Ownership and Market Experience Influences on Indian IT Outsourcing Firms: A Preliminary Investigation

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Abstract-India still remains the top destination for information technology (IT) and business process outsourcing; however, the landscape of Indian IT outsourcing (OS) industry is changing. As Indian IT firms continue to expand into the global market, multinational corporations (MNC) in the IT industry are increasing their presence in Asia, especially India, beyond captives. This changing structure of the Indian IT OS industry provides a rich context for a preliminary investigation into whether the location of ownership and the scope of market experience impact the drivers of performance. We use structured interviews to assess the differentiating strengths of local (Indian) firms. The results of this investigation point to differences in how Indian IT firms and subsidiaries of MNCs operationalize elements of the performance drivers. We develop propositions based on the findings and provide directions for future research to further develop and test these propositions.

Keywords- IT Outsourcing; India; Ownership; Market

I. INTRODUCTION

Growth in IT spending improved modestly with the end of the global recession in 2009, with a 2.0 % overall increase in growth rate in 2010. This slow growth is expected to continue at a projected rate of 4.9 % for 2010-15 [1]. Some areas such as network consulting and integration are expected to grow at a faster pace, while IT outsourcing is expected to grow at a moderate rate of 3 %. The drop in the growth rate reflects a significant drop in the contribution of US companies to outsourcing spending to 33 % from 58 % seven years ago. On the other hand, IT spending has increased in the Asia-Pacific (APAC) region, with spending in India expected to increase by 9.1 % to about $ 80 billion [1]. As a result of these IT spending trends, multinational corporations (MNCs) are seeking to establish themselves more firmly in the developing regions as service providers for local growth, while Indian IT outsourcing (OS) firms are also now focusing more on Indian companies to expand their services [2].

Past research about the Indian IT OS industry has focused on the history of growth of Indian IT OS firms and discusses the reasons for the growth, particularly the cost advantage, language advantage, education, and the role of governmental programs [3-5]. A number of studies also use the Indian IT OS context to examine offshore outsourcing arrangements as a method to alleviate the impact of the cultural distance between outsourcing partners and the clients [6-8]. The impact of differences in cultures between clients and outsourcing partners has also been studied in the Indian IT OS context [9]. The Indian IT OS context has also been used to study the dynamics between onsite and offshore teams as well as between colocated client and vendor teams as they work together towards the same goal [10]. Researchers have also studied the impact of management capability, human resource practices, organization structure, and partnership quality on the performance of Indian IT OS firms [11-14]. Finally, prior research also discusses the challenges faced by the industry as it loses its cost advantage, struggles to find skilled workers, suffers from poor governmental planning and regulations, and faces competition from other countries and regions [15, 16].

While some of the previous research includes the study of MNCs in the Indian IT OS context (example: [12]) the focus of such studies has been to elucidate the role that competition from MNCs has played in developing the capabilities of Indian IT OS firms. Given that the structure of the Indian IT OS industry is experiencing a change in players and their role in the competitive environment, this research performs a preliminary investigation into differences in the experiences of employees of Indian firms and MNCs in areas that have shown to impact firm performance. In particular, we use structured interviews of employees to investigate differences that exist in customer focus, process management, and work culture and human resource practices. The results of this investigation would provide insights into the gaps that exist for Indian firms and MNCs as they compete in the IT OS industry.

In the pages to follow the author briefly reviews the changes in the Indian IT OS industry, discusses why differences in ownership structure and type of client might lead to different experiences for organizations and employees. The paper continues with the discussion of the method and results based on interviews with employees of IT OS firms. The paper concludes with implications of this research and suggests future research avenues.
II. CHANGES IN THE INDIAN IT OS INDUSTRY

Indian IT firms launched their success initially by undertaking outsourced routine, back office transactions, taking advantage of the low labor cost and government incentives. In the past few decades Indian firms, especially the big three (Tata Consultancy Services, Infosys, and Wipro) have grown rapidly with an aggregated revenue of $ 20 billion. A large part of this growth has been due to expansion into value-added services such as customer relationship management (CRM), systems integration, business process outsourcing, consulting, and end-to-end verticals [17, 18]. As the firms venture into such expanded services, they have engaged in nearsourcing by hiring local (US) workers for offices in US locations [19] or in South America that are closer to their largest clients and have adequate supply of trained workers.

The expansion of Indian IT OS firms into non-routine services has reduced the productivity of the workers since they are no longer involved in just repetitive tasks. As a result of this drop in productivity, the average income per employee has declined to much lower levels compared to their global competitors [18]. Further, such expansion requires workers with better and more diverse skills, especially soft skills such as communication and teamwork. This change in skill sets needed, along with the demand for workers from MNCs has resulted in demand outstripping supply of talent leading to an increase in wages. In fact, salaries in the IT and outsourcing sector in India rose by about 12 % in 2011 [20]. Along with the wage increases, the Indian firms face increase in attrition rates as they lose employees to MNCs [17].

Even with these changes in the global IT industry and work force requirements, India still remains the center of offshoring activity [21]. However, the change in the contribution of the western countries versus the APAC region countries to outsourcing spending, competition from MNCs for business process outsourcing (BPO) and verticals contracts in the local and global market, rising labor costs, and the planned increase in value-added services makes it necessary for Indian IT firms to reassess and change their strategies in order to continue with their growth in the global BPO and IT outsourcing market.

Some of the growth in Indian IT industry revenue has been bolstered by the growing domestic (Indian) IT market [22]. With the growth in Indian domestic IT spending, MNCs, which had retreated from use of its captives, are back now seeking to capture some of the business of local IT needs. There are three strategies that MNCs have used to increase their presence in the IT outsourcing industry. First, they have used mergers and acquisitions with small firms to consolidate their offerings [1]. In the past five years IBM has spent over $14 billion in similar acquisitions to bolster its Software Group [23]. The objective of such mergers is to build IT and business process capabilities that enable the company as it enters IT verticals market and provide clients with a broad scope of offerings as well as one-stop shopping. Second, big hardware focused companies such as Dell and H-P are now entering the software and services sector to combat the slow down in the PC market [24, 25]. Once again, this expansion is accomplished by acquiring small firms with these capabilities in the local markets. These acquisitions point to Dell India’s aggressive plans to offer IT solutions to small and medium enterprises in India [26]. Third, offshore captives are making a comeback. During the economic downturn, large MNCs shed their captive operations and entered into contracts with local IT firms as a way to raise capital. In 2011, however, there has been an increase in captive operations. These new captives are more likely to focus on specialization and innovation, rather than on just low cost operations. MNCs now are hiring to expand their employee base in India as they make their foray into the Indian IT market [26]. They are starting to find success as indicated by IBM’s success in getting the $2.5 billion outsourcing contract with Bharti Airtel, India’s biggest mobile phone company [27]. The MNCs, however, face the challenge of shifting from their “low cost” focus to market and product innovation.

As the above discussion highlights, the landscape of the Indian IT OS industry is changing with increased competition for local and global IT OS from both Indian firms and MNCs. These two types of firms have followed different paths to arrive at this stage of competition. MNCs initially saw India as a low cost solution to their IT needs and Indian firms, till not long ago, used low labor cost to compete in the global IT outsourcing industry. In this research, we use structured interviews of middle level managers located in India to answer the broad research question, “what are the similarities and differences between local IT firms and offshore units of multinational IT firms in how they manage their customers, processes, and people.” Understanding the differences would help us evaluate the strengths and challenges for local firms and MNCs as they face structural changes in the global IT OS market.

III. OWNERSHIP AND MARKET EXPERIENCES

As discussed in the previous section, the firms in the current Indian IT OS industry have different ownership structures. Indian IT firms are mostly wholly owned by Indian corporations. MNCs, however, participate in the industry either as independent units of a MNC or a fully owned subsidiary of an MNC. Literature points to the influence of the ownership structure of the MNC units on the autonomy in decision-making, strategic focus, and the customer focus of a subsidiary. For example Askin and Masini [28] discuss the various paths of ownership structures of subsidiaries of MNCs that are setup offshore. MNCs might set up captives, which are units focused on taking advantage of the low cost structure in the offshore locations. These units are cost conscious [28] and seek cheap competencies [29]. Such captives might develop governance structures with the parent firm to become “partly autonomous” and be managed as a separate business unit while still depending on the parent firm for most of its business and finances [28]. If such autonomous subsidiaries are set up as separate profit centres and also do business with other customers, then they tend to be more innovative and customer centric [28].
The markets in which IT OS firms operate impact, not only the strategic focus, but also the importance of the different elements of the performance drivers. Different type of products or services a firm supplies result in different market experiences. A firm that meets consumer market needs, gains experience in using market information to make choices in product features, pricing and communications with the consumer markets. A firm that produces customized products or services, pays particular attention to building customer relationships, ability to discern particular customer needs, and design products and services to meet these needs. Prior literature identifies the level of “heterogeneity” in the product or services as well as the dynamic changes in the needs of the customer impact the degree of market orientation of the firm [30]. The efforts made to gather and disseminate information [31], or type of activities in customer orientation and inter-functional coordination [32], would vary with the variety of the product and the rapidity in the changes in end user needs. The more experienced a firm in the global market through serving the needs of foreign customers, the more international its customer base. The internationalization of the customer base impacts the learning orientation of the firm and its employees, resulting in behaviours that are more customer-focused and culturally sensitive [5]. This global orientation also results in better performance through improved relationships with clients, improved process management, and better human resource practices to adapt to global market needs and standards [5, 14].

Based on the above discussion, we would expect to see differences in customer focus, process management efforts, and type of human resources practices among firms in the Indian IT OS market based on the ownership of the firm, the types of products produced, or clients and the extent of international market experiences. Investigating these differences is the objective of this research.

IV. PERFORMANCE DRIVERS FOR OUTSOURCING

A review of the operations management and IT outsourcing literature was conducted to identify pertinent performance drivers to be investigated. The literature points to three main areas that impact the performance of outsourcing firms: customer / market focus, process management, work culture and human resources capabilities.

A. Customer Focus

Being customer centric would include actions ranging from just listening to the customer to understand their needs to a set of complementary actions that focus on building and enhancing the quality of the firm’s relationship with the customer. Levina and Ross [33] conclude that development of the set of capabilities to improve customer relationships is a strategic benefit to IT outsource providers. Oliveira and Roth [34] tested the impact of market focus on the service orientation of firms engaged in business-to-business ecommerce and found that understanding customer needs and jointly solving problems with the customer leads to better service orientation. Han et al [35] conclude that higher client management capability (sharing project status and solving issues jointly) of the IT OS firm leads to better outsourcing performance, especially when this capability is complemented by good vendor management capability of the client. Raman et al [14] and Lahiri et al [13] identified that a cooperative relationship, good communication and trust with the client have a high impact on outsourcing performance.

B. Process Management

Previous research points to the need for good process management principles to improve the quality of the developed product and outsourcing success. Levina and Ross [33] conclude that development of clear methods and dissemination of these methods is a capability that vendors of IT outsourcing develop to give them strategic advantage. Issac, Rajendran and Anantharaman [36] tested the impact of identifying key processes and monitoring them, focusing on cycle time reduction, making processes defect free on the quality of the software, and the satisfaction of the user. Vitharana and Mone [37] found that clear documentation and monitoring of processes with appropriate metrics are important to successful information systems development. Askin and Masini [28] discuss the impact of effective process management in improving the efficiency and reducing cost of offshore captives of multinational firms. Lahari et al [13] identify that clear norms, systems, and structure that help maintain control over operations influences outsourcing service providers’ performance. They operationalize this ability by the CMM certification status of the firm. Oliveira and Roth [34] identify process management as influential in developing the service orientation of firms engaged in e-commerce.

C. Work Culture and Human Resources Capability

Levina and Ross [33] identify human capital in the form of personnel development is an advantage that vendors gain through their outsourcing work. Issac, Rajendran and Anantharaman [36] identify an organization structure that minimizes bureaucracy and encourages openness and trust among employees and between employees and management, empowerment of employees to express opinions freely, employee training in technical, quality, communication, and problem solving skills, and good coordination between project teams as enablers of the successful completion of outsourced software projects. In addition to adequate employee training, Vitharana and Mone [37] show that employee evaluation and rewards based on quality result in higher IS quality. Mathew et al [38] identify concern for employees, empowerment, trust and an infrastructure that facilitates higher level of learning leads to higher employee satisfaction and hence improves firm performance. Lahiri et al [13] conclude that human capital (education, training, knowledge, and certification) impacts the performance of IT outsourcing firms. Raman
et al [14] conclude that management’s concerted effort to select, train, develop, and appropriately reward employees results in better performance among offshore service providers. Oliveira and Roth [34] conclude that effective human resources policies that support the development of human capital and rewards employees lead to better service orientation in firms engaged in e-commerce.

The above discussion points to the importance of the three factors, customer / market focus, process management, work culture and human resources capabilities, to an outsourcing firm’s success. We used the above literature to develop a list of questions, provided in Table 1, for a semi-structured interview. These questions were used as a guide to solicit the interviewees’ perception of their work environment.

TABLE 1 INTERVIEW QUESTIONS

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<th>Category</th>
<th>Questions</th>
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<tr>
<td>General</td>
<td>Name:</td>
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<td></td>
<td>Organization:</td>
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<td></td>
<td>How many years in this firm? In this profession?</td>
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<td></td>
<td>Level of management:</td>
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<td>Services Provided</td>
<td>Who are your customers?</td>
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<td></td>
<td>What kind of IT services do you provide?</td>
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<td></td>
<td>How would you rate the quality of your products in general? How satisfied are your customers?</td>
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<td>Is it usual for projects to be on time, or is there a push (rush) to keep the schedule?</td>
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<td></td>
<td>What actions do you take in your job to maintain a customer focus? How involved are the customers in the development process?</td>
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<td>How often do you interact with the customer? At what level of the organization?</td>
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<td>Work Processes</td>
<td>Are there standardized procedures you (and everyone) follow in developing the different aspects of the product?</td>
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<td>Along with product development, does your organization track performance measures such as time, cost, number of defects, cycle time achieved and share these standards throughout the organization?</td>
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<td>Work Culture</td>
<td>How would you describe the work culture – friendly, supportive, trusting, shared responsibility?</td>
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<td></td>
<td>Is the decision making process inclusive (or top down)?</td>
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<td>Do you feel empowered to make decisions? Are you given sufficient authority to make decisions that will benefit the customer?</td>
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<td>HR Practices</td>
<td>Do you receive adequate training? What kinds of training do you receive? How often?</td>
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<td>Do you feel that you are well and fairly rewarded for the work you do?</td>
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<td>What is the basis of the reward? (time worked, meeting performance standards, finding innovative solutions, customer satisfaction)?</td>
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<td>What other (than monetary) rewards and recognition are provided?</td>
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<td>Are people generally satisfied with the company? What are some of the reasons people leave the organization?</td>
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<tr>
<td>Quality Standards</td>
<td>Are you familiar with the capability maturity model? What level of CMM has your company achieved? Who drives it? Are you involved?</td>
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V. RESEARCH METHODOLOGY AND SELECTION OF PARTICIPANTS

The objective of this research is not to test propositions or hypotheses, but gain insights and help determine if there are differences in how performance drivers are implemented based on ownership and market experiences. While prior research indicates that differences are expected, these differences have not been investigated in the context of offshore outsourcing, and particularly the Indian IT OS industry. Further, the current research examines the application of a more contemporary phenomenon in a real-life context. In such instances, the researcher seeks to understand the experiences, attitudes, and beliefs of persons engaged in the context to gain insights into the application of the phenomenon in the particular context. Interviews of managers working in the industry provide opportunities to discuss the elements of the theory being investigated, while allowing for the expansion and adaptation of the questions to the experiences or perceptions that are discussed by the interviewee. Interviews to gather information for inductive methodology employed in this research experience has been suggested and used by researchers in operations management and general management [39], [40]. We followed the steps suggested by Rowlcy [41] in identifying the research questions, scheduling and conducting the interviews, and analysing the data gathered.

Strategic choices made such as location of operations, choice of services, and choice of customers are important considerations when planning the positioning of a firm in the market place. However, since one of the primary concerns of most organizations in the Indian IT OS industry was the availability of skilled workers, we focused our investigation on the assessment of the skills and experiences of the employees themselves, rather than the strategic choices. In this research we gathered information from employees with more than 5 years experience in the IT industry.
We sent out requests for interviews to fifteen middle level managers working for Indian firms and MNCs in two cities in India. We had positive responses from ten middle level managers, of which six interviews were completed. The information about the interviewees is summarized in Table 2. Of the six interviewees, three worked for units of MNCs headquartered in the US and three worked for Indian firms. Of the three employees of MNCs, one was a team manager in a unit that supported IT outsourcing related to verticals, particularly banking and retail; two worked for units of MNCs that produced consumer products for the global (and Indian) market. All three interviewees from Indian IT firms were mid-level managers. Two of them worked for large Indian IT firms with global operations and clients. Most (about 80%) of the current work supported by these managers was for IT outsourcing supporting foreign verticals; 20 % of the work supported Indian verticals. One interviewee worked for a small Indian IT firm that provided transaction-processing support for local IT firms.

<table>
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<th>TABLE 2 INTERVIEWED EMPLOYEES</th>
<th>Ownership</th>
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<td>Foreign – Customized (Verticals)</td>
<td>Foreign</td>
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<tr>
<td></td>
<td>Indian</td>
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<tr>
<td>Foreign – Consumer Market (Product Developers)</td>
<td>Foreign</td>
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<tr>
<td></td>
<td>Indian</td>
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<tr>
<td>Local firms</td>
<td>Foreign</td>
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<td>Indian</td>
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Interviewees received a copy of the structured questions prior to the interview. As the questions in Table 1 show, the interviews focused on the employees’ perception of the firms’ perspective on the three performance drivers, namely customer focus, process management, and work culture and human resources practices. During the interview, the researcher and interviewee explored these questions in detail, based on the interviewee’s experiences. All interviews were conducted over the phone and lasted about ninety minutes. All interviews were recorded and then transcribed. Common themes were identified across all interviews and the exact responses related to these themes were tabulated for comparative analysis. The results discussed below are derived from the analysis of the tabulated information.

VI. RESULTS

A. Customer Focus

In the case of the two units of MNCs that developed consumer products for the global market, the customers were identified as the end users, mainly consumers, and sometimes other businesses that used their software products. These firms gathered information from the consumers through focus groups and trouble tickets related to the products. While the interviewed managers are provided information about the consumer ratings of the products, they were not involved in the focus groups and surveys of customers. They receive detailed specifications for the product to be developed from processes used by various groups that analysed the data from the customers.

“It starts off with this paragraphs of a wish list or something like that, and lots of teams discuss that and they percolate to the requirements so we finally see them in that form. Lots of teams get involved in various stages. Feasibility is very important; whether we need to get this into this cycle, or which product and lot of decisions have to be taken by the management. So all that gets done, and finally the end result will be an accepted requirement.”

“My focus is completely different. I just get it from the specs.”

In the case of the MNC and the Indian IT OS firms engaged in developing IT vertical systems for foreign customers, the customers were involved in the process from design to testing. However, in the case of the MNC, the interviewee’s contact was mostly with the onsite team members who were located in the foreign customer’s workplace. They discussed the customer feedback and expectations with these onsite members. On occasion, when the issues were complicated they were involved in the meetings with the onsite team and the client, but this was not the norm.

“Customer….actually in our case we have a direct interaction with onsite team from our firm. So we directly share the metrics with them, and we let onsite people deal with the clients.”

The employees from the Indian IT OS firms had more direct contact with the clients. Although there was an onsite team from their firms located at the client sites, all client meetings involved both the onsite and offshore development teams.

“…even if you have a conference call or conference meeting on the phone, you will have both onshore and offshore team members as well as your client manager on the phone”

“On an average most client meeting or client conferences happen at least twice a week.”

The interviewees indicated that they fully participated and even got to know the client managers very well in the early phase of the project. One interviewee indicated that the offshore employees “were encouraged to socialize with the clients when they visited India to help them understand their culture.” This engagement certainly, in their opinion, enhanced their
ability to participate in the client meetings even though they were not face-to-face for most of the project duration. Further, when the project for the client has specifications particular to the client (for example, if “there is a specific design and standard for information security”) then the team members selected for the project undergo specialized training and testing. The other Indian firm employee stated that the degree of contact with the client team is about the same for Indian and foreign clients; the difference was the mode of contact.

The findings point to the fact that the market experience of the firm impacts the customer focus of the employees. For product developers, the customer is the consumer; in such cases the employees are aware of the level of customer satisfaction and the customer needs, even if they are not directly in contact with them. However, the product developers are not involved intimately with the process of translating user needs (market information) to design specifications. Well-developed interfunctional coordination is needed to ensure effective product specifications in this case. For firms producing customized products, such as IT verticals, there is a great degree of direct customer contact, even with foreign clients. This analysis leads to the following propositions.

P1: When the firm produces consumer products, the quality of inter-functional coordination could have a high impact on customer orientation.

P2: When firms produce customized products in international markets, customer relationship management and interpersonal skills of the employees have a high impact on customer orientation.

The ownership structure of the firm also impacts the degree of customer contact. In all cases studied, the employees are customer-focused and aware of their needs; however in the case of Indian IT firms, the employees have more direct contact with the customer, leading to an increase in customer focus in their decision making. MNCs offshore employees’ understanding of customer needs and satisfaction is based on the knowledge shared by nearshore employees.

P3: When firm ownership is dispersed, communication mechanisms between teams in different locations influence customer orientation of the product.

B. Process Management

All the interviewees indicated that they use standard processes and procedures to develop features for a product or the information system for the client. The work, even in the case of the two product developers, is planned as a project with clear schedules.

The differences in process management between the firms was in what drives the processes, procedures, and planning. In the case of the interviewees (for both foreign and Indian ownership) involved in developing information systems for clients’ verticals, the processes and procedures were driven by the CMM knowledge base. In the case of the foreign-owned firms, the schedules were updated weekly with a goal of being within 80% of the planned schedule. Both time and quality (number of defects and successful closure of trouble tickets) were tracked. In the case of the two Indian firms developing systems for client verticals, the reuse of code from the firms’ knowledge base was also tracked in addition to schedule, quality, and cost. The reusability of code was clearly identified as important from a cost, as well as time, perspective.

“We call it knowledge management, and we have a huge list of all the knowledge artifacts that we have created across locations. So before any project, we are strongly encouraged to find out if you can reuse something.”

In one of the Indian firms, projects are evaluated and rated by an internal CMM audit team. This audit process and audit ratings ensures that standard conventions are followed throughout the project.

“...but every project is evaluated at CMM level 1, 2, 3, 4, or 5. Auditors check if you are reusing code; if you have followed the knowledge management processes, you would get a better rating. So we make sure that all team members are reusing available codes, following naming conventions, and storing work on a central deposition. So every single process, or step is checked frequently and evaluated.”

In the case of the product developers, the processes and procedures were not driven by CMM standards, but monitored similar to marketing projects for budget, time, and quality of the end product. Finally, in the case of the employee of the firm providing transaction processing support for local IT firms, the clients determined the processes and procedures.

The findings indicate that market experiences of the firm impact what drives process management. For consumer products, process management is “marketing” driven, whereas it is driven by industry recognized CMM standards for firms engaged in strategic BPO and client verticals development. The ownership structure of the firm has some impact on how process management is implemented. While all firms have standard processes and procedures, the Indian firms with foreign clients monitor and evaluate the projects more stringently not just to achieve low cost, but to continuously improve and gain from organizational learning.

P4: Firms producing customized products for international markets are more likely to use industry standards to design and monitor their processes than firms that produce consumer products.
P5: Offshore subsidiaries of MNCs might still be tied to their legacy of being low cost centres, and would likely focus less on learning and improvement.

C. Work Culture and Human Resource Practices

All six interviewees expressed that their work environment was friendly with employees participating in decision making, and all firms have infrastructure to enable employees to make suggestions to the managers. In the case of the two interviewees from Indian firms engaged in IT solutions for client verticals, 360° feedback systems provided confidentially in providing suggestions; the interviewees pointed out that this confidentiality improved the suggestions received from the employees. One of the Indian IT OS firms had a culture that considered employees work-life balance and provided opportunities for employees to engage in social and cultural activities. In the case of the MNC engaged in IT solutions for client verticals, each employee was assigned a counsellor to discuss work related issues; such discussions were held in strict confidence.

“We have actually counselors allocated to each one of us. It’s 2 levels above us. With whom we can discuss everything. They will be not part of our project, but they will be there for us for any questions, or any concerns, you can directly talk to them about any issue. It’s very confidential.”

In all six cases, employees had access to training to help them grow in the organization. In the case of the two product developers, training was mainly focused on technical skills. Employees were provided a training calendar from which they choose training modules based on their career goals; training was not mandatory, but expected. In the case of the three firms engaged in IT solutions for foreign client verticals, training hours were mandatory (80 hours for the MNC and 10 days in the case of the Indian IT OS firms). Training options included communication, managerial, and team skills in addition to technical skills. In both the Indian IT OS firms engaged with foreign clients, some training in CMM knowledge was mandatory. In one of these two firms, training options included customer centric training. Employees chose training modules based on discussions with the immediate supervisor; specific training needed for upcoming projects was also considered. New recruits spent the first two weeks in cohort training sessions, some portion of which introduced them to CMM and ISO 9000 requirements. In the case of the Indian IT firm focused on local clients, training was not mandated; however, when appropriate (based on new clients’ requirements) employees received technical training.

All six interviewees indicated that they were satisfied with the employee rewards and the processes used in determining them. Rewards included letters of appreciation, monetary rewards, recognition during award ceremonies, and merit points that drive salary increases. In the five firms that were engaged in the global markets, some portions of the rewards were team based and peer nominated. In the case of the MNCs involved in product development, however, the final selection of many of the rewards was made by managers located in the home (foreign) country. In the case of the MNC involved in IT solutions for client verticals, manager selected rewards were separated from the peer nominated rewards. In both the Indian IT OS firms engaged in verticals IT solutions, rewards also considered contribution to the firms knowledge base. In one of these firms employees received relative rankings based on individual performance (including contribution to the knowledge base) and project performance. These relative rankings determined a certain portion of their compensation, with this portion increasing as the employee moves up the ranks.

“We have an appraisal system called [name removed]. It is not an absolute ranking, but you are evaluated against your peers and get a relative ranking. Your compensation structure has a fixed and variable component, which is tied to your ranking. Your variable component of your compensation increases as you grow in the company.”

The findings indicate that market experiences of the firms impact work culture and HR practices. In the case of firms engaged in a more global environment, infrastructures are in place to encourage employees’ participation in decision-making. Firms engaged in strategic OS and consumer product development provided training opportunities with some focus on the long term and more rounded development of employee skills. Employee rewards in these cases were driven by individual, team, and project performance and contribution to the organization. The differences based on ownership were in the type of training, with Indian IT OS firms more likely to include CMM and ISO 9000 training. This difference was reflective of the knowledge the interviewees had about their organizations’ CMM and ISO certification status and its implications. In the case of MNCs, the nearshore managers played some role in the final decisions about the employee rewards; this is reflective of their origins as offshore captives.

P6: International market experiences lead to a better focus on employee learning and better human resource practices.

P7: Offshore subsidiaries of MNCs have less autonomy in human resources management practices than locally owned firms.

VII. CONCLUSIONS

The objective of this research was to conduct a preliminary study of how the ownership structure of the firm and their market experiences impact employees’ perception of the performance drivers for IT OS success. Structured interviews of employees of IT OS firms located in India was conducted to make preliminary observations. The findings indicate that Indian
IT OS firms already engaged in the global market place have an organizational infrastructure that enhances offshore employees’ customer focus, process management that has a better focus on continuous improvement, and HR practices that build employee skills and encourage high level of engagement and innovation. MNCs are also customer focused and have infrastructure for good process and human resources management. However, the legacy of captive “low cost labour” focus is still reflected in the distance of the offshore employees from the customers, a cost rather than continuous improvement focus in their process management, and lack of complete autonomy in human resources practices. The advantage that MNCs have in attracting employees away from Indian firms due to their global reputation could erode quickly as the Indian firms expand more into strategic IT outsourcing that would enhance their reputation. To compete successfully in the long term, MNCs need to develop governance structures that enhance the autonomy of their Indian subsidiaries, consider a process management focus that encourages continuous improvement (rather than low cost), and develop organizational culture and human resources practices that support such a focus. Finally, Indian IT OS firms with only a local market focus are at a disadvantage in this industry due to their very limited global market experience. These conclusions led to seven propositions related to the difference in operationalization of performance drivers based on ownership and market exposure.

The findings from this study are very preliminary due to the small sample size and the investigative nature of the methodology used. Further research is needed to develop hypotheses based on the propositions suggested and test them. Such research should first focus on development of scale items for the constructs of the performance drivers as well as the classification of the firms. Validation of the constructs using large sample data collected using survey instruments is needed before findings about the constructs and the relationships between them can be generalized. Using multi-country samples to test the models could make contributions to the outsourcing and management theories. Such large-scale analysis could also help expand the findings from this research to identify avenues Indian firms and MNCs could take to compete more effectively in the future global IT OS market.

REFERENCES


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