



A STUDY ON THE STRATEGIC ROLE OF HR IN IT INDUSTRY AND MULTI NATIONAL COMPANIES

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ABSTRACT

The rapid rise of multinational Corporations (MNCs) from emerging economies has led to greater interest and urgency in developing a better understanding of the deployment and diffusion of managerial strategies from their perspective and without assuming the prevailing Western ethnocentric orthodoxy. This research develops a conceptual framework of global HR strategies and practices in MNCs from emerging economies across their subsidiaries in both developed and developing markets. Using data from a pilot study of an Indian MNC, it provides insights and guidance into the motives, strategic opportunities and constraints in cross national transfer of HR policies and practices in a multi-polar world.

1. INTRODUCTION

Human Resource Management (HRM) is a relatively new approach to managing people in any organization. People are considered the key resource in this approach. It is concerned with the people dimension in management of an organisation. Since an organisation is a body of people, their acquisition, development of skills, motivation for higher levels of attainments, as well as ensuring maintenance of their level of commitment are all significant activities. These activities fall in the domain of HRM.

Human Resource Management is a process, which consists of four main activities, namely, acquisition, development, motivation, as well as maintenance of human resources. Scott, Clothier and Spriegel have defined Human Resource Management as that branch of management which is responsible on a staff basis for concentrating on those aspects of operations which are primarily concerned with the relationship of management to employees and employees to employees and with the development of the individual

and the group.

Human Resource Management is responsible for maintaining good human relations in the organisation. It is also concerned with development of individuals and achieving integration of goals of the organisation and those of the individuals. Northcott considers human resource management as an extension of general management, that of prompting and stimulating every employee to make his fullest contribution to the purpose of a business. Human resource management is not something that could be separated from the basic managerial function. It is a major component of the broader managerial function.

French Wendell, defines —Human resource management as the recruitment, selection, development, utilisation, compensation and motivation of human resources by the organisation. The Human Resource function has evolved over the years from the labour officer, to the personnel officer, personnel manager and the human resource manager of today. The change in terminology also suggests a change in the objectives and boundaries of the function. The dynamic and competitive business environment resulting from globalization has led a new

focus on how human resource should be organized and managed. This has led to the emergence and increase in the use of the term strategic human resource management (SHRM). There has now been a visible convergence between HRM and strategy.

The role of human resource management in gaining competitive advantage has been discussed in the western literature since the early eighties. Many studies have been conducted regarding how companies can gain a sustainable competitive advantage through their human resources and human resource management practices.

These studies have empirically proved the relationship between strategic human resource management and firm performance. There has been a positive relationship between HRM practices and firm financial performance.

Researchers have been addressing the link between HRM practices and competitive advantage. They have argued that human resource management practices can contribute to competitive advantage in so far as they elicit and reinforce the set of role behavior that results in lowering costs, enhancing product differentiation or both. This perspective has contributed enormously to the theory, research and

practice in the field of strategic HRM. Since 1990's there has been an increased focus on the strategic role of HRM. The strategic approach to human resource management refers to the human resource practices and strategic objectives of the firm. This view has become more significant in today's knowledge economy that depends upon the skill and knowledge of the workforce. From being a routine and reactive function the HR function has evolved to being proactive and strategic.

The Indian business environment has been continuously changing. The globalization of the Indian economy has opened the doors of Indian market to multinational corporations. Organizations which were operating in a highly protected environment were suddenly exposed to domestic and international competition. With the emergence of WTO, the country could no longer protect the domestic industry by imposing high tariffs, duties etc. This has increased the pressure on the personnel function of the Indian companies to prepare and develop their employees so as to compete with the MNC's in terms of skills, efficiency and effectiveness.

The Indian economy has been witnessing a growth in the contribution of the service

sector to the GDP. The service sector now contributes more than fifty percent to the GDP of the country. Due to its very nature the service sector is highly dependent on its human resources. Among the service sector the information technology (IT) sector has become one of the fastest growing industries in India.

The key segments that have contributed significantly to the industry's export include software and services (IT services) and IT enabled (ITES) i.e. business services. Over a period of time India has established itself as a preferred global sourcing base in these segments and is expected to grow in the future.

Many studies has found a positive relation between relation between strategic HRM practices and firm performance. However very few studies were carried out in the Indian context to find the quality of service provided by the HR department and the role of HR in the IT sector. A few were conducted to study the HR systems in BPO's located in the NCR region and the role of HR in a few organizations. No sector specific studies on the role of HR were conducted.

2. OBJECTIVES OF THE STUDY

The current study aims to fulfill this research gap.

The study was conducted with the following objectives

- 1) To assess the quality of human resource function in IT organizations and Multi National Companies.
- 2) To find out the extent to which the strategic role is performed by the human resource function in these organizations.
- 3) To find out if there is any variation between the operational and strategic role of human resource function across these organizations.
- 4) To compare the perception of the human resource function's role by employees and human resource department staff.
- 5) To suggest measures for improving the strategic role of human resource in these organizations and
- 6) To suggest measures for improving the overall quality of human resource function in these organizations.

3. HYPOTHESES OF THE STUDY

The above study was based on the following hypotheses:

- 1) The quality of current services

provided by the HR function in IT Organization and Multi National Companies is poor.

- 2) The HR function performs more of Administrative role than the strategic role.
- 3) There is a significant difference of perception between the employees and the HR staff about the role of HR function in IT organizations and Multi National Companies.

4. RESEARCH METHODOLOGY

The current study was based on both primary and secondary sources of data. The primary data was collected with the help of a survey questionnaire. The population consisted of all the IT/ITES organization and Multi National Companies. The final sample consisted of 30 organizations selected randomly from the population of about 600 IT / ITES organizations and Multi National Companies. The research instrument used for the survey was the human resource role assessment survey questionnaire developed by Ulrich and Conner. The instrument was tested for its reliability using Cronbach's alpha, which was found to be 0.86. The data was checked for normality and was analysed using SPSS including

appropriate statistical tests.

As this study is conducted on CMM Level 5 certified Companies and is multi-company research work, the 'Cross-case Analysis' method is found more suitable to find the facts (Four CMM Level 5 Companies are taken for the study). In the first stage cases are developed, with the help of the data from interview and secondary data schedule of various companies. Later the cases are analyzed through 'Cross – Case Analysis' by developing Cross Case Matrices. Finally the employee opinions are taken to arrive at conclusions and suggestions.

The information relating to performance appraisal system of Indian IT Companies are presented in the table 8 from this it is inferred that in TCS the appraisal system is very effective they allow for self-appraisal by the employee. The others who appraise the performance of the employee are reporting manager, reviewer and the level boss. In the process of appraisals the company looks into all the key result areas. There will be annual appraisal reports along with the project appraisals. The communication of reports to the employee will be through their immediate superiors. At TCS the outcomes of performance appraisal reports will be considered in all the

future decisions that are related to employee's growth. The people, who perform performance appraisals at Infosys Technologies Ltd, are the team-leaders, project managers and the self. They look at the completion of assigned works. At Infosys Technologies Ltd there will be annual and project appraisals and they will be directly communicated to all the employee the consideration of appraisal reports on future related decisions is maintained by the management without missing. Wipro Technologies Ltd has got its own methodology in the appraisal system. The managers and project heads will evaluate the performance of all the employees. The technical, behavioral competencies and results will be appraised in performance appraisal. There will be only annual appraisals at this company. The report will be sent to the employees. The communication of the reports will be through down the level – finally to the employee. Company considers all the finding of performance appraisals in the management of Human resource.

5. ANALYSIS

The mean score of the strategic HRM alignment with the overall organizational

goals and objective is 38.37 out of a possible maximum score of 50, suggesting a high (76.74%) extent of strategic HRM alignment with the overall business objectives.

To assess the tendency of organizations to devolve human resource practices to line officers, two criteria are used, namely, the involvement and training of non-personnel officers (e.g. Accountants) in human resource practices.

Based on a possible maximum score of 5 in five HR practices, the results reveal that line managers executed a mean of 3.31 (66.2%) human resource practices indicating a moderate involvement of line managers in the execution of human resource management practices. In terms of the second criterion for devolvement (i.e. training provided to line managers to execute HR practices), the finding shows a low level of training given to non-personnel officers as only 25.3% of line managers are trained to execute HR practices.

Employee selection system records a mean score of 16.24 (64.96%) out of possible maximum score of 25. The result indicates a moderate fit between the prospective employee's abilities and qualifications and the organization's requirements. Training and development on the other hand, has a

mean score of 22.69 (64.83%) out of a possible maximum score of 35 depicting a moderate level of employees' participation in training and development programs. The mean score of performance appraisal system is 25.05 (62.62%) out of a possible maximum score of 40.

Results reveal that personnel appraisal system currently being practiced is impressive enough to allow the companies to be able to monitor the development of desired employee attitudes and behavior through the use of the appraisal mechanism. Compensation system has a mean score of 17.05 (68.2%) out of a possible maximum score of 25 depicting an impressive fit between perceived compensation system in the Indian manufacturing sector and the overall industry policy on compensation of workers.

The mean scores of career planning system and employee participation are found to be 24.03 (68.66%) and 11.32 (75.47%) out of a possible maximum scores of 35 and 15 respectively. The result indicates a high level of effective career planning system and employee participation within the Indian manufacturing sector.

The zero-order correlation between line management devolvement and

organizational performance is $r = 0.35$. While selection system has significant positive relationship with organizational performance with a correlation (r) = 0.57.

Training and development and performance appraisal system have a significant positive relationship with organizational effectiveness with a correlation (r) of 0.76 and 0.73 respectively. Similarly, compensation system and career planning system also have a significant positive relationship with organizational effectiveness with a correlation (r) of 0.71 and 0.85 respectively. Employee participation is also found to be positively correlated with organizational effectiveness with a correlation (r) of 0.38. The above correlations are all significant at the 0.01 significance level.

The results also suggest a weak but positive relationship between strategic HRM alignments with organizational performance with a correlation (r) of 0.23. Similarly, line management training in HR practices also shows a weak but, positive relationship with organizational effectiveness with a correlation (r) of 0.19. The results are however, not significant at both 0.05 and 0.01 level of significance. These results

provide preliminary support for hypothesis four.

Results suggest a significant positive correlation between strategic HRM alignment with the following practices: line management devolvement, selection system, compensation system, career planning system and employee participation with correlations (r) of 0.46, 0.17, 0.11, 0.28, and 0.31 respectively. It however shows a significant negative relationship with training and development and performance appraisal system with a correlation (r) of -0.15 and -0.09 respectively.

Results also show that line management devolvement has a significant positive relationship with the following practices: line management training, selection system, training and development system, and performance appraisal system with correlations (r) of 0.43, 0.45, 0.51, and 0.37 respectively.

Training of line managers in HR practices has a significant positive relationship with selection system, training and development and performance appraisal system with correlations (r) of 0.36, 0.35 and 0.19 respectively.

Results indicate that selection system has a significant strong positive relationship with

the following practices: training and development, performance appraisal system, compensation system, career planning system and employee participation with correlations (r) of 0.89, 0.83, 0.77, and 0.81 respectively. It however has a significant moderate positive relationship with employee participation with a correlation of 0.47.

Training and development also has a significant strong positive relationship with performance appraisal system, compensation system and career planning system with correlations (r) of 0.88, 0.79 and 0.90 respectively. Results also indicate that performance appraisal system has a significant strong positive relationship with compensation system and career planning system with correlations (r) of 0.84 and 0.92 respectively.

Results also show that compensation system has a significant strong relationship with career planning system with a correlation of 0.87. Career planning system is also found to have a significant weak positive relationship with employee participation with a correlation (r) of 0.31.

There is a strong positive relationship between strategic HRM practices and organizational effectiveness with a multiple

correlation (R) of 0.93. The adjusted R^2 of 0.83 implies that 83% of the variations in organizational performance are adequately explained by strategic HRM practices used in this study.

The results also show that strategic HRM alignment with overall corporate objectives and line management devolvement has a positive effect on organizational effectiveness with coefficients of 0.20 and 0.091 respectively.

Selection system and training and development were also found to have a positive effect on organizational performance with coefficients of 0.773 and 0.851 respectively.

Performance appraisal system, compensation system, career planning system and employee participation are also found to have a positive effect on organizational effectiveness with coefficients of 1.032, 0.953, 1.074 and 0.09 respectively.

At 5 percent level of significance, the F-statistics shows that the model is useful in determining if any significant relationship exists between strategic HRM practices and organizational effectiveness.

The most centralised companies in the study were P&G, Siemens and Unilever: all three

have been operating in the international market for many decades and are now operating to varying degrees as transnational corporations. But all three companies have also shown a shift to this centralized position, moving from highly decentralized operations in previous years. P&G has seen a shift from an absolute country focus to a global focus to take more corporate control of the firm's longer-term strategy.

Consequently, the corporate HR department has grown in both size and influence at both global and regional levels. The regional level is seen as important for the translation and coordination between the global and local levels, and HR at this level must have a great deal of personal credibility to have an impact on this process. The philosophy now is to focus on communalities in HRM practices, only localising where absolutely necessary. This is not easy for subsidiaries to accept, and can lead to a feeling of 'not invented here'.

Likewise in Siemens there has been a recent conscious shift to become more international, in outlook, changing relationships between the corporate head office and subsidiaries. Although there is now more centralised HRM policy-making and less local adaptation, countries are

involved in the policy-making process to facilitate acceptance across the company. Unilever is again an example of an MNC looking to reap the benefits of its global position and is restructuring to develop a stronger regional and global approach to operations. Local subsidiaries are no longer developing their own HRM policies, but are being encouraged to adopt and adapt those issued from global or regional level as necessary.

The corporate HR departments in all of these companies have complex structures with representatives from all areas of the business. The personnel administration function is also largely in-sourced (at country level in Unilever and Siemens) or outsourced (at global level in P&G), leaving HR with more of a business partner role in the business units at the same time as cutting costs and improving efficiency. The underlying reason for this form of centralisation is to bring together a centre of expertise to address the fundamental need for high quality personnel administration in order for the HR department as a whole to be valued within the company. The corporate HR functions have grown in size and scope of activity as more centralized control of HRM has been implemented. This

central function is also supported by flexible international project teams or networks.

In the decentralised organisations of ABB, EDF and IKEA, there was evidence of a much smaller corporate HR department and the vast majority of HR staff being country based (rather than in global divisions or regional centres). In EDF, there are around ten people active in the international HR department which was set up in 2002 as the company started its moves towards increasing internationalization. IKEA again has around ten members of the global HR department, but is supported by other international HR teams and networks. In ABB which has been operating as a decentralised multinational for much longer, there are still only around twenty corporate HR members, and again the department was only established in 2002.

There are however central shared services centres in some countries which is changing the role of HR managers locally by becoming more strategic rather than transactional. Since HR recently gained a position on the Executive Committee in ABB, the significance of HR strategic influence within the company has increased and there is a growing HRM focus from the top level.

In these companies, the current lack of control from the centre is seen as a deficiency in guidance but also as respect for local contexts. In all three companies, there is however evidence of some increase in control from the corporate centre. In ABB, standardization is being increased in order to address the current fragmentation of the company and to leverage economies of scale. Some common processes are being introduced to replace a system in which every HR manager was doing their own thing. In IKEA, the aim is to focus on similarities between locations and to provide general support and guidelines from the centre. This is perceived locally not as an imposition of policies but as helpful guidelines for coordination with business strategy. The case of IKEA shows very clearly how centralised policies can be used as a means of supporting the corporate culture. IKEA has a very strongly centralized corporate culture and product range, despite its much decentralised approach to store management and HRM. The IKEA “HR Idea” provides a central philosophy underlying all HRM activities, rather than prescribing particular HRM activities which stores must undertake.

As we might expect, in the case of EDF which is currently operating predominantly as a holding company, subsidiaries have complete freedom with regard to HRM practices. Only in the one subsidiary which is 100% owned by EDF outside of France is there now starting to emerge some control over HRM coming from corporate head office. In the other decentralised companies, we see variations in leeway for subsidiaries, but in both cases the extent of leeway overall is more than the extent of corporate control. In ABB, there is evidence of varying speeds of implementation of global policies in different countries. From the local subsidiary perspective, there is considerable freedom for HR to establish its own local priorities; however central guidance on how to link HRM to corporate strategy is appreciated. In IKEA, it is the philosophy underlying the practices which is the same in all locations, providing a common platform, however actual practices vary considerably based on numerous factors, such as the age of a store, how active the HR manager is, how advanced HRM is, trade union influence, employment legislation, and local culture.

In the more centralised MNCs, the subsidiary leeway is considerably reduced.

Of the companies interviewed, this was most obvious to see in P&G. Global, standardized HR tools and systems provide the backbone for all HRM activities in an attempt to create a global employment experience whereby employees are treated the same everywhere in the world. The only leeway that exists is for countries where adaptation is absolutely necessary due to business needs. Corporate HR provides subsidiaries with the definition of initiatives, marketing materials, tools and training for implementation. Countries then develop their own local language translation where this is necessary, and decide how best to implement locally. This does mean that a degree of local interpretation is incorporated, and that the adoption of global policies varies between countries from only implementing the basics of an initiative, to having a full understanding and buy-in at the local level.

In Siemens, there is a collection of guiding principles across the range of HRM practices, made up of both mandatory standards and recommended principles which allow country-specific localisation in different markets. Variations in implementation in different countries are seen as inevitable due to local contexts. In Unilever, the only HRM practice which is

not centralised is that of industrial relations, as this is so context specific. From the subsidiary's perspective, this centralisation of policy can be difficult to accept due to the previous practice of complete freedom for all units.

The variation in extent of leeway is also evidenced in the relationship between HR departments of the corporate office and the local subsidiary. In the case of EDF, there is no controlling relationship; exchanges take place of ideas and of managers for their development. In ABB, the way to get HRM issues on the corporate agenda is for HR managers in subsidiaries to contact the corporate office, and to convince them that the issue should be raised at board level. Corporate HR decides which initiatives to take forward and which to drop. In Siemens, there is a more structured approach to sharing ideas between head office and subsidiaries through a structure of HR councils at global, regional and group levels. These councils are forums for discussing ideas and progressing them to board level. This approach has been adopted as it creates 'buy-in' at the local level to new initiatives, as corporate HR does not have the power to dictate what all HR departments must do.

Despite all the variations discussed here particularly in terms of centralisation and decentralisation, there are some basic similarities across all companies interviewed in terms of the HRM responsibilities of the corporate HR departments. All companies report leadership/top management development and succession planning and expatriate management, as areas of activity. The more decentralised companies then have one or two other areas of responsibility but not the full range of HRM policies.

For example, corporate HR in ABB and EDF also focus on health and safety, and in IKEA it has some responsibilities for ensuring basic guidelines are in place for compensation and benefits, induction, performance evaluation and mobility. This is compared to Siemens and P&G, for example, which both have extensive policies and tools in place for the full range of HRM activities including recruitment and sourcing, compensation and benefits, training and development, and organization development.

Another common theme across all companies is recognition of the importance of sharing knowledge and skills across the HR community, although the actual extent of practice varies. In EDF, the most

decentralised company, HR managers move between head office and subsidiary locations as part of their development. There is also an initiative currently underway to encourage HR staff to network, starting with an annual convention for the top 200 HR managers to exchange best practice. In IKEA the emphasis is more on HR sharing knowledge with and learning from line managers. There are however IT-based tools in place to support knowledge exchange, although there is currently still little activity in this area. At ABB, HR managers are encouraged to work on an ad hoc basis in specialist teams, and there is an annual global HR conference which aims to build links across countries as well as sharing best practice.

In the more centralised companies, the level of knowledge sharing within the HR community is considerably more advanced. In P&G, one of the priorities for HR at global level is to develop HR capability. This is being achieved by creating interdependencies within the HR community across the company. A sophisticated network of ten communities of practice, each focusing on a different area of HRM activity (such as remuneration or employee relations) has been established. These

communities are international, and are resulting in less difference between countries in HRM policies due to the collaborative nature of policy development and implementation. A similar system is also in place in Siemens, although perhaps more divided into global and regional levels of activity. Corporate HR collects examples of best practice and disseminates these from this central point to create multiple centers of competence. This is largely achieved through a system of world, regional and group level HR councils. These councils are forums for HR heads to meet to discuss and decide on HR strategy and the development and implementation of new initiatives. The councils are also supported by international working groups of HR staff. Surprisingly however, within Unilever there is currently little activity of this nature aside from four HRM themed expertise teams, largely due to the current restructuring. This was recognised at the time of writing as a priority area to be addressed.

Much of the work of HR practitioners in a multinational setting is heavily influenced by past practice, experience and tradition of the company, which influence the present profile of the HR function at corporate level. At the same time we notice that the different

companies, we studied, all are in transition: IKEA emphasizes in a more strict way its adherence to certain values; Siemens wants to become a truly transnational company; EDF faces the challenge of how to respond to an increasing degree of internationalization; ABB wants to standardize its HR operations etc.

Practitioners can benefit from our framework by seeing how different approaches and different tendencies towards either more centralisation or decentralisation have an effect upon the process of initiating, implementing and coordinating HR practices and the kind of involvement allowed for at the different levels of region, country and subsidiary. Moreover, every approach will also have its consequences for the kind of capabilities and role emphasis (champion of processes, political influence, guardian of culture etc.) of the HR managers working at corporate and regional level. So practitioners can establish for themselves how their company and its HR operations fit in the scheme and/or is moving from for example decentralized to centralized (ABB) and how that has an effect upon the various mechanisms/approaches to knowledge generating and sharing in HR.

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