work in this case adds an element of temporary migration. Body shop exemplifies the regime of flexible labor, and is analogous to the ‘just-in-time’ production techniques characteristic of the postindustrial economy (Aneesh, 2001).

1.10.2. INNOVATIVE HRM PRACTICES IN INDIAN IT INDUSTRY:

India now becomes a player in the global stage. Everyone wants to do business with us, this change has given lot of opportunities to our country to grow further but it posed lot of challenges in front of us like Indian companies gained confidence to acquire foreign giant companies and try to establish themselves very competitive than the foreign companies at the same time we have to give emphasis on the various challenges before us like the gap between people in the corporate world and those in the rural areas is becoming serious concern and the wage differentials between blue collared workers and senior managers, the candidates having good education and communication skills getting more chance in the job market than other people lesser than them, attrition levels are all time high in India for example business process outsourcing facing problems with talent retention(Ishrat & Habib, 2012).

1.10.2.1. FOUR CRITICAL DIMENSIONS OF BEST PRACTICES

Attract and Access:

Attracting and retaining talent is becoming a big problem for every organization, they are following every trick and strategy to recruit and retain the employees.

Develop and Grow:

Nowadays organizations try to recognize the aspirations of employees and focus on their growth and development. India provides job rotation opportunities for high – performing employees from operations division. This gives them a broader understanding of the business.
Engage and Align:

Employee engagement has retained the focus of organizational leadership and many companies keep launching new practices to encourage employees. They are using innovative practices like “Loyalty Interview”- to find out what is it that makes its employees stay on, the feedback from loyal employees often reflects on the leadership style and is seen to work as a great motivation.

Transition:

The movement of talent within the organization and outside of the organization sends strong signals to the employees about the organization’s care and concern. Right from the induction, which is often the first impression the employees carries, to the exit interview, the sensitivity displayed by the organization has a lasting impact on all employees.

1.11. CHALLENGES OF HR MANAGERS IN INDIAN IT INDUSTRY:

Software is a wealth and job creating industry, which has in just a few years, grown to US $ 1 trillion, employing millions of professionals worldwide. The Indian software industry has burgeoned, showing a nearly 50% compounded annual growth rate over the recent years. Being a knowledge-based industry, a high intellectual capital lends a competitive advantage to a firm.

Intellectual capital comprises human capital and intellectual assets the latter being any created bit of knowledge or expertise. With a global explosion in market-opportunities in the IT sector, the shortage of manpower both in numbers and skills is a prime challenge for HR professionals. The related issues are varied indeed: recruitment of world-class workforce and their retention, compensation and career planning, technological obsolescence and employee turnover. This presents some of the HR challenges posed by the IT sector.

1.11.1. WORKFORCE RETENTION AND MOTIVATION:

Retention and motivation of personnel are major HR concerns today. Gartner Group Company specializing in the management of human capital in IT organizations has observed that the average tenure for an IT professional is less than three years. Further, the use of new technologies, the support of learning and training, and a
challenging environment ranked higher than competitive pay structures as effective retention practices. HR managers believed that the key to retention was salary and career satisfaction. Money was a prime motivator for 'starters', but for those into their third or fourth jobs, their value-added to the organization was more important. Monetarily, offering 'the best salaries in the industry' is the minimum every company is doing, apart from performance-based bonuses, long-service awards, and stock options. Many organizations frequently conduct employee satisfaction and organization climate surveys, and are setting up Manpower Allocation Cells (MAC) to assign 'the right project to the right person'. In fact, some are even helping employees with their personal and domestic responsibilities to satisfy & motivate their workforce.

1.11.2. ATTRACTING THE BEST TALENT:

In a tight job market, many organizations often experience precipitous and simultaneous demands for the same kinds of professionals. In their quest for manpower, they persuade talent around the world. In such a seller's market, software companies are striving to understand which organizational, job, and reward factors contribute to attracting the best talent one having the right blend of technical and person-bound skills. This would mean a knowledge of 'the tools of the trade' combined with conceptual and communication skills, capacity for analytical and logical thinking, leadership and team building, creativity and innovation. The Indian software industry suffers from a shortage of experienced people such as systems analysts and project managers, and attracting them is a key HR challenge

1.11.3. COMPENSATION AND REWARD:

An Increasing demand of technology coupled with a short supply of professionals (with the requisite expertise) has increased the costs of delivering the technology. This makes the incentive compensation a significant feature, with the result that software companies have moved from conventional pay-for-time methods to a combination of pay-for-knowledge and pay-for-performance plans. With the determinants of pay being profit, performance and value-addition, emphasis is now on profit sharing (employee stock option plans) or performance-based pay, keeping in
view the long-term organizational objectives rather than short-term production-based bonuses. Skills, competencies, and commitment supercede loyalty, hard work and length of service. This pressurizes HR teams to devise optimized compensation packages, although compensation is not the motivator in this industry.

1.11.4. BEING THE BEST PLACE TO WORK WITH:

As with any other professional, what really matters to software professionals is selecting 'the best place to work with' which is what every company is striving to be. The global nature of this industry and the 'project-environment' (as opposed to product environment) has added new cultural dimensions to these firms. In a value-driven culture, values are determined and shared throughout the organization. Typically, areas in which values are expressed are: performance, competence, competitiveness, innovation, teamwork, quality, customer service, and care and consideration for people. Flat structure, open and informal culture, authority based on expertise and ability rather than position, and Flexi-timings are some of the norms software firms follow. The idea is to make the workplace a 'fun place' with the hope of increasing loyalty and commitment.

1.11.5. COPING WITH DEMAND AND SUPPLY:

Shortage of IT professionals is global in nature and not peculiar to the Indian software industry alone. W. Strigel, founder of Software Productivity Centre Inc. (1999) has projected the shortage of software professionals to be one million by 2006. In fact, a survey reports that 75 per cent of US companies planned to engineer their applications using newer technologies, but found that 72 per cent of their existing staff lacked the skills needed in these technologies, and 14 percent were not even re-trainable.

For India, it is predicted that in the year 2004 itself, the IT sector will need 1,95,000 professionals. This trend will continue, and in the year 2010 almost 3,70,000 IT professionals will be required (Strategic Review Reports, NASSCOM 1996-2001). Consequently, recruiting managers are exploring new sources of IT manpower from non-IT professional sectors, as well fresh, trainable science graduates(Rakesh, Patil, & Waje, 2011)
1.11.6. ENCOURAGING QUALITY AND CUSTOMER FOCUS:

Today's corporate culture needs to actively support quality and customer orientation. With globalization and rapid technological change, quality is of at most importance for the Indian companies, which earn most of their revenues through exports. Hence, the HR professional as a strategic partner needs to encourage a culture of superior quality to ensure customer satisfaction the only real measure of quality of a product or service.

To be competitive today, an organization needs to be customer responsive. Responsiveness includes innovation, quick decision-making, leading an industry in price or value, and effectively linking with suppliers and vendors to build a value chain for customers. Employee attitudes correlate highly with customer attitude. The shift to a customer focus redirects attention from the firm to the value chain in which it is embedded. HR practices within a firm should consequently be extended to suppliers and customers outside the firm.

1.11.7. UPGRADEATION OF SKILLS THROUGH RETRAINING:

Rapid and unpredictable technological changes and the increased emphasis on quality of services are compelling software businesses to recruit adaptable and competent employees. Software professionals themselves expect their employers to provide them with all the training they may need in order to perform not only in their
current projects, but also in related ones that they may subsequently hold within the organization. And when the rate of technological change is high may be higher than the time required acquiring competence in one area professionals could undergo psychological turbulence owing to the need to work in a new technology throughout their career. They want to gain new knowledge, which will be utilized by their organization. On the basis of the new learning they want to work in higher segments of software value chain. Therefore, constant up-gradation of employee skills poses yet another challenge for HR personnel.

1.12. CONCLUSION:

With the advent of a work situation where more and more companies have to concede that their valued employees are leaving them, a new concept of career and human resource management is bound to emerge. The focus of this new paradigm should not only be to attract, motivate and retain key 'knowledge workers', but also on how to reinvent careers when the loyalty of the employees is to their 'brain ware' rather than to the organization.

HR practitioners must play a proactive role in the software industry. As business partners, they need to be aware of business strategies, and the opportunities and threats facing the organization. As strategists, HR professionals require to achieve integration and fit to an organization's business strategy. As interventionists, they need to adopt an all-embracing approach to understanding organizational issues, and their effect on people. Finally, as innovators, they should introduce new processes and procedures, which they believe will increase organizational effectiveness.