

WORKING IN ASIA

Business Models and People Management in the Indian IT Industry

From people to profits

Edited by
Ashish Malik and Chris Rowley



Balancing academic rigour with relevant and reflective practitioner insights, Malik and Rowley have put together a research monograph of great quality. This highly relevant scholarship on the Indian IT industry is timely as this attempts to bridge the research-to-practice gap. This monograph is a valuable collection for researchers and HR managers working in the Indian IT industry. A unique book indeed.

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While many books have identified what makes for effective leadership, few have offered such a cohesive blend of academic and real-world findings as found here. Today's global leader will benefit greatly from the key principles found in *Business Models and People Management in the Indian IT Industry*.

Marshall Goldsmith, *author or editor of 34 books
including the global bestsellers MOJO and
What Got You Here Won't Get You There*

This book is in-depth and thorough and provides a good understanding of the business models and people management in the Indian IT Industry – a must read for IT industry aspirants, scholars, practitioners and policy makers alike.

Jayantee Mukherjee Saha, *Aei4eiA Pty Ltd, Australia*

Thought-provoking, the book presents a unique attempt to bridge practice-to-theory and theory-to-practice gaps through the development of a novel organising framework set against well laid-out expert content and views from both academics and practitioners actually researching and practising in the Indian IT industry.

Rowena Morais, *HR Matters*

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Business Models and People Management in the Indian IT Industry

The global impact of so-called ‘offshoring’, including of information technology (IT) and related services, continues to be a topic of great interest to academics, practitioners and policymakers. The Indian IT industry has sustained high levels of growth in revenues and employment since the late 1980s. Even following the global financial crisis and meltdown in 2008, the industry has reported growth, albeit at a lower rate. Furthermore, the high rates of technological change and increased competition has forced businesses and managers to be innovative and create new business models.

This book examines how managers and entrepreneurs in the Indian IT industry have explored and exploited human capital opportunities at various stages of the industry’s evolution to create innovative human resources (HR) practices and new business models. Based on extensive academic research and deep reflective practitioner accounts, this collection presents expert content, views and a coherent picture of the challenges and changes in the Indian IT industry and analyses how the industry has remained competitive in a constantly changing environment.

This book will appeal to researchers, students and practitioners, particularly in the fields of human resources and strategic management.

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Working in Asia

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Dedicated to my mother, Asha Malik, for her blessings, and my family, Namita, Madhav and Dhruv for their forbearance, love and encouragement.

Ashish Malik

Dedicated to my parents, Jean and Clive Rowley, their support has always been there for me.

Chris Rowley

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Foreword

HR value creation

*Dave Ulrich*¹

We live in a world of increasing change. New organizations like Amazon (founded 1994), Facebook (founded 2004), Google (founded 2005), and Wikipedia (2001) have dramatically changed both personal and professional lives. These new organizations have forced traditional organizations to focus less on hierarchy and more on agility. Organizations succeed less by rules, roles, and routines, and more by speed, learning, and change.

This dynamic volatile, uncertain, complex, and ambiguous (VUCA) world affects both the practice and theory of organizations. Business leaders have to learn to adapt and learn to stay current. They have to create organizations that anticipate rather than react and respond quickly to changing opportunities. Academics, who build theory to explain organization success, need to also evolve their thinking so that their work informs practice.

In this edited volume, Malik and Rowley try to bridge the increasing theory vs. practice gap by examining one of the most dramatic changes in the world today, the Indian IT industry (Kryscynski and Ulrich, 2014). The Indian IT industry is an outgrowth of the rapid world of change, where knowledge and ideas know no global boundaries and where insight can be quickly moved around the world. This IT industry has gone from 1% of Indian's economy in 1998 to 8% by 2012. The Indian IT industry's policy advocacy body, NASSCOM, states that there is now a diverse range of service providers, with more than 15,000 firms in operation (NASSCOM, 2014). This anthology of thoughtful writers works to show that academic theory and business practice may coexist in explaining the evolution of this industry. In particular, this work shows the role of human capital in helping shape the industry. The value of HR comes when HR practices can be used to help an individual, organization, industry, or country accomplish its goals. To deliver HR value and bridge theory and practice, let me offer three observations: (1) take an outside in perspective, (2) clarify outcomes of human capital, and (3) innovate and integrate HR practices.

1 Take an outside in perspective

Most HR professionals have an internal mindset. When we ask them “who are your customers?” they often answer, “the employees.” When we ask them “what

is your great work challenge?”, the answers are often about finding or keeping talent, building talent, or managing compensation. To deliver real value, HR must start with the outside in. This means focusing on the context of business, including social, technological, economic, political, environmental, and demographic trends. These general trends set the environmental context in which HR works. Then, HR should deliver value to key stakeholders both inside (employees, leaders) and outside (customers, investors, communities) outside their organization. By understanding these external stakeholders, HR can align their work to meet their needs (Ulrich, Younger, Brockbank, and Ulrich, 2012). In particular, HR can tie their work to customers (Ulrich and Smallwood, 2007) and investors (Ulrich, in press).

This volume shows the external trends that affect the Indian IT industry. Some of these general trends (e.g., technology) define the industry and other trends (e.g., demographics) determine how firms within in the space.

HR professionals should have a mindset of “outside in” where they focus less on what they do and more on who gets value from what they do.

2 HR outcomes

With an outside in perspective, HR professionals offer unique information, insights, and recommendations to deliver competitive advantage. In formal and informal business discussions, each staff group brings unique insights to drive business results: finance talks about economic performance with information about revenues, costs, and financial returns; marketing discusses customers with recommendations on targeting key customers, customer response (e.g., net promoter score), and customer connection; operations makes recommendations and systems, quality, and supply chain. When HR partners in these strategy discussions, we propose that they provide insight, information, and recommendations on talent (people, workforce, human capital), capability (culture, processes, key success factors, systems), and leadership (Ulrich, 2014).

Talent. At the risk of grossly oversimplifying, let me suggest that there is actually a deceptively simple formula for talent that makes talent more productive:

$$\text{Talent} = \text{Competence} * \text{Commitment} * \text{Contribution.}$$

All three elements of this equation need to be considered and integrated to fully manage talent.

Capability. Talent is not enough. Great individuals who do not work well together as a team, or in their organization, will not be successful. Capabilities represent what the organization is known for, what it is good at doing, and how it patterns activities to deliver value. The capabilities define many of the intangibles that investors pay attention to, the firm brand to which customers can relate, and the culture that shapes employee behavior. These capabilities also become the identity of the firm, the deliverables of HR practices, and the key to implementing business strategy.

Leadership. Ultimately, leaders bring together both individuals and organizations to solve customer problems. But there is a difference between leaders and leadership. The term “leaders” refers to individuals who have unique abilities to guide the behavior of others. Leadership refers to an organization’s capacity to build future leaders. An individual leader matters, but an organization’s collective leadership matters more over time.

When HR professionals are both architects and anthropologists of talent, leadership, and capability, they help build organizations and people who are responsive to changing business conditions. As architects, they create blueprints and frameworks for change; they solve puzzles. As anthropologists, they identify future opportunities, often based on external context, often called mystery seeking.

In this volume, we learn about how talent, leadership, and capability were developed within the Indian IT industry. HR professionals delivered the right people, the right culture, and the right leaders so that these firms could grow.

3 Innovate and integrate HR practices

Ultimately, HR needs to offer integrated solutions to talent, leadership, and capability challenges. These integrated solutions meld together HR practices in people (staffing, training, career management), performance (appraisal, rewards), information (communication inside and out), and work (organization design, governance, physical space). When these distinct HR practices are woven together around increasing talent, leadership, and capability, they will help an organization become more than its individual talent.

Indian IT firms that survive institutionalize their success by creating these HR practices that ensure a flow of talent, leadership, and capability. HR professionals advise business leaders to make this happen.

Conclusion: academia and practice

To narrow the gap between academic and practice, let me offer some modest proposals:

- Start with a phenomenon. Good theory, research, and practice requires a grounding in a phenomenon. Phenomenologists encourage thinkers to experience, think about, and write about what is happening that is of interest to them. The phenomenon may come from observation of an individual, leadership, or organization challenge and often is something that is a bit quirky or unusual. For example, we noticed that two firms in the same industry with similar earnings had different stock prices. This led to exploration of the intangibles in market value which lead to better understanding of how investors derive confidence in future earnings from the quality of leadership, talent, and culture within a company. To get clarity about a phenomenon, I often write (or suggest to others) one to two pages about what I am interested in and why.

- Create a point of view. With clear descriptors, it helps to try to explain why the phenomenon is happening. As noted above, figuring out why two firms in the same industry with the same earnings have different market values lead to a theory of intangibles. I find it helpful to write a page or two about why is this happening? This exercise drives a perception about the potential causes and conceptual rational for the phenomenon.
- Discover other relevant perspectives. Once the phenomenon and explanations are proposed, it is very helpful to review and systematically review what others have said. There are many theoretical perspectives which may inform and predict why things happen as they do. To unravel intangibles, I ended up reviewing economic, investor, and organization literatures. At this nexus we were able to synthesize how others had tried to make sense of this market quirk. By drawing on theoretical underpinning from others, we help position our work in the knowledge network of what others have said. We can also identify specific questions we want to explore that will expand the existing knowledge network.
- Be rigorous in your methods. Research methods and statistical approaches flow from the questions we want to answer. The methods should match the research questions. In our intangibles research, since many of the ideas were exploratory, we did extensive interviews to figure out how investors thought about the problem. This led to other research that helped address the questions we are asking. The research design and methods help offer valid answers to the questions we raise.
- Tie findings back to the problem. Once the studies have been done, it is good to close the loop and return to the original phenomenon. Have we added to the understanding of what is happening and why it is happening? Has our theory and research been able to offer new ways to think about and act on this phenomenon?
- Learn. Learning is the ability to generate and generalize ideas with impact, so it is useful to envision how our work will offer insights to multiple stakeholders. What would those experiencing the phenomenon do differently? In our investor case, what would we say to investors? If we are studying leadership, what would we say to a group of leaders about the topic we covered? What would other scholars in the academic area say? Would our theories and research methods communicate to scholars how theories need to evolve? What is missing in our work? What questions emerge or remain after answering our questions?

These steps are not always linear or explicit and can be adapted to situations. But they show how the connections across theory, research, and practice can be made. In this volume, most of the authors did a nice job by starting with the phenomenon of Indian IT industry and worked to explain this phenomenon with new and innovative theory.

HR value can be enhanced by building an outside in perspective, being clear about HR outcomes of talent, leadership, and capability, and by integrating and

innovating HR. When academics start by trying to understand a phenomenon, they can use theory to guide practice and practitioners can rely on theory to do their work better. This volume offers a marvelous set of readings on this hope.

Note

- 1 Dave Ulrich is the Rensis Likert Professor at the Ross School of Business, University of Michigan, USA and a partner at the RBL Group, USA.

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1 Profiting from people management practices

An introduction

Ashish Malik and Chris Rowley

Introduction

The global impact of ‘offshoring’, including that of information technology (IT) and related services, to developing nations such as India has been a topic of great interest and debate to academics, practitioners and policymakers (Arora and Athreye, 2002; Arora and Gambardella, 2006; Arora, Arunachalam, Asundi and Fernandes, 2001; Athreye, 2004, 2005; Banerjee, 2004; Budhwar and Bhatnagar, 2009; Malik, 2009; Malik, Sinha and Blumenfeld, 2012; NASSCOM, 2014a; Thite and Russell, 2009). The high rates of technological change and increased competition have forced IT businesses and their managers to continuously reinvent their business models. It is through such constant renewal of business models and change management efforts of business leaders that the Indian IT industry has continued to sustain high levels of growth, even in a post-global financial crisis era (Malik, 2013).

From humble beginnings in the early 1970s, the Indian IT industry has come a long way. Current estimates suggest that the Indian IT industry has revenues in excess of US\$118 billion and employs around three million people (NASSCOM, 2014a, b, c). Numerous metaphors have been used to portray the growth story of India’s IT industry, for example, the ‘horse that flew’ (Vittal, 2004), the story of ‘blind men and the elephant’ (Rahman and Kurien, 2007) and ‘from underdogs to tigers’ (Arora and Gambardella, 2006) are among the most popular discourses.

Our book is different from earlier expositions on the Indian IT industry (Arora and Gambardella, 2006; Banerjee, 2004; Budhwar and Bhatnagar, 2009; Thite and Russell, 2009). While these accounts have tended to focus on the supply and demand side dynamics of human capital and related explanations of growth, our collection differentiates on a number of fronts. First, it offers an inclusive theoretical framework for examining the innovative approaches to the strategic management of human resources (HR) in the IT industry. By adopting a number of theoretical frameworks, richer explanations of business models can be uncovered. Second, it offers a much more nuanced view of how managers, entrepreneurs and consultants operating in the Indian IT industry have contributed to exploring and exploiting human capital opportunities at various stages of the industry’s evolution. These diverse groups of stakeholders

implemented numerous changes to business models and HR management (HRM) practices to sustain high levels of growth. Third, it presents expert content and views from academics and practitioners who are actively researching and practicing in the Indian IT industry. Thus, our book is also an unique attempt to bridge the commonly noted practice-to-theory and theory-to-practice gaps (Swanson, 1997) prevalent in the Indian IT industry. Also, following the ethos of the 'Working in Asia' series, it gives 'voice' to organisations and practitioners. Finally, it presents an evidence-based analysis of how the industry has remained competitive in a constantly changing environment. Our book will benefit practitioners, scholars and researchers of management, particularly in HRM and strategic management.

To do this, our book is split into two major parts. In Part I we cover theoretical and empirical contributions from academics highlighting the context, key theoretical approaches, research gaps and empirical contributions covering the key sectors of the Indian IT industry. Further details of Part I are provided in the upcoming sections entitled 'Context: Boundaries in a borderless world' and 'Theory: Theoretical foundations for informing practice'. In Part II we take a more practitioner-based approach with contributions that highlight in-depth experiences of HR practitioners from the Indian IT industry covering a range of topics, such as managing people in IT services and product environments, the role of coaching and organisational development interventions in exploring and exploiting human capital opportunities and how organisations can support development of large-scale generation and management of innovative approaches to business and people management. Further details of Part II are provided in the upcoming sections entitled 'Practice: Bridging the research-practice-theory-research gap', 'The critical role of leadership and change management' and 'Integrating new knowledge into a coherent assemblage'. The different emphases of these chapters suggests the need for a different chapter structure and format through which the key messages are communicated. Nevertheless, for a comparative snapshot, we provide below a summary in Table 1.1. This provides readers with a quick overview of the book's content and journey.

Business models and people management practices

From our review of the literature on strategic HRM, there is an extremely limited body of research that explicitly links HRM practices to a firm's business model and its key elements for creating and realising value (Bae and Rowley, 2003; Cascio, 2005; Clark, 2009; Hunter, 2006). This gap in the literature is rather strange, especially as there have been calls for linking HRM practices and firm performance (Buller and McEvoy, 2012). While we acknowledge there are numerous factors that create and realise value in a firm's business model (Johnson, Christensen and Kagermann, 2008; Zott, Amit and Massa, 2011), we believe there is merit in furthering our understanding of how various sets of HRM practices contribute to a firm's business model (Johnson *et al.*, 2008). By developing such an understanding one can make critical advances in the HRM–performance debate and explain how

Table 1.1 Business models and people management in the Indian IT industry

Chapters	Key emphasis	
1	Profiting from people management practices	Organising framework for the book
Part I		
2	Context and evolution of the Indian IT industry	Theoretical review focusing on context and industry evolution
3	Skills, strategy and people management in the IT industry	Theoretical foundations focusing on key HRM, strategy and HRD studies
4	HRM and firm performance: the case of Indian IT/BPO industry	Theoretical propositions for high-performance work practices paradigm
5	Orchestrating human capital in the Indian IT service market: from entrepreneurial management to professional management	Empirical findings tracking changes in managerial orientation for exploiting human capital opportunities
6	Innovative HR practices: evidence from three IT software services organisations	Empirical study highlighting key innovative HRM practices in IT services firms
7	Innovative people management approaches from three software research and product development firms	Empirical study highlighting key innovative HRM practices in product development firms
Part II		
8	Managing people in an IT software services environment	In-depth and reflective ethnographic insights on the role of skills in IT services firms
9	Managing people in an IT product and research and development environment	In-depth and reflective ethnographic insights on critical HRM and leadership practices in software and product development firms
10	Process consulting and adaptations of organisation development in the Indian IT industry	Case studies of role of organisational development interventions in the Indian IT industry
11	Senior management mentoring and coaching for exploration and exploitation	Case studies of the role of executive coaching in supporting exploration and exploitation behaviours
12	The world's largest 'ideapreneurship TM ': putting employees first so the customer never feels second!	Practitioner insights of how to manage innovations and new ideas in a large IT product and service environment firm

13	Towards an integrated model of human capital development for business model innovation: synthesis and new knowledge	Synthesising the findings to highlight (1) the HRM practices conducive to exploration and exploitation; and (2) key HRM practices that support business model innovation

each element of a firm’s business model can be supported by certain HRM practices. Through our review and analysis of the research on business models in the Indian IT industry, we map the key stages of business model evolution, shown in Figure 1.1.

Applying the resource-based view approach (Barney, 1991), it is critical to understand how firms create and realise value through unique HRM configurations and practices. Our review of business models suggests that in addition to changes in HRM practices, certain practices from organisational development, change management and HR development (HRD) are needed to gain a fuller understanding of how firms undertake business model innovations. Evolving business models require concomitant changes to an organisation’s HRM practices to be able to successfully deliver new customer value propositions. Achieving this transition is never easy as firms have to undertake a number of changes not only in the way they attract their talent but also how they modify work design, HRD and retention strategies. For example, the nature of HR that were recruited and developed for the early stages of the ‘body shopping’ era were very different from the industry’s ‘Client locale to service provider locale’ business model, as in the latter stage firms needed to attract and develop a very cost effective and trainable pool of technical resources, with strong programme and project management capabilities to deliver global IT services from Indian markets. Similarly, in the maturity stage of the ‘anytime, anywhere’ or the global service delivery business model stage, a very different set of specialised domain and business development skills and international HRM practices are needed for managing young expatriates. Finally, in the current stage of the industry’s growth, ‘Crowd and cloud’, the management of disruptive

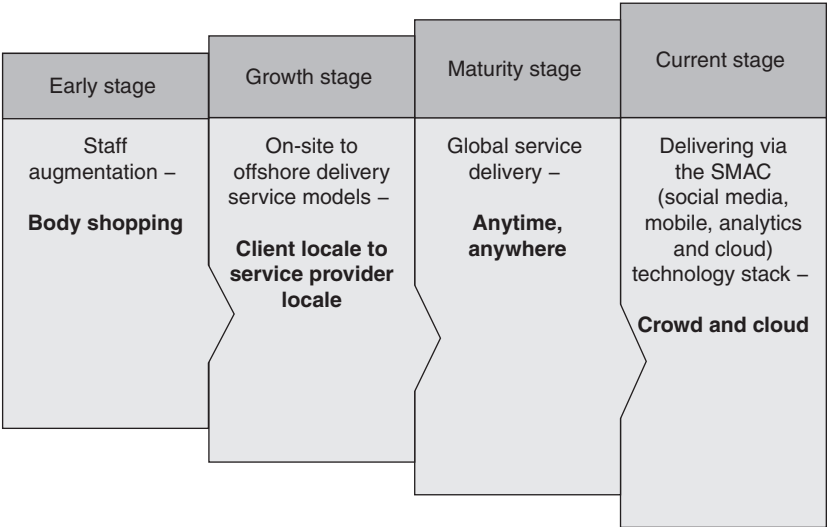


Figure 1.1 Indian IT industry: mapping business model transitions.

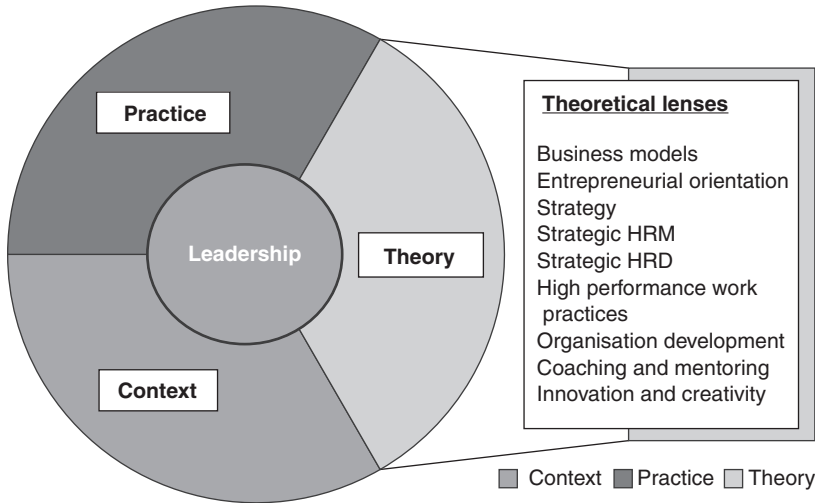


Figure 1.2 Profit through people: an organising framework.

technologies such as SMAC (social media, mobile, analytics and cloud) services poses real opportunities and challenges and requires a very different skill base for crowdsourcing of ideas and engaging in open innovation, something the industry has not been very familiar with so far (KPMG, 2013). To this end, we develop a novel organising framework for understanding the relationship and interplay between theory, context, practices and leadership for sustaining high performance through people management practices, as shown in Figure 1.2. The role and important context of country, culture and competence, for leadership in Asia is also outlined in Rowley and Ulrich (2012).

The following section briefly explains the importance of each of the four components of the framework, with specific references to the relevant contributions covered in our book.

Context: boundaries in a borderless world

The strategic choice a firm can exercise is limited by the nature of its institutional environment and the strength of its dominant coalition of stakeholders (Kochan, McKersie and Cappelli, 1984; Nilakant, 2005). The importance of context is understated in a number of theoretical models of strategic HRM that often adopt a prescriptive best-practice model approach (Huselid, 1995; Pfeffer, 1998). Others have argued for the active role of human agency in managing institutional pressures and achieving a better strategic fit (Boon, Paauwe, Boselie and Den Hartog, 2009). To this end, our collection begins by analysing the Indian IT industry's contextual environment in Chapter 2. Highlighting the importance of context and the evolution of the Indian IT industry, this chapter traces the

evolution of four generations of the industry. It highlights how certain actors and institutions have facilitated dealing with the contextual barriers and institutional pressures faced by the industry. These actors, or the human agency, created opportunities for developing an expansive environment, which provided much needed leeway for industry leaders to develop and expand their strategic choice options. The chapter presents an account of how India's resource endowments, institutional dynamics and deliberate choices, as well as the confluence of certain happy accidents, all shaped the development of the IT industry. The change in the landscape in a post-2008 global financial crisis is also examined briefly.

Building on the role of human agency in an institutional environment is Chapter 5, covering the role of **entrepreneurial and managerial talent in orchestrating human capital opportunities**. It draws upon a long association with the senior executive boards of successful IT companies in India, traveling often between customer locations in the USA and talent locations in India. It provides a longitudinal account of how strategic HRM practices, its drivers, choice-points and possible errors all variously affected the Indian IT industry's ability to create global impact. It notes the role played by senior leadership and entrepreneurial talent as critical in the evolution of the industry and provides examples of how the leadership successfully orchestrated the exploration and exploiting of human capital. It discusses how the industry's managerial talent conceived opportunities for growth, as well as shaped the way for strategic HRM in support to the industry.

Theory: theoretical foundations for informing practice

Studies of strategic HRM have provided support for the relationship between HRM practices, competitive strategy and firm performance (Becker, Ulrich and Huselid, 2001; Becker and Huselid, 2006; Delery and Doty, 1996; Huselid, 1995; Paauwe, 2004; Pfeffer, 1998; Schuler and Jackson, 1987; Wright, Dunford and Snell, 2001). These studies have emphasised various aspects of the classic performance equation ($\text{Performance} = f(\text{ability, motivation and opportunity})$), often employing numerous theoretical underpinnings for explaining the relationship between HRM and performance. Notable among the key theoretical perspectives include: human capital theory, the resource-based view, transaction-cost theory and numerous versions of high performance work systems (HPWS) models, including adopting a quality management-oriented HPWS bundle (Barney, 1991; Becker, 1964; Malik, 2009; Williamson, 1975; Wright *et al.*, 2001). **Acknowledging the multidisciplinary lens needed in explaining the HRM and performance link**, Chapter 3 presents the relationships between skills, strategy and HRM in the IT industry. An inclusive framework is used to analyse the key theoretical propositions relevant for the born-global, high-technology professional services IT industry. A case is made for adopting a multidisciplinary approach wherein human capital exploration and exploitation opportunities can be better understood by examining a firm's business development, operations and human capital management functions. Such an approach allows for a rich and holistic