Human resource (HR) challenges for the information technology (IT) industry in India

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This paper analyses the challenges human resource faces in Information technology industry of India. The focus of HR practitioners should not be only on to attract, motivate and retain key ‘knowledge workers. But HR practitioners must also play a proactive role in IT industry. Profitability and sustainability of company in long run cannot be ensured without focusing on HR Management practices. This paper adds to the conceptual literature of on the challenges for the HR policies. An implication of this study is the HR policies of the IT companies are not appropriate to deal with the future challenges IT sector in India. This conceptual paper demonstrates that HR policies of the companies are inefficient in managing the key success HR factor for IT sector. This study offers insight into the practices with respect to the HR policies of the IT industry in India.

Key words: Human resource, information technology, India.

INTRODUCTION

The Indian software industry attracted such global interest with the Y2K computer crisis or the millennium bug in 2000. Organizations worldwide needed computer remediation and Indian software engineers were able to provide superior technical services worldwide (Meredith, 2008). Indian software professionals worked closely with several multinational companies (MNCs) on Y2K projects and created high visibility and established incredible credibility for the entire software industry. The quality of work that Indian employees delivered was rated very high and the software industry was identified as one of the best in the world today (Friedman, 2005). India has become an attractive destination for MNCs for several reasons. First, the government’s trade liberalization policy in 1991 was the first major step in this globalization process (Meredith, 2008; Manikutty, 2000). Second, the country has a very well-educated English-speaking work force that can communicate easily with other English-speaking cultures. The British left an undeniable legacy of an English-speaking school curriculum after their colonial rule (Vijayaraghavan, 2008; Khanna et al., 2005). Third, the country’s work force is commended for its high-work ethic-demonstrating a willingness to work 12 h days for six days a week (Zakaria, 2006). Fourth, professional labor costs are much lower in India, almost 25% lower than that in the USA (Gordon, 2002). Global consultants, McKinsey, identified that if a MNC of 1,000 employees shifted its operations to India, the organization would save $18 million in labor costs (Budhwar et al., 2006). The US companies such as Dell and Microsoft are doubling their work force in India bringing increased attention to staffing practices (Frauenheim, 2006). The software industry’s phenomenal growth has brought several human resource management (HRM) challenges right from elaborate staffing to high attrition (Friedmann et al., 2008; Grossman, 2006).

Human resource management faces challenges in Indian software industry. However, this unprecedented growth of the software industry has brought several HRM challenges (Friedmann et al., 2008). First, the number of employees working in the software industry increased from 242,000 in 2002 to 697,000 in 2004 – almost threefold-making staffing a very time-consuming process (Murthy and Abeysekera, 2007; Grossman, 2006). The sheer magnitude and size of recruitment at the entry-level positions is stupendous and on an average annually large
companies recruit about 10,000 entry-level engineers (Schlosser, 2006). Entry-level applicants are subjected to several tests (such as logical, analytical, and communication skills) and interviews before the final applicants are chosen (Grossman, 2006; Schlosser, 2006). HRM leaders spend an enormous time on staffing – almost about 80% of their time on recruitment and selection (Grossman, 2006). Second, as the knowledge, skills and abilities (KSAs) of this dynamic industry are constantly changing, predicting the skills “even two quarters away” seems quite a big challenge (Company D). Organizations rely on line managers’ judgmental techniques to predict future staffing requirements (Companies D and E). Third, scholars suggest (Nancherla, 2008; Agrawal and Rao, 2002) entry-level employees need intense training or a “finishing school” touch to integrate and transit into the corporate. Usually, organizations offer about 12 weeks of training where work-related skills are offered. The Indian educational system also does not sufficiently prepare its graduates for business skills which organizations provide like a “surrogate educational” system (Wadhwra, 2008; Nancherla, 2008). Fourth, there seems to be a perennial shortage of employees and job hopping is very common. Potential applicants usually have two to three job offers and spend considerable time deciding which offer they should accept. Organizations are never certain about applicants’ acceptance of any job offer until the applicants report to work (Grossman, 2006; Agrawal and Thite, 2003). The job attrition rate is around 15 to 20%, which further gets amplified at the lower and mid-management level (Friedmann et al., 2008). Fifth, Indian employees are very brand-conscious and prefer to work for organizations that are well-known. This can be attributed to the assertive national cultural dimension that dictates a very status-oriented society. Indian employees prefer to work for software companies that are identified as the employers of choice (Chokkar, 2007; Brandel, 2006; Agrawal and Thite, 2003). Therefore, employer branding becomes an integral part of the recruitment strategy (Grossman, 2006). Finally, recruiting for mid-level and senior managers is quite a challenge for both domestic and multinational software companies. Software engineers with over three years of experience usually accept more lucrative offers overseas. Further, software professionals have demonstrated a reluctance to pursue supervisory positions and prefer technical positions congruent with their engineering background. The shortage of leaders has prompted organizations to promote high-performing junior employees to leadership positions, albeit they might not be the best candidates (Agrawal and Thite, 2006, 2003).

Agrawal and Thite (2006) in a study of 117 software leadership participants identified several challenges experienced by software leaders such as managing global teams, working on very tight delivery schedules, having work-life balance issues, experiencing communication problems with overseas peers, and accumulating knowledge at a very fast pace. These additional demands could also contribute to the reluctance of employees in pursuing leadership positions. To hire senior talent to work in India, US MNCs usually recruit Indians living in the USA or Europe and offer them lucrative compensation packages. Meredith (2008) refers to such overseas talent as “sea turtles” – animals that are known to usually find their birthing place – and a very attractive recruiting option for MNCs. MNCs lure such senior-level employees with attractive compensation packages of about $200,000 or 250,000 (Frauenheim, 2006).

The information technology (IT) industry is a dynamic and people-based organization where the role of HR management is very crucial and different. It is a job creating industry. Schuler and Macmillian (1986) listed human resource planning, staffing, appraising, compensating, training and development and union management relationships as key HRM practices, which if carried out successfully help in achieving competitive advantage. According to the market researcher data monitor, the size of the worldwide software industry in 2008 was USD 303.8 billion, and in 2013, the global software market will have a value of USD 457 billion. It employs millions of professionals worldwide. The IDC- Nasscom Strategic Review 2010 says that with USD 47 billion of the USD 94 billion global sourcing revenue, India holds the majority share of the global market in technology (IT, ER and D) and business process outsourcing. India has improved its share 49 per cent in 2005 to 51 per cent in 2009 and now has a 62% share of the global business process outsourcing market. India has managed to retain a majority share even with the emergence of multiple new low-cost locations. The Indian IT –ITeS industry employed around 1.8 m employees in 2010.

Being a knowledge-based industry, high intellectual capital lends competitive advantage to a firm. Intellectual capital is the value of a company or organization’s employee knowledge, business training and any proprietary information that may provide the company with a competitive advantage. Intellectual capital is considered an asset, and can broadly be defined as the collection of all informational resources a company has at its disposal that can be used to drive profits, gain new customers, create new products, or otherwise improve the business. Some of the subsets of intellectual capital include human capital, information capital, brand awareness and instructional capital. The IT boom has brought with it, its own set of challenges to organizations like how to put in place systems and processes that are in tune with the IT revolution, how to compete in the IT era etc. But a major challenge that the IT industry has been facing is in the field of human resource management.

Lawler and Ledford (1992) pointed out the advantage of skill based HRM approach which leads the organisation to perform better results in creating core competencies which is an important key to competitive success. Similarly Swierez and Spencer (1992) studies have
showed the contribution of effective human resource system in the creation of sustainable competitive advantage. Martinez (1997) explained that successful business leaders must also analyze how economic and societal changes will affect their businesses now and in the future. The IT industry is a service industry. How well you are able to offer quality service to individuals and organizations will determine the success of your organization. This leads us to the fact that the creativity, innovativeness, knowledge and skills of your employees are your important assets. Effective management of these assets is the challenge that the IT industry is facing. It is not capital or finance or marketing management that gives it the competitive edge but rather how well you are able to manage your human resources whose intellectual expertise drive your business. With a global explosion in market-opportunities in the IT sector, the shortage of manpower both in numbers and skills is a prime challenge for HR professionals. Some of the HR challenges that the IT industry faces are in recruitment of world-class workforce and its retention, compensation management, training and development, employee turnover, technological obsolescence and HRM as a whole.

Recruitment has become an important sub system in HR especially in the IT industry. When human resources are your major asset, it is important that quality people join your organization. How you are able to fine tune your recruitment process in a manner that you are able to get the best talent available and how well you have been able to put various systems in place so that the people that you recruit are a perfect fit for the job and the organization are the major challenges.

The challenge does not stop with recruiting the right persons but extends to the performance management of your employees. The challenge would be to create a performance culture wherein opportunities are provided for enhanced performance and where giving out optimum performance becomes a way of life.

Training and development is another area where challenges arise. Training and development is a key focus area in the IT industry training. In the IT industry training takes a new connotation. It is just identifying training needs and giving the required training, but also foreseeing and anticipating the requirements and develop suitable training so that the employees are well equipped to handle the challenges beforehand.

Table 1. Rising attrition levels.

<table>
<thead>
<tr>
<th>Company</th>
<th>Q1-2010 (%)</th>
<th>Q1-2009 (%)</th>
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<tbody>
<tr>
<td>TCS</td>
<td>13.1</td>
<td>11</td>
</tr>
<tr>
<td>Infosys</td>
<td>15.8</td>
<td>11.1</td>
</tr>
<tr>
<td>Wipro</td>
<td>15.8</td>
<td>9.8</td>
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<tr>
<td>HCL</td>
<td>15.7</td>
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Martinez (1997) explained that successful business leaders must also analyze how economic and societal changes will affect their businesses now and in the future. Broderick (2005) described that in the past, human resources departments were often considered the poor relations of a business, the last to be hired and, more often than not, the first to be cut loose during downturns. Attrition, retention and motivation of personnel are major HR concerns today. Managing attrition has always been a key challenge for all IT companies. Post-recession, the attrition rate (Table 1) in the IT industry has bounced back and it is the major challenge that many MNCs are currently faced with. In October 2010, the all-India attrition rate in the IT industry was up 10% from 5 to 6% in 2009.

Brewster and Larsen (1992) defined the concept of development as "the degree to which HRM practices involve and give responsibility to line managers rather than personnel specialists". So in new scenario the scope of HRM is extended from HR professional to each line managers. There are different causes of high attrition rates such as compensation levels, cultural mismatch, computer vision syndrome, stress, lack of role models in workplace etc. The Gartner group specializing in the management of human capital in IT organizations has observed that the average tenure for an IT professional is less than three years. Further, the use of new technologies, treating employees as customers, the support of learning and training, and a challenging environment ranked higher than competitive pay structures as effective retention practices. A survey of 1028 software professionals from 14 Indian software companies, showed that while the professional gave importance to personal and cultural job-fit, HR managers believed that the key to retention was salary and career satisfaction. Money was a prime motivator for 'starters', but for those into their third or fourth jobs, their value-addition to the organization was more important. Monetarily, offering the best compensation in industry is the minimum every company is doing, apart from performance-based bonuses, long-service awards, and stock options. Many organizations frequently conduct employee satisfaction and organization climate surveys, and are setting up manpower allocation cells (MAC) to assign 'the right project to the right person'. In fact, some are even helping employees with their personal and domestic responsibilities to satisfy and motivate their workforce.

**ATTRITION, RETENTION AND MOTIVATION**

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(2007) indicates that 20% of Cisco’s top Indian talent will move from USA to India by 2010 to take-up senior-level positions in India. Similarly, in 2003 to 2004 approximately 10,000 to 40,000 overseas Indians returned from the USA to their homeland in search of better opportunities and also to satisfy the “sea-turtle syndrome” (Meredith, 2008; Takeuchi and Nomura, 2008). The software industry seeks applicants with specific competencies such as innovativeness, team-building (both domestic and global), and quick problem-solving skills. Further the industry has distinct characteristics such as high attrition, intense domestic and global competition, and a very project-based recruitment approach. Thus, staffing (recruitment and selection) has become a very critical function and domestic HRM leaders are constantly seeking different practices to attract, recruit, and retain so as to have the sustainable competitive advantage (Ghosh and Geetika, 2007)

ATTRACTION THE BEST TALENT

Metzler (1998) studied the changing business environment in 1990’s and the current risk scenario for HR professionals. According to her, human resource professionals are at risk: their future includes dramatically different possibilities – extinction, or a dynamic, critical role in their companies’ success, assisting corporate leaders in navigating the uncharted waters of the new business reality. Turner (2006) examined the context of the role, the needs and opportunities arising from this context and the challenges of becoming a business partner, which are grouped into business challenges like global competition, advances in technology; organizational challenges like alignment of mission, vision, strategy, structure, systems and values; people challenges like attracting, selecting, assessing, appreciating, motivating, challenging, developing, promoting, listening to, supporting, measuring and rewarding. This approach is vital in making sound strategic business decisions. Qualitative people with embedded interests are the key to success for IT companies. In a job market, many organizations often experience precipitous and simultaneous demands for the same kinds of professionals. In their quest for manpower, they are cajoling talent around the world. In such a seller’s market, software companies are striving to understand which organizational, job, and reward factors contribute to attracting the best talent, having the right blend of technical and person-bound skills. This would mean a knowledge of ‘the tools of the trade’ combined with conceptualization and communication skills, capacity for analytical and logical thinking, leadership and team building, creativity and innovation. The Indian software industry suffers from a shortage of experienced people such as systems analysts and project managers, and attracting them is a key HR challenge. The IT sector, whose growth had dived to single digits in 2008, is back on its feet now. Both the IT and information technology enabled services (ITES) sector are witnessing strong hiring trends.

COMPENSATION AND REWARDS

Nelson (2007) explained the competencies required for HR, the ability to maximize results in the competitive environment. He focused on the competencies HR professionals need to have to be effective. Shahnawaz and Juyal (2006) described the different management practices followed by the industry and the challenges encountered during organizational commitment issues. Kuruvilla and Ranganathan (2010) argued rapid growth of the outsourcing industry has resulted in both high turnover and labour shortages and at the same time provided employment opportunities to a new group of employees: young upwardly mobile college graduates. Further argued that this particular demographic profile is prone to high turnover and presents new managerial challenges, and examined the variety of recruitment and retention strategies that companies in the business process outsourcing industry, economies within the next three decades (Meredith, 2008; Zakaria, 2006). The success of the Indian software industry is very instrumental for the global attention the country is receiving today (Meredith, 2008; Friedman, 2005). The focus of the software industry is to provide solutions to their customers worldwide. The industry was predicted to bring around $110 billion worth of business by 2010 (Murthy and Abeysekera, 2007; Babu, 2006).

Compensation management is very important factor in human resource management. Increasing demands of technology coupled with a short supply of professionals (with the requisite expertise) has increased the costs of delivering the technology. This makes incentive compensation a significant feature, with the result that software companies have moved from conventional pay-for-time methods to a combination of pay-for-knowledge and pay-for-performance plans. With the determinants of pay being profit, performance and value-addition, emphasis is now on profit sharing (employee stock option plans) or performance-based pay, keeping in view the long-term organizational objectives rather than short-term production-based bonuses. Skills, competencies, and commitment supersede loyalty, hard work and length of service. This pressurizes HR teams to devise optimized compensation packages, although compensation is not the motivator in this industry. The median annual compensation paid to various IT professionals in India are shown in Table 2.

ENCOURAGING QUALITY AND CUSTOMER FOCUS

In the era of globalization and rapid technological
changes, quality is of utmost importance for the Indian companies, which earn most of their revenues through exports. Quality improvements in IT delivery and service support can be achieved by introducing such considerations as user satisfaction, integration and flexibility early in the decision process and reinforcing them throughout the review process. Hence, the HR professional as a strategic partner needs to encourage a culture of superior quality to ensure customer satisfaction. To be competitive today, an organization needs to be customer responsive. Responsiveness includes innovation, quick decision-making, leading an industry in price or value, and effectively linking with suppliers and vendors to build a value chain for customers. Employee attitudes correlate highly with customer attitude. The shift to a customer focus redirects attention from the firm to the value chain in which it is embedded. HR practices within a firm should consequently be extended to suppliers and customers outside the firm.

UP-GRADATION OF SKILLS THROUGH RE-TRAINING

Rapid and unpredictable technological changes and the increased emphasis on quality of services are compelling software businesses to recruit adaptable and competent employees. Software professionals themselves expect their employers provide them with all the training they may need in order to perform not only in their current projects, but also in related ones that they may subsequently hold within the organization. As observed by Watts Humphrey, Fellow of the Carnegie Mellon University, "as software professionals gain competence, they do not necessarily gain motivation. This is because a creative engineer or scientist who has learned how to accomplish something has little interest in doing it again. Once they have satisfied their curiosity, they may abruptly lose interest and seek an immediate change". And when the rate of technological change is high, higher is the time required to acquire competence in one area. Professionals could undergo psycho-logical turbulence owing to the need to work in a new technology throughout their career. They want to gain new knowledge, which will be utilized by their organization. On the basis of the new learning they want to work in higher segments of software value chain. Therefore, constant up-gradation of employee skills poses yet another challenge for HR personnel. Recently, TCS announced a Rs.1000 crore project to put up a training center of over 15,000 capacity in Kerala while Infosys has plans to further enlarge its learning centre in Mysore.

CONCLUSION

The focus should not be only on to attract, motivate and retain key 'knowledge workers', but also on how to reinvent careers when the loyalty of the employees is to their 'brain ware' rather than to the organization. With lifetime employment in one company not on the agenda of most employees, jobs will become short term. Today's high-tech employees desire a continuous up-gradation of skills, and want work to be exciting and entertaining a trend that requires designing work systems that fulfill such expectations. As employees gain greater expertise and control over their careers, they would reinvest their gain back into their work.

HR practitioners must also play a proactive role in IT industry. Profitability and sustainability of company in long run cannot be ensured without focusing on HR management practices. Having a market approach to managing people is an attempt to transform HR from a maintenance job to a strategic partner in business.

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