Chapter 1

INTRODUCTION

1.1 Introduction

“People are the most valuable resource” is an oft-repeated subject of discussion amongst the top level executives at the body corporate. The 1990s saw the emergence of a new generation of workers characterized by increased expectations for autonomy, self-development and greater involvement in company decision making. In many parts of the world, the increasing emphasis on knowledge-based competitiveness accelerated the importance of human capital. Careful management of this important resource calls for a strategic focus on human resource management (HRM) in the organization. Strategic HRM involves designing and implementing a set of HR policies/practices to ensure that an organization’s human capital contributes to the achievements of its strategic objectives. This perspective assumes that organisational performance is influenced by the set of HRM practices in place, Wan, David et al. (2002). During the presidential run of 1992, the then candidate Bill Clinton published a book entitled “Putting People First: How We Can All Change America”. Vineet Nayar, CEO, HCL Technologies (HCLT), in his book entitled “Employees First, Customers Second” (2010) attributes the transformational success of HCLT to putting employees first.

Organisations are increasingly looking at human resources as a unique asset that can enhance their financial and non-financial performance and provide sustained competitive advantage. The dynamics of business environment with increasing globalization, changing demographics of the workforce, increased focus on profitability through growth, technological changes, intellectual capital and the never ending changes that organisations are undergoing have led to increased importance of managing human resources (Devanna, Fombrum, & Tichy, 1981; Wright et al. 1998). A human resource (HR) department that is highly administrative and lacks strategic integration fails to provide the competitive advantage needed for survival, thus losing its relevance. Huselid and Becker (1997) found that there were noticeable financial returns for organisations whose human resource management (HRM) systems have achieved operational excellence and are aligned with strategic business goals. According to Ulrich (1998), a major role of HR personnel is to become a strategic business partner. Youndt and Scott (1996) find
that firms employing HR practices according to the stated strategy are regarded as having better perceptual performance.

Singh (2003) has looked at strategic human resources management (Strategic HRM) by integrating various functions and establishing the linkage of these functions with the business plan. Chanda and Shen (2009) in their study of over 750 Indian firms have linked the integration of HRM practices with business strategy to achieve higher financial and non-financial performance. It is important not only to identify HR competencies with the business needs and to develop selection and development practices to secure those competencies, but also to evolve and implement a performance evaluation plan that links the performance of the employees to the strategic goals.

Knowledge has emerged as strategically the most significant resource of the firm (Grant, 1996a). By implementing a human resource strategy to develop the knowledge worker and to retain the knowledge, a firm can understand how to create, transfer, and use it effectively to achieve higher performance and efficiencies. Drucker (2002) sees the knowledge workers as capital and emphasises that the knowledge worker is not labour. Alvesson (2000) observes that the loyalty of knowledge workers and the ways to minimize turnover are critical management problems.

Globalisation is breaking the national boundaries and firms are operating across countries with varied cultures and historical or economic backgrounds. McCaughey and De Cieri (1999) argue that while organisations are becoming more similar at the macro level with respect to the socio-economic aspects of an organisation, they continue to maintain dissimilarities at the micro level due to cultural differences which impact upon the outcomes of HRM practices. Empirical evidence shows that strategic HRM practices and their impact on organisational performance vary between countries and organisations, even among Organisation for Economic Co-operation Development nations like United States, United Kingdom and Canada (Betcherman et al. 1994; Dyre and Kochan 1995; Guest 1997; Lengnick-Hall and Lengnick-Hall 1988).

1.2 The Problem

Wright, McMahan, and McWilliams (1994) proposed that it is through the human resource capital pool and employee behaviour that human resources can constitute a sustained competitive
advantage. A firm can use human resource practices such as training and development, employee relations, recruitment and selection, appraisal, compensation and rewards to create an environment of higher efficiencies.

Following the liberalization of India’s economy in the early 1990s, the Indian personnel function came under tremendous pressure to develop Human Resources. A number of changes observable in this regard include creation of a Human Resource Development (HRD) ministry at the central government level, the creation of new HRD/HRM departments in the organisations and the development of a number of training and development programmes (Budhwar 2000; Rao et al. 1994). There has been a marked shift towards valuing HR in Indian organisations as they become increasingly strategy driven (Chatterjee 2007).

Large organisations have adopted Human Resource Management (HRM) to improve their competitive position both nationally and internationally. Over the past two decades, Strategic HRM has gained importance as a mechanism to provide sustainable competitive advantage to organisations. Many industries have successfully linked human resource function and strategic management processes to achieve competitive advantage and improve quality of work life (Lansbury 2003; Cascio 2006).

Information Technology (IT) services companies, as the name suggests, provide IT services such as software development, software maintenance and support, product development, and other related services to domestic and overseas clients. IT industry has played a key role in transforming India’s image from a government controlled economy to a global player in providing world class technology solutions and business services. The IT Industry eco-system in India comprises of large scale tier 1 and tier 2 companies, a number of medium size companies and a plethora of small companies and start-ups. 70 per cent of all the IT companies in India are in the Small and Medium Enterprises (SME) sector.

Whereas studies, emergence and implementation of Strategic Human Resource Management are quite prevalent in the global scenario, there is little evidence available for the same in the Indian context. However, from general studies it seems that the understanding in the Indian IT Industry about the relation between Human Resource Management (HRM) as a strategic element in achieving operational efficiencies is well developed. However, the question whether this is true
for the large population of small IT companies in India remains to be answered. Three research issues that emerge are:

1. Are small IT companies following strategic HRM practices that are aligned to their business strategy?

2. What is the extent of implementation of strategic HRM practices in these companies?

3. Has implementation of strategic HRM practices reflected through firm’s financial and non-financial performance?

This research attempts to find out the extent of implementation of strategic HRM practices and relationship between strategic HRM practices and firms’ operational efficiency in small IT services companies located in Mumbai Metropolitan Region (MMR). Considering the number of small IT companies in India, it is imperative to study the implementation of strategic HRM practices in the IT services sector.

1.3 Objectives of the Study

The objective of this research is to examine the role that strategic human resource management practices play in deriving growth and achieving efficiencies, by:

- Tracing the evolution and growth of Indian IT industry and highlighting major people strategies along the way.

- Examining the extent of strategic HRM practices implementation in small IT companies.

- Understanding the impact of strategic HRM practices implementation in small IT companies on their operational efficiency.

- Consolidating a set of strategic HRM practices, which could be custom adapted by small IT companies.

1.4 Research Hypothesis

Hypothesis I (H1): Extent of strategic HRM in small IT companies is moderate to high in (majority of the companies).

Hypotheses II (H2): More extensive is the use of strategic HRM practices, higher will be the operational efficiency of the company.
1.5 Scope of the Study

The focus of the research was concentrated on the small IT companies located in MMR as MMR has a number of IT companies. Mumbai being a large metropolis attracts knowledge workers from all parts of the country and as such represents the overall character of the IT industry across the regions.

The research focuses on the extent of implementation of HRM practices and the degree of linkage of implementation on operational efficiencies derived from implementing such practices in small IT companies in MMR.

In order to study these aspects the definition of small company was essential. A small company was thus defined to be one having thirty to two hundred employees and a turnover of Rupees one to fifty crore. Next in scope of the study was operational efficiency. This was considered in two parts comprising the financial and non-financial performance. The scope of the study, therefore, included studying the growth, profits and market share as part of financial performance and studying the employee satisfaction levels, employee productivity and employee turnover rates, as part of the non-financial performance. The combined impact on the financial and non-financial performance was defined to be the operational efficiency of the firm.

One of the objectives set for this research was to articulate the evolution and growth of Indian IT Industry. This gave an insight into how this young industry has grown at such a rapid pace.

The purpose of the empirical data is to make it possible to test hypotheses of how aspects of strategic human resources management can derive performance from their relevant activities. The results of the tests are then to be generalized from this rather specific sample of firms to the entire population of small IT firms in other regions of the country within the limitations of such generalizations.

1.6 Significance of the Study

Human resource management plays a critical role in creating and engaging the critical knowledge required for sustaining a competitive advantage. Drucker (1993) maintains that today’s knowledge workers are unlike previous generations of workers, not only in the high levels of education they have obtained, but also because in knowledge-based organisations, they own the organisation’s means of production, i.e., knowledge. Performance of knowledge-based
industries depends on organisations attracting, holding, and motivating knowledge workers (Drucker, 2003). The importance of this research is, therefore, linked to the significance of developing unique human resource practices in the Indian IT sector especially small IT companies that affect human resource behaviour towards achieving the organisation’s goals through achieving higher efficiencies.

At the conceptual level, this study could be useful in formulating a set of practices for use by the small scale IT industry. At the implementation level, this study could guide the management of these companies move towards providing a satisfactory human resource development climate for its employees by suitable policy decisions. As a pioneering study this research will be useful for HR policy formulation for small IT companies. This research can act as a forerunner to take up similar studies in other service industries and for IT companies in other locations in India.

1.7 Limitations of the Study

This study has all the strengths as well as the limitations of the survey research design. As any other survey research faces the element of bias, some of the respondents’ response on biased judgment may also affect future utility of the study.

The researcher faced lack of literature and case studies in the Indian context that delve on the core issue of the thesis with regard to influence of strategic HRM in small IT companies to achieving operational efficiencies within the organisation. As such the theoretical aspects of the research are mostly based on the previous studies, articles and case studies done in the western context.

In some small way, it is hoped that this research could be considered a pioneering research in the field of strategic HRM studies in small IT companies in Indian context.

1.8 Terms and Terminology

- **Information Technology Services**

  Information Technology (IT) services refer to the application of business and technical expertise to enable organizations in the creation, management and optimization of or access to information and business processes. IT services can be segmented by the type of skills that are employed to deliver the service. There are also different categories of service: business
process services, application services and infrastructure services. If these services are outsourced, they are referred to as business process outsourcing (BPO), applications outsourcing (AO) and infrastructure outsourcing.

(Adapted from Gartner research)

- **IT Services Company**
  Company that is engaged in providing IT services to their customers in various markets across the world.

- **Small IT Company**
  For the purposes of this research a small IT company has been defined as one having thirty to two hundred employees and a turnover of rupees one to rupees fifty crore.
  (Adapted from NASSCOM membership directory)

- **Human Resource**
  Human Resource (HR) is defined as the set of individuals who make up the workforce of an organization, business sector or an economy. "Human capital" is sometimes used synonymously with human resources. Likewise, other terms sometimes used include "manpower", "talent", "labour" or simply "people".
  (Adapted from Wikipedia)

- **Human Resource Management**
  Human Resource Management (HRM) envisages managing people in the form of a collective relationship between management and employees. This approach focuses on the objectives and outcomes of the HRM function. What this means is that the HR function in contemporary organizations is concerned with the notions of people enabling, people development and a focus on making the “employment relationship” fulfilling for both the management and employees. (Adapted from Management Study Guide)

- **Strategic Human Resource Management (strategic HRM)**
  Strategic Human resource management is an approach that defines the ways of achieving the objectives of the organization through people by means of human resource strategies and practices and policies. Strategic human resource management views the people of the organization as a strategic element for the acquirement of competitive benefit (Huselid, 2003).
Kaplan and Hurd (2002) define strategic HRM as a collection of tasks and processes shared jointly by line managers and human resources to solve business issues based on people. Leug (2003) opined that strategic HRM focuses on actions that differentiate an organization from its competitors. Michie and Sheehan (2005) have defined strategic HRM as the pattern of scheduled HR tasks and deployment intended to enhance the ability of an organization to achieve its objectives. Batt (2007) argued that the strategic HRM theory is based on the premise that successful performance of an organization relies on a close alignment or fit between HR and business strategy (Dyne and Pierce 2004, and Batt, 2007 cited in Armstrong and Baron, 2008, p 33-34).

Bjorkman and Fan (2002) argued that strategic HRM is the interface between strategic business management and human resource management. Cheng (2005) defines that strategic HRM as the collection of actions and decisions resulting in the implementation and formulation of strategies designed to gain the business objectives. Dessler (2011) opines that strategic HRM means making and implementing HR practices and policies that generate the behaviours and competencies that the organization requires for achieving its strategic goals.

- **Operational Efficiency**

Operational efficiency can be defined as the ratio between the input to run a business operation and the output gained from the business. Inputs would typically be cost of running the operations, human resources or time/effort and material. Outputs would typically be financial outputs such as revenue, profit margins, market growth and non-financial outputs such as employee productivity, employee satisfaction, and employee turnover rates. From time to time "operating efficiency" is also used with the same meaning as "operational efficiency". Financial and non-financial performances of a company are good indicators of the operational efficiency of the company. For the purpose of this research the measure of operational efficiency has been taken as the sum total of the financial and non-financial performance of the firm. (Adapted from Wikipedia)

**1.9 Chapterisation Plan**

The thesis is organised into seven chapters.
**Chapter 1: Introduction** - This chapter lays the foundation of the thesis, defines research problem, research questions and objectives. The chapter gives out the research hypothesis, scope, significance and limitations of the study. The important terms and terminology used in the thesis has been explained.

**Chapter 2: Indian IT Industry: Evolution and Growth** - This chapter traces the evolution and growth of Indian IT industry from its inception in 1968 to 2010. The IT industry is young and has contributed significantly in national growth and generating employment.

**Chapter 3: Literature Review** - This chapter reviews the relevant literature in the national as well as international context. Most of the reviewed literature is in the international context as not much literature is available on the subject in the Indian context.

**Chapter 4: Research Methodology** - This chapter outlines the methods and methodology employed for conducting this research. The sample of the study, measurements and data collection instrument employed, methods used for data collection have been discussed in detail. Reliability of the instrument has been verified and pilot test conducted discussed. Data analysis techniques used to derive meaningful information has been described along with statistical techniques used to perform the analysis.

**Chapter 5: Demographic Profile of Responding Companies** - Demographic profile of responding companies has been discussed in this chapter in terms of age and employee strength, respondents’ designations, turnover, quality certifications, business focus and markets of operation.

**Chapter 6: Data Analysis** - This chapter constitutes the largest part of the thesis. The chapter analyses the research data in detail in several ways employing many statistical techniques for the analyses. The data analysis was carried out using SPSS and PSPP data analysis software tools and the results are presented in graphical and tabular forms wherever applicable.

**Chapter 7: Findings, Recommendations and Conclusions** - This chapter discusses the findings of the research. The chapter gives out the recommendations based on the research findings. The chapter has highlighted the suggestions and opportunity for future research. Finally
the chapter summarises the research with conclusions drawn based on the findings of the research.

1.10. Conclusion
This chapter introduced the research problem and research questions and highlighted the objectives of the study. Scope and the limitations of the study have been discussed in the chapter. The chapter has introduced important terms and terminology used in the study and given out the chapterisation plan of the thesis.