

# **UNDERSTANDING THE IMPERATIVE LINKAGE BETWEEN BUSINESS STRATEGIES AND HUMAN RESOURCE MANAGEMENT PRACTICES IN THE IT/ITES SECTOR IN INDIA: AN EMPIRICAL STUDY**

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## **INTRODUCTION**

Understanding Strategic Human Resource Management practices in developing economies is fast emerging as an area of special importance among academicians, researchers, HR professionals and others. Strategic Human Resources Practices connote the linkage between business strategies and human resource management practices of organizations. As interest into the nitty-gritty of the issue gets intensified, the focus shifts towards the identification of intricate areas and specific issues involved in the perspective of different sectors and different economies. The Information Technology/Information Technology enabled Services (IT/ITeS) sector is assuming a significant place in developing economies and the sector has made significant contribution towards the development of the economies in terms of its impact on the gross domestic product, its capacity to absorb human resource (HR), its ability to provide greater accessibility of innovative technology worldwide and as a source of “standardization” and “increased variety” in operation of markets and industry structure (Globerman et al., 2001). These have actually provided scope for emerging economies to gain considerable advantage through development of Information and Communication Technology (ICT) in the respective economies and there has been proliferation of organizations in the IT/ITeS sector in developing countries like India. In India, NASSCOM has predicted that the country is going to experience a talent shortage of 500,000 in this sector by 2010. With the unprecedented rate of growth of the IT/ITeS sector and the turbulent business environment, the HR professionals in this sector have to tackle several challenges of the industry and the business. Moreover, Economic Times, Kolkata, February 2009, has reported that despite recession, the IT/ITeS sector is expected to grow at 18.3% compounded annual growth rate to 2012. In order to respond to the volatile environment, organisations in this sector are required to adopt HR practices which are likely to be different from the HR practices followed by firms in other industries. How far they have been able to address this issue needs to be explored. There is therefore the need to identify and analyze the strategically aligned HR practices in the IT/ITeS sector, which in the opinion of the authors, can make a positive contribution to the literature in the field. In the light of this background, the present paper tries to investigate the nature of linkage between business strategies and human resource management practices of selected organizations in the IT/ITeS sector in an emerging economy like India.

## **UNDERSTANDING THE IMPERATIVE LINKAGE BETWEEN BUSINESS STRATEGIES AND HUMAN RESOURCE MANAGEMENT PRACTICES: THEORETICAL CONCEPTUALIZATION**

Existing literature highlights the need for the formulation of an integrated and a mutually consistent set of HR practices in consonance with the business strategy of an organisation, all aimed towards achievement of organisational objectives (Tyson, 1995; Holbeche, 1999). Central to this area of research study is the analysis of the issue of “fit” or integration between

business strategy and HRM practices of an organisation. Issues involving this approach have been analysed from different perspectives (Schuler and Jackson, 1987; Devanna, M.A., C. Fombrun and T. Tichy, 1981; Buller and Napier, 1993; Budhwar and Sparrow 1997; Sanz-Valle, et. al, 1999). In this context, the “contingency” approach, alignment between HRM practices and the “complementary of variations” of HRM practices and other related issues specific to specific organizational strategies are highlighted (e.g., Arthur, 1994; Bamberger and Meshoulam, 2000). In this perspective, works of Schuler and Jackson (2007) are useful for conceptualization of research agenda. Studies in this area in emerging economies like India are in nascent stage and are largely inadequate. However, Kandula (2001) has effectively analysed the alignment of HRM with various organizational strategies. Moreover, in the perspective of the IT/ITeS sector, works encompassing case study based analysis (Raghu Raman, et al. 2007) and empirical study (Budhwar, et al., 2006) provide important insight into the perspective on one hand and scope for further study on the other.

## **UNDERSTANDING THE IMPERATIVE LINKAGE BETWEEN BUSINESS STRATEGIES AND HUMAN RESOURCE MANAGEMENT PRACTICES: TRANSLATING CONCEPTUALIZATION INTO EMPIRICAL ANALYSIS**

### **Methodology**

On the basis of the guidelines available in existing literature, two sets of questionnaires titled “*Organisational Business Strategy Questionnaire*” and “*Human Resource Management Practices Questionnaire*” have been developed. The first questionnaire has been designed by considering major issues related to business strategy. The second questionnaire viz. Human Resource Management Practices Questionnaire has considered all major aspects of human resource management and in all 163 HR items have been included in it. This questionnaire has been structured based on guideline available in literature and in this perspective, works of Gomez-Mejia (2004: 64-68); Michie and Sheehan(2005), Khatri (2000), Sanz-Valle et. al (1999) ; Milkovich (2008) etc. that provide an effective summarization of HRM practices, and some other works in similar line have been considered. The “Organizational Business Strategy Questionnaire” has been developed on the basis of the framework based on Pearce II and Robinson, Jr. (2005) that states “general philosophy of doing business by the firm ... must be translated into a holistic statement of the firm’s strategic action orientation” . This can be conceived from two different perspectives namely grand *strategy* signifying the basic direction of an organization’s strategic action that in turn, is based on certain core ideologies that constitute the second perspective. Accordingly, the questionnaire is divided into two parts namely Part I signifying the different areas of grand strategies (Rue and Holland, 1986; Jauch and Glueck, 1988; David, 2002; Pearce II and Robinson, 2004) and Part II signifying the core ideas (Porter, 1980; Miles and Snow, 1984). Expert opinion has been taken in giving final shape to the questionnaires and in the opinion of the authors, both the questionnaires are major improvement upon the existing measures of business strategies and human resource management practices highlighted in the literature. The reliability and validity of both the questionnaires have been measured. These questionnaires have been sent to the CEO/Regional Head and HR head respectively, of different organizations in the IT/ITeS sector that are having operational unit in West Bengal, which is a leading state in India in terms of per capita income, preferred IT destination, industrialization, new investment, etc. On the basis of the responses received, an effort has been taken by the authors to identify whether common HR practices are followed by organizations pursuing same/similar business strategies. Moreover, authors have tried to ascertain the degree to which mutually compatible HR practices exist vis-à-vis business strategies of organizations i.e. the degree to which “complementary HR practices” are followed by organizations with regard to their respective business strategies. The Mean and Standard Deviation of the response to the *Organizational Business Strategy Questionnaire* and response to the different items of “*Human Resource Management Practices Questionnaire*” have been calculated. Correlation analysis has been

carried out in order to give meaningful interpretation to the information collected. The significant values (significant at the 0.05 level) of Pearson correlation coefficients have been used in the analysis. First, the significant values of correlation coefficient between the first five business strategies and the different areas of strategic priority of organizations have been calculated. Accordingly, the significant areas corresponding to each strategy have been tabulated. Then, the significant values (significant at the 0.05 level) of Pearson correlation coefficients between for each business strategy and the different areas of human resource management have been considered in order to examine the linkage between business strategy and human resource management practices. The results have been tabulated in Table 2. Again, the association among the different areas of human resource management relevant to a particular business strategy has been ascertained on the basis of correlation analysis. Further factor analysis has also been used to examine the complementary nature of HR practices. Effort has also been taken by the authors in carrying out qualitative interpretation of the results obtained on the basis of interviews with HR executives of some companies from where responses to the questionnaires have been received.

### Analysis and Interpretation of results

Response to both the questionnaires has been received from 26 organizations in the IT/ITeS sector. On the basis of response received from Part I of the strategic action orientation questionnaire, the mean score and standard deviation signifying the prevalence of business strategy have been computed and on the basis of this, the first five types of business strategies prevalent in the IT/ITeS sector in India are:

	Mean	Standard Deviation
1. Concentration	4.1538	1.0842
2. Market Development	4.0385	.8237
3. Stability	4.0000	1.1662
4. Product Development	3.9615	.9157
5. Global Strategy	3.9231	1.2304

The commonality of the strategies can be justified in terms of the standard deviation and it is observed that the values of SD increase as we move down from the first (most prevalent strategy) to the other strategies considered. Thus it makes sense to select the first five types of business strategies in terms of relevance (mean scores) and commonality (SD). It has also been observed that some of the less prevalent business strategies in the IT/ITeS sector are acquisition, joint venture, conglomerate, diversification, merger, divestment and spin-off because of the fact that these strategies are more prevalent in manufacturing organizations in general.

Results of the correlation analysis between each of the above business strategies and Part II of the questionnaire that contains items relating to the different areas of strategic priority reveal significant associations in terms of a number of areas which have been shown in Table 1.

<b>GRAND STRATEGY</b>	<b>SIGNIFICANTLY ASSOCIATED AREAS</b>
<b>STABILITY</b>	<ul style="list-style-type: none"> <li>• Changing markets</li> <li>• Continuous search for product/service-market opportunities</li> <li>• New product development</li> <li>• Undertaking operations in predictable markets</li> <li>• Product design</li> <li>• Production efficiency</li> <li>• Research and Development</li> </ul>

<b>CONCENTRATION</b>	<ul style="list-style-type: none"> <li>• Continuous search for product/service-market opportunities</li> <li>• Production efficiency</li> </ul>
<b>MARKET DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>• Changing product/service line</li> <li>• New product development</li> <li>• Undertaking operations in predictable markets</li> <li>• Selling customized product/service</li> <li>• Research and Development</li> </ul>
<b>PRODUCT DEVELOPMENT</b>	<ul style="list-style-type: none"> <li>• Continuous search for product/service-market opportunities</li> <li>• Selling customized product/service</li> </ul>
<b>GLOBAL STRATEGY</b>	<ul style="list-style-type: none"> <li>• Achieving economies of scale</li> <li>• Acquiring new customers</li> <li>• Operations in predictable markets</li> <li>• Research and Development</li> </ul>

The factors relating to different areas that are significant in relation to the different business strategy signify the fact that an organization's focus on a particular business strategy calls for greater emphasis on specific areas. For example, in the perspective of organizations pursuing stability strategy, the specific areas are changing markets, continuous search for product/service-market opportunities, new product development, undertaking operations in predictable markets, product design and production efficiency. These signify the temporary nature of stability strategy and organizations pursuing this strategy do not pursue action that denote "do nothing" but try to give emphasis on areas like the ones identified above in order to pursue an alternative strategy in future. Moreover, concentration in the IT/ITeS sector connotes consolidation of activities for which the need to prioritize different areas assume greater significance. In case of concentration strategy, the requirements for continuous search for product/service-market opportunities and action directed towards production efficiency have been observed. This highlights the fact that effort aimed towards the profitable growth of a single product/service in a single market entails organizational action aimed for utilizing product/service opportunities for sustaining the growth and also for achieving production efficiency. Again for a business strategy of market development, which entails carrying out marketing efforts for the present products/services in new markets by adding more distribution channels or by better promotion of the present products/services, the focus shifts to certain other significant areas. Organizations pursuing market development emphasize on changing product/service line so as to enter into new markets and try to enter into market through new product development. At the same time these organizations also pursue actions aimed at undertaking operations in predictable markets. They need to have focus on predictable market although they try to enter into new markets. Again, in order to enter into new markets these organizations take effort for selling customized product/service and accordingly give emphasis on research and development. It has been observed that for organizations pursuing product development strategy that connotes modification of present products/services or developing new and related products/services that can be distributed through the existing channels, the twin issues, continuous search for product/service-market opportunities and selling customized product/service assume greater significance due to obvious reasons. Finally, it has been observed that firms pursuing global strategy try to pursue it through economies of scale signifying the fact that in the IT/ITeS sector, cost advantage through economies of scale is an important consideration for Indian organizations that are trying to carry out expansion of activities in the international market. Again, these organizations, with a view to expand their activities in the international market, try to acquire new customers most probably in the international market but pinpoint the area of operation in predictable markets because there is need to identify the area of operation in the international rather than enter into uncertain areas. These organizations also need to emphasize on research and development which is a basic requirement for offering products/services in the international market.

The response to the Human Resource Management Practices Questionnaire highlights some important areas of HRM that are prevalent in the IT/ITeS sector in India. On the basis of highest mean scores, areas like Permanent Employee contract (Mean: 4.92, SD: .39), Efficiency in the context of workflows (Mean:4.65, SD: .85), Employee training on product knowledge Mean:4.54, SD: .86), Employee training on Technical/Knowledge skills (Mean:4.54, SD: .90), Use of the results of performance appraisal system for determining reward and compensation (Mean:4.50, SD: .86), Systematic assessment of HR requirement Mean:4.42, SD: .76), Long-term focus of training and development (Mean:4.42, SD: 1.14), International Marketing efforts (Mean:4.42, SD: .58), Performance Appraisal by immediate supervisor (Mean:4.38, SD: 1.02), Grievance procedure through human relations approach (Mean:4.38, SD: .70), Employee selection through performance test (Mean: 4.38, SD: 1.06) etc, have been observed to be significant. Some of the less prevalent areas of HR practices in the IT/ITeS sector in India are union acceptance, part-time employee contract, compensation policy on the basis of “lag”, etc.

The results of statistically significant correlation between each of the five prevalent business strategies identified earlier and the different areas of human resource management highlight some important results which have been tabulated in Table 2.

From the table it is clear that there are certain areas of HRM that are common to more than one business strategy while others are unique to a particular business strategy. ‘Permanent’ employee contract appears to be relevant to Stability, Concentration and Product

<b>GRAND STRATEGY</b>	<b>SIGNIFICANTLY ASSOCIATED AREAS OF HUMAN RESOURCE MANAGEMENT</b>
STABILITY	Permanent Employee contract Increasing commitment through induction Settling new employees well through induction Performance standards are carefully developed on the basis of employees' opinion Flexible performance appraisal system Distinct career paths and internal promotion
CONCENTRATION	Permanent Employee contract Training: Supervisory/Management skills Safety Customer service Organization development Employee motivation Team building 360 degree feedback Assessing the performance of employees through Customers' opinion Employees encouraged to suggest product/process improvement
MARKET DEVELOPMENT	Contractual Employee contract
PRODUCT DEVELOPMENT	Permanent Employee contract Selection based on Performance tests Selection based on Trainability Ability to attract as a compensation objective
GLOBAL STRATEGY	Selection based on Performance tests Distinct career paths and internal promotion Employee recognition programmes and awards

Development strategies while ‘Contractual’ employee contract appears to be relevant to ‘Market Development’ strategy. It can be safely averred that permanent employee contract appear to be one of the prevalent human resource management across three business

strategies because activities in the IT/ITeS sector involving stability, concentration and product development are much more complicated than with in-depth emphasis on product and process. For concentration as well as product development strategies, there is need to have human resources who should have a longer 'stay' within the organization. Employees should have an in-depth understanding of process/product/operation which calls for a longer stay within organization and hence the need to procure them under the permanent pay-roll. Moreover, organizations may not prefer to share product/process knowledge with contractual employees. In case of market development that connotes marketing of present products/services in new markets, there is need for quick and tangible performance results from employees which can be better realized from contractual employees. Market development involves a number of stages in terms of operation for which, full time employees may not be required. For various steps in market development, organizations can outsource or employ human resources to get a part of the work done for which employees in contractual pay roll are better suited. In case of stability strategy, permanent employee contract appears to be significant in the sense that for consolidation of activities, there is need to have people in permanent pay roll. In case of stability strategy, which is relevant to many organizations especially during turbulence, there is higher emphasis on consolidation of activities. There is need to see that employees are oriented towards the organizational action and hence the issue of induction becomes important. Contrary to common perception about stability, the importance of the strategy especially in the context of IT/ITeS sector calls for a greater emphasis on a number of areas and hence issues like flexible performance appraisal system, development of performance standard on the basis of employees' opinion emerge as important areas because of the need to have focused human resources who would help organizations to consolidate especially in times of turbulence. Significant association among eight combinations of human resource management practices exhibit complementary HR practices to a moderate extent in the context of stability strategy.

Training in a number of areas like supervisory/management skills, safety, customer service, organization development, employee motivation and team building appear to be significant in case of concentration strategy which is aimed towards the profitable growth of a single product/service in a single market. The reason could be that for increasing the sales of single product/service there is need to emphasize upon skill development of the employees for improving sales activities and that employees are encouraged to suggest product/process improvement all aimed towards enhancing sales. Employees need to deliver better with the current portfolio of services and there is need to emphasize on the quality aspect since there is no option to add new product/services. This can be possible by enhancing the skills of employees and hence training on different areas has to be imparted to employees. Aligned with this, is the association between assessing employees' performance through customers' opinion and 360<sup>0</sup> degree feedback system with concentration strategy which signify the fact that employees have to deliver in order to ensure profitable growth of a single product in a single market. Complementary HR practices in terms of significant association among the different areas of HRM vis-à-vis concentration strategy has been observed. Specifically, high association among all the areas of training with significant value as high as .810 has been observed which highlights highly complementary nature of association in different training areas.

In case of product development it has been observed that selection based on trainability, permanent employee contract and selection based on performance test are significant. It has been observed that along with permanent employee contract; issues relating to selection based on performance test and trainability are significant. The basic reason that can be ascribed here is that for product development, there is need to possess in-depth skill set which can be better ensured at the time of employee selection. The requirements in terms of knowledge, skills and abilities (KSA) essential for product development should be ensured at the time of selecting the employee and hence emphasis is given on performance test and trainability so as to ensure better 'person-strategy' fit. Ability to attract as a compensation objective assumes greater significance because of the fact that for getting the right kind of human resource in terms of KSA there should be proper match with the compensation. In the

context of complementary HR practices vis-à-vis product development, it has been observed that there is strong association between selection based on performance test and trainability. In case of organizations pursuing global strategy, the significant HR factors are selection based on performance tests, existence of distinct career paths and internal promotion and employee recognition programmes and awards within organizations. Global strategy calls for selection of employees fit to cater to the requirements of international market and hence the significance of performance test can be justified. For pursuing a global strategy, where direct control is less, effort should be taken to see that employees are motivated to stay for a longer period within the organization and hence the importance of distinct career path and employee recognition programme. Negative association between global strategy and employee retention as compensation objective, employee assistance for coping with personal problems and ability to attract as a compensation objective. In the context of complementary of HRM practices vis-à-vis global strategy, it has been observed that there is strong association among all the three areas of human resource management that ensures better horizontal fit. Results of factor analysis (extraction Method: Principal Component Analysis.; Rotation Method: Varimax with Kaiser Normalization) reveal that the entire set of significant human resource management practices identified earlier can be clubbed into 5 components which can be conceived as five business strategies identified earlier. The clubbing of HR areas based on correlation analysis and on the basis of factor analysis has resulted in the same number of components (strategies) and the extent of similarity of HR items is nearly 50-60% which signifies the complementary nature of HRM practices to the extent of 50-60%.

## CONCLUSION

The overall analysis of the paper throws some important insight into the linkage between business strategies and human resource management practices in the IT/ITeS sector in India. It has been observed that specific areas of human resource management practices are relevant to a particular business strategy. Thus one important conclusion that can be drawn from this paper is that HRM policies and practices need to be derived from the basic strategic action orientation of an organization. Presently, HRM practices in the IT/ITeS sector are probably in a transition phase, and the practices are presently developing from evolving to maturing stage. More empirical research is necessary to highlight certain other areas of intervention for the HR executives of organizations in the IT/ITeS sector, which is beyond the scope of this paper. Further research may be carried out in the same line in order to examine the nature of linkage in other sectors like manufacturing sector, service sector, public sector etc and different industry categories.

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