

Impact of MNC Competition on HRM practices of Indian Firms

¹Dr. Mridulesh Singh, ²Dr. Rajeev Singh

¹Assistant Professor(Marketing Management), Institute of Business Management, C.S.J.M.University, Kanpur

²Assistant Professor (Business Management), Faculty of Technology, Etawah C.S. Azad University of Agriculture & Technology, Kanpur.

Abstract: With increasing globalization, firms are entering a dynamic world of international business that is marked by liberalization of economic policies in a large number of emerging economies like India. To face the challenge of increasing competition that has resulted from liberalization, Indian organizations have initiated adoption of innovative human resource management practices both critically and constructively to foster creativity and innovation amongst employees. With the help of in-depth case studies this article tries to understand how innovative HRM practices are being adopted by Indian firms to brace competition in the post liberalization scenario.

Keywords: liberalization, competition, innovative HRM practices, India.

1. INTRODUCTION

The decades of the 1990s and the 2000s witnessed an upheaval in economic thinking and brought about major societal changes. Firms entered a more dynamic world of international business with globalization of world markets, marked by the emergence of new international business blocs and economic liberalization of most developed and emerging economies. The dramatic surge in market reforms throughout the developing world meant that more than seventy-five developing and post-socialist economies, with a combined population of more than three billion people aimed at integrating themselves into the global market system. Dozens of these economies in Asia, Latin America and central Europe have succeeded in attracting large flows of capital, and, most strikingly, more than thirty countries have succeeded in establishing stock markets capable of attracting international portfolio investments. These changes have had profound implications for the entire world economy and are leading to a reallocation of global savings and investment. These changes have propelled the most dynamic of the reforming countries into unprecedented levels of sustained economic growth and reshaped global capital markets by introducing new opportunities for both portfolio and direct foreign investment. One of the most important emerging markets in the world, India with a tremendous potential for sustained high rates of economic growth is increasingly becoming a key player in the world economy.

The liberalization of the Indian economy created a dynamic business environment that has resulted in hyper-competition. To face this hyper-competitive environment, organizational adaptation and alternative adaptations of innovative practices have been put in place by firms for survival and for sustainable corporate performance. This paper attempts to examine how Indian firms have braced competition through creative and innovative human resource management (HRM) strategies and practices in the aftermath of liberalization of the Indian economy in 1991 and the HRM adaptations that have been relatively more effective in this dynamic context. This article presents a theoretical framework of aligning effective innovative HRM strategies and practices for effective corporate coping in a competitive market. For the purpose of this article innovative HRM strategies and practices are defined as,

*“Any intentional introduction of HRM program, policy, practice or system designed to influence or adapt employee attitudes and behaviors that is perceived to be new and creates current capabilities and competencies”*In this article HRM

strategies and practices indicate a proactive *process* that has been well accepted and recognized in the literature which are being used only recently by Indian corporates as part of their overall business strategy. The Indian context provides an excellent illustration of the phenomenon of large-scale entry of multinational corporations (MNCs) and the resultant changes in the competitive structure of the markets where more creative, innovative HR practices keep employees motivated. The findings reveal how Indian firms are adopting, aligning and integrating their strategic initiatives with innovative HRM practices in order to be competitive in a new, dynamic business environment.

2. THE INDIAN ECONOMY

India has been identified as one of the largest emerging markets with an immense economic potential for sustained economic growth. It has a billion customers and one of the world's largest pool of technical, scientific, managerial and entrepreneurial manpower. It is one of the world's leaders in the areas of research and development in information technology, nuclear, space, and rocket technologies. It is among the first three countries in the world that have built supercomputers, the fourth generation PARAM on its own, US and Japan being the other two. India is among the six countries in the world that has launched its own satellites. It has the largest set of remote sensing satellites, the INSAT. It is also one of the world's largest diamond cutting and polishing destinations. India is among the six largest industrial economies and five largest agricultural economies. It has been growing for the past 20 years at an average growth rate of about 6% per annum, the rate exceeding 8% in 2003. Yet it has a long way to go. The journey of India's liberalisation of macroeconomic policies started in earnest in 1991 to modernise the economy and actualise its economic potential. It began moving away from a closed, regulated "licensed" economy to a dynamic market economy.

3. LIBERALISATION OF THE INDIAN ECONOMY

The 1980s in India witnessed a rather limited deregulation in industries such as cement. By contrast, the reforms of the 1990s in the industrial, trade, and financial areas, among others, were much wider and deeper. The most significant steps in the liberalization process were rationalization of taxes, selective and phased lowering of excise duties, setting up of the national stock exchange with electronic operations, opening up of the insurance, petroleum and the retail sector, reform of India's labor laws, de-reservation of small scale industry products. All these changes have contributed significantly towards higher productivity in the economy. Real GDP growth, which had dipped to 0.9 percent in 1991-92, recovered to 5.1 percent during 1992-1993, representing one of the fastest recoveries from a macro economic crisis. Growth rates have risen considerably since then. Foreign currency reserves, which had fallen to almost US\$ 1 billion in mid-1991 recovered swiftly and stood at US\$ 6.4 billion in March 1993, US\$ 42 billion in March 2000 and US\$ 104 billion at the end of 2003. The proportion living below the poverty line has fallen from 36 per cent to 27 per cent. These results and possibilities have generated considerable interest in the Indian economy on the part of the international business community, international institutions and scholars.

A decade of opening of the economy has produced new dynamism, most dramatically in the information technology sector, as in others. The new technologies, especially information technology and biotechnology, have provided fresh opportunities for economic and social development. The current positive trend has been witnessed in most sectors of the economy such as manufacturing sectors as automobile, auto-components, textiles, building-materials, electronics, foods, cosmetics, the service sectors as IT software, business processing, banking, insurance, consulting, merchandising, retailing and R&D intensive sectors such as pharmaceuticals and software development. Demographic trends, especially a slowing population growth rate and a rising share of people of working age are contributing to the rising income. The world is waking up to India's crucial position as the largest democracy and as a dynamic economy, if still a low-income one.

It is important to note that despite the global slowdown in 1997-98, the average growth rate during 1994-1998 was 7%, significantly higher than the growth rate of 5% achieved during 1980s. Moreover, the growth in the 1980s was not sustainable, as the lack of export dynamism brought the infamous balance of payments crisis at the end of that decade.

4. INDIAN ECONOMY'S RESPONSE TO LIBERALISATION

The Indian economy's response to liberalisation appears, by and large, to be effective. Critics of the liberalisation process were convinced that "by opening the economy before giving it a chance to become competitive, was parallel to throwing the industry to the wolves". Results show quite the opposite of what sceptics believed. The success in exports, in fields

such as information technology in which competition is fierce and technological change rapid and success in auto-components, pharmaceuticals shows that the industrial sector overall has responded positively to the intensified competitive pressures.

5. THEORETICAL FRAMEWORK

For this study, a contingency-based theoretical framework was adopted which took into account the contextual factors while measuring the impact of those. The core adaptations to liberalisation by Indian corporates represent a strategic choice. The adaptations cover both strategic and systemic organisational responses. Strategic responses relate to vision, mission, goals, values and business strategy of the organisation. Systemic responses are those related to structures, functions, cultures and processes. This study focuses on the main systemic responses i.e., innovative HRM practices that Indian organisations have adopted to face competition in the Indian market place. Figure 1 summarises the theoretical model

6. DISCUSSION AND FINDINGS

The findings from the eleven case studies are discussed with reference to the theoretical model.

Hypothesis 1: The more HRM practices synergize with changing business strategies the more it will create social networks within the organization which will probably necessitate the expansion of HR department's role from administrative experts to strategic partners, change agents and employee champions.

Hypothesis 2: The more the organizations follow professionalized and innovative HR practices (recruitment, selection, career development), the more is the development of a pool of knowledge workforce and the more is the creation of - leaders for tomorrow - within the organization.

With the demand for knowledge workers increasing in a competitive market, enhancement of profitability depends on the recruitment, selection and retaining them in the organization. Until recently access to technology was considered as the prime area of focus for many Indian firms. With increasing competition, knowledge workforce i.e. people have become competitive differentiators. The HR executives are under pressure to stretch their capabilities and provide value-added services by professionalizing the HRM practices. Organisations are recruiting and selecting professionals who can comprehend a complex organisation structure and the requirements of a company in a dynamic business environment.

A remarkable example is that of an internationally renowned IT company, Infosys Technology Limited. Infosys is one of the biggest Indian exporters of software and offers IT consulting and software services to many of the Fortune 1000 companies.

Hypothesis 3: The more organizations practice proactive performance management systems, the relatively easier it is to build, retain, retrain and redeploy talent.

Organisations need to incorporate country-specific, institutional factors that affects patterns of organisational practices like HRM. National institutional embeddedness of firms plays an important role in shaping HRM practices. With competition, the responsibilities and the domain of the personnel management need to expand to become proactive and innovative HRM. The HR department not only has to develop new skills regarding recruitment and selection procedures but also has to craft innovative compensation and integration schemes for the employees in order to retain talent in the organisation. An interesting example is that of Arvind Mills. Arvind Mills, which belongs to the Lalbhai Group of companies, is a family owned business, producing textiles, ready to wear apparel, agro-chemicals and dyestuff. In the late 1990s it was the third largest producer of denim in the world. However, with the change in fashion trend from denim to gabardine and corduroy, the company was adversely affected. The threat from powerlooms, the need to increase exports and the growing demands of consumers led the company to introduce a new strategy. HRM played a crucial role in this business plan. The company created a Manpower Planning and Resource Group to take charge of the selection and recruitment procedure, to organize the job structure and to define the task description of various employees. The group absorbed fresh talent from top management and technical schools and established a compensation system which matched the industry standards. Innovative new methods of recruiting were adopted such as the Selection Information System (an online recruitment system) that provided facilities from generating call letters, fixing interviews and to evaluate on-line interviews. This program was linked to the Compensation Information System and the Training Information System. A Management and Organizational Development Group was incorporated to look into the training of the employees. It

provided three kinds of training programs: functional, behavioral and global. Another innovative concept (in the Indian context) developed at Arvind Mills was the Management by Objectives (MBO) which focused on producing results desired by the management in keeping with the satisfaction of the employees. Arvind Mills succeeded in finding a harmonious balance between the top management and the industry workers. *Udaan*, a kite flying competition between the management team and the operations team is a perfect example of building healthy relations between the two. In addition, programs such as *Booboos* (rock show) and *Umang* (forum) were introduced to create synergies among workers. These were some of the ways that Arvind Mills adopted to build and retain talent.

Most Indian companies still follow age-old practices and customs. Consequently their HRM strategies are also based on the traditional "industrial model" which involves several features like seniority based promotions, strong union influence and strict job classifications. With the advent of a new wave of thinking, several firms have decided to break away from the conservative model and adopt new and dynamic methods from their western counterparts that were more in sync with the changing industry standards.

For new local entrants and MNCs like IBM, Microsoft, Oracle, Texas Instruments which wanted to recruit talented people from well managed Indian companies, Wipro became a prime target. Azim Premji realised this problem and took necessary steps to retain his skilled work force. Human resource managers considered employees as "talent investors" and treated them as partners to be rewarded as other investors are. Wipro, as Infosys was one of the first Indian companies to launch the employee stock ownership called Wipro Equity Linked Reward Programme.

7. CONCLUSION AND IMPLICATIONS

This article focused on understanding some of the innovative HRM strategies and practices that stem from functionally logical strategic initiatives in response to a hyper-competitive, complex but opportunity-rich environment that had opened up due to the economic liberalisation in India. These innovative HRM strategies and practices are not a random collection but practices which may be considered "best" practices that has yielded excellence in performance.

How universal are these innovative HRM practices? How are they important to MNCs? The economic reforms have attracted foreign direct investment and MNCs which are more interested in managing their investments through cost, quality or innovation. Indian organisations face a number of challenges, the most important being - to make the best use of their existing human resources and compete on the basis of innovative HRM practices. These challenges have a direct implication for the HRM function. Literature on HRM suggests that the practices or their close versions seem to have applicability both in developed countries as well as in an emerging economy like India, and therefore may be relevant to most sectors and industries anywhere in the world wherever there is a competitive market economy. Taken together, the wealth of different HRM strategies incorporates much strength. The adoption of different innovative HRM practices in some of the Indian companies has improved business performance. This finds support from recent studies linking HRM activities and firm performance. The study supports the decade-old argument that investments and adoption of innovative HRM strategies are a potential source of competitive advantage. Nevertheless, scholars have little understanding of the processes required to realise this potential, or the specific conditions under which the potential is realized.

This provides MNCs two important lessons. In constantly changing environments, first mover advantage is critically important. But Indian corporates have been late movers but are fast bracing to competitive pressures. MNCs must manage their organisation efficiently and effectively to brace this renewed competitive challenge from Indian firms. Second, Indian firms have now more resources to invest in developing innovative HRM strategies (see reverse causality in Figure 1) which has accrued from cost reduction mechanisms, integration of support functions such as information technology in their work process, boosting morale of employees and by high retention of skilled employees. Though MNCs have deep pockets, which is an important driver in the labour market, this study of eleven firms indicate that Indian firms are relentlessly trying to reduce employee turnover by innovative HRM strategies. For those MNCs, which understand this challenge of doing business in India, the ultimate benefit is not to fall into the trap as their predecessors, but to leap towards an integrated and innovative HRM strategy that can attract, develop, excite and retain key talent. MNCs such as Castrol, Shell, Exxon (petroleum sector), Renault Tractor, Ford, Mitsubishi (automobile sector), Lafarge, Italcementi (cement industry), Citibank, American Express (banking sector), Levis, Pepe (textiles), IBM, Microsoft, HP-Compaq, Oracle (IT sector), Bayer, Roche (pharmaceutical), Coke, KFC, McDonalds, Procter & Gamble, which have learned or are trying to learn the hard way of doing business in India.

How generalizable are the implications and insights? The study of the eleven Indian organisations, which are leaders in

their field of expertise, may have insights regarding similar processes occurring in other emerging markets such as Asia, Latin America and Eastern Europe. In countries like Argentina, Brazil, China, Mexico, Hungary, Israel, Poland, Slovenia numerous MNCs are investing and affecting local economies and changing the dynamics of the business environment. While the MNCs contribute to the economic growth of these countries they also pose a threat to local competitors. Local companies in similar environments will have to adjust to the new rules of the game and practice innovative human resource management (HRM) strategies. The study has its limitations because of its small sample size, and is restricted to nine industry sectors. However, within the limitations it contributes to the field of HRM in general and specifically to academicians and practitioners who are interested in emerging country environments.

This article might encourage academics to conduct future research exploring the different modes of adaptations by local companies to environmental changes. Growing importance of research has already been reported not only in international HRM but also in comparative HRM studies. Researchers might want to look at the differences, if any, in the adoption of innovative HRM strategies and practices from a developed and emerging market perspectives.

8. MANAGERIAL IMPLICATIONS

In an increasingly globalizing economy, this study has five distinct implications for managers worldwide. Although the sample is small and the definition of innovative HRM strategies and practices broad, it may be worthwhile for managers to look into their own organisations and ask whether there is a need to redefine, redesign and innovate their HRM strategies and practices. There might be issues which may sound trivial at first sight but may be a precursor to long-term competitive advantage and superior performance. Secondly, managers may want to look at how top management teams oversee innovation efforts at the workplace in general and the HRM issues in particular and strike a balance between guiding and adopting atleast some of those efforts which transcend embedded interests. Thirdly, the findings in this paper are consistent with the strategic choice perspective; understanding business strategy is critical in understanding HRM strategies by emphasising either the competence or the behavioural aspect. Thus, given the business strategy, innovative HRM strategies can be chosen to fit the overall intent. Fourthly, the findings are pertinent to MNCs (doing business in both emerging and developed economies) and expatriates working in those companies as they can benchmark the differences in managing local businesses. The results of this research highlight that local companies are fast catching up with MNCs by adopting innovative practices rather than following a universal set of "HR best practices". Finally, understanding the wealth of different HRM strategies and practices is relatively easy, managing and adopting them within the cultural heritage of the organisation is the difficult part. Competitive advantage through people processes is difficult to achieve and even more difficult to sustain, but once achieved, it is not easy to duplicate.

REFERENCES

- [1] Kossek, E, Human Resources Management Innovation, *Human Resource Management*, 26(1): 71-92 (1987); Som. A and Bouchikhi, H, What drives the adoption of SHRM in Indian Companies? ESSEC Working Paper, DR-03009 (41 pages) (April 2003)
- [2] Lengenick-Hall, C.A. and see Lengenick-Hall, M.L., *Strategic Human Resource Management: A review of literature and proposed typology*, *Academy of Management Review*, 13: 454-470 (1988); Schuler. R and Jackson. S, *Strategic Human Resource Management*, London: Blackwell (1999);
- [3] Budhwar. P and Sparrow. P, Evaluating levels of strategic integration and development of human resource management in India, *The International Journal of Human Resource Management*, 8(4): 476-494 (1997); Budhwar. P and Sparrow. P, *Strategic HRM through the Cultural looking glass: Mapping the cognition of British and Indian managers*, 23(4): 599-638 (2002).
- [4] For a detailed discussion of liberalisation, redesigning and restructuring of organisations see Som, A, *Role of Human Resource Management in organisational redesign*, Unpublished Doctoral Thesis, Indian Institute of Management: Ahmedabad, India (2002); Som, A. *Building sustainable organisations through restructuring: Role of organisational character in France and India*, *International Journal of Human Resource Development and Management*, 3(1): 2-16 (2003).; Som, A, *Redesigning the Human Resource Function at Lafarge*, *Human Resource Management*, 42(3): 271-288 (2003); Som, A, *Mahut Group: A failed case of organisational restructuring*, *Asia Case Research Journal*. (Forthcoming, 2004); Som, A, *Strategic organisational response of an Indo-Japanese joint venture to India's economic liberalisation*, *Keio Business Forum*. (Forthcoming, 2004)

- [5] For a discussion, see C. K. Prahalad and K. Liberthal, The end of corporate imperialism, *Harvard Business Review* 76: 68-79 (1998); C. K. Prahalad and S. L. Hart, The fortune at the bottom of the pyramid, *Strategy + Business*, 26: 1-14.
- [6] For detailed discussion see Khandwalla, P, Effective organisational response by corporates to India's liberalisation and globalisation, *Asia Pacific Journal of Management*, 19: 423-448 (2002); Virmani, A, Potential Growth Stars of the 21st Century: India, China and the Asian Century, Chintan Occasional Paper, (October, 1999). Varied business press articles from Indian business journals such as *Business Today*, *Business India*, *Business World*, *India Today*, *Fortune India*, *Outlook* and articles by Mr. Arun Shourie, Minister of Divestment, Government of India.
- [7] See Randall S. S, Linking the People with the Strategic Needs of the Business, *Organisational Dynamics*, 21(1): 18-32 (1992); Randall S. S. and James W. W, Human Resource Strategy: Focusing on Issues and Actions". *Organisational Dynamics*, 19(1):5-19 (1990); Pfeffer. J, Competitive advantage through people, *California Management Review* (Winter): 9-28 (1994). Ulrich. D, Human Resource Champions: The next agenda for adding value and delivering results. Boston Massachusetts: Harvard University School Press (1997).
- [8] Ulrich. D, A new mandate for Human Resources. *Harvard Business Review*, 124-134 (1998)
- [9] Cappelli, P and Crocker-Hefter. A. Distinctive Human Resources Are Firms' Core Competencies. *Organisational Dynamics*. 24(3): 7-22 (1996).
- [10] Bartlett.C and Ghoshal. S, Building Competitive Advantage Through People. *MIT Sloan Management Review*, 34-41 (2002).
- [11] Bartlett, C.A and Ghoshal, S, Going Global: Lessons from Late Movers? *Harvard Business Review*, 70(5): 132 – 142 (2000); and Khanna, T and Palepu, K, Why Focused Strategies May be Wrong for Emerging Markets, *Harvard Business Review*, July-August, 3-10. (1997).
- [12] Gooderham. P.N., Nordhaug. O, and Ringdal. K, Institutional and Rational Determinants of Organisational Practices: Human Resource Management in European Firms,
- [13] *Administrative Science Quarterly*, 44(3): 507-532 (1999).
- [14] Yin, R. K, Case Study Research: Design and Methods. California: Sage Publications (1994); Becker, E.B and Huselid, A.M, Overview: Strategic Human Resource Management in five leading firms". *Human Resource Management*, 38(4): 287– 301(1999); Eisenhardt, K.M, Building theories from case study research, *Academy of Management Review*, 14: 532 – 550, (1989).
- [15] Arthur, J. B., Effects of human resource systems on manufacturing performance and turnover. *Academy of Management Journal*, 37: 670-687 (1991); Cutcher-Gershenfeld, J., The impact on economic performance of a transformation in industrial relations. *Industrial and Labor Relations Review*, 44:241-260 (1991);
- [16] Huselid, M. A., The impact of human resource management practices on turnover, productivity, and corporate financial performance. *Academy of Management Journal*, 38: 635-672 (1995); Delantey, John T., Huselid, Mark A., The impact of human resource management practices on perceptions of organisational performance, *Academy of Management Journal*, 39(4): 949-969 (1996); Huselid, Mark A., Jackson, Susan E., Schuler, Randall S., Technical and strategic human resources management effectiveness as determinants of firm performance, *Academy of Management Journal*, 40(1): 171-188. (1997)