
FOREIGN DIRECT INVESTMENTS IN INDIAN SERVICE INDUSTRY
(A Non-Empirical Study from Human Resource Management Perspective)

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ABSTRACT:

Most of the developing countries believe foreign direct investment (FDI) as an invaluable source for compensating the prevailing resource constraints that hamper the progress of business organisations and the economy. The rise of service industry in India raised the significance of Human resource management practices. The advent of foreign direct investments in the service industry enhanced roles and responsibilities of Human resource management. At present most of the foreign firms in India are facing major challenges in the field of human resource management such as recruitment and selection, training and development, employee retention, cultural diversity etc. In this backdrop the current paper has been developed. This paper makes an attempt to understand the emerging role of FDI in Indian service Industry. It examines critical HRM functions which are posing greater challenge to the foreign firms. Finally the paper is concluded with the strategies of human resource management practices that are initiated to encounter the problems being faced by the foreign firms in Indian service Industry.

Key words: Foreign Direct Investment, Service Industry, HR Practices, HR strategies

Introduction:

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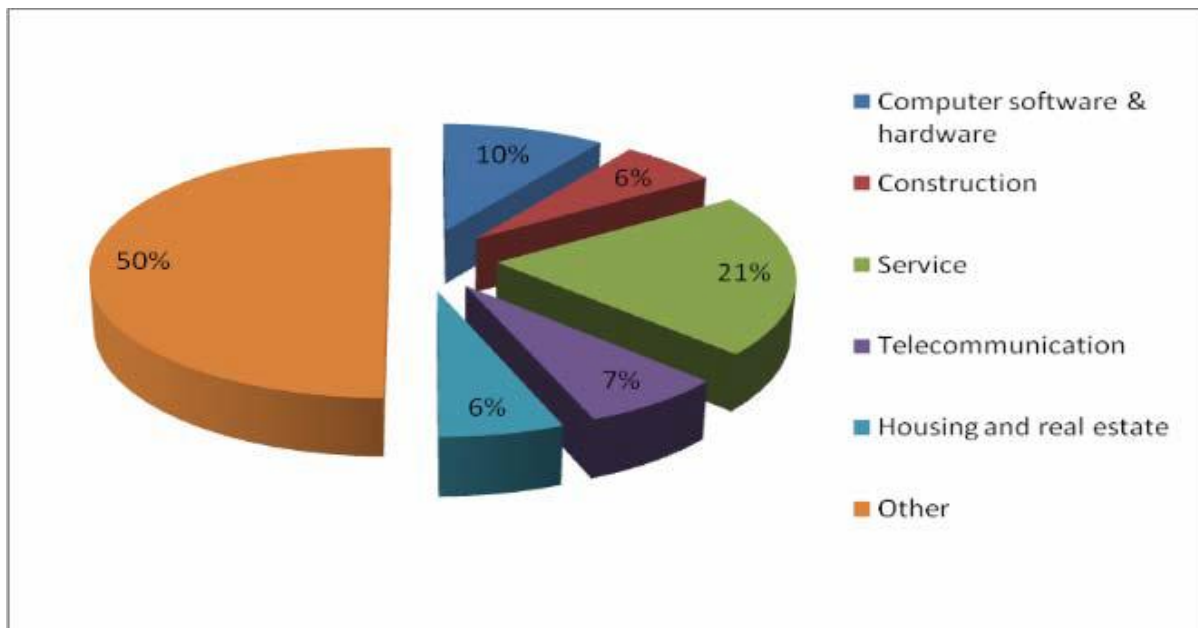
Most of the developing countries believe foreign direct investment (FDI) as an invaluable source for compensating the prevailing resource constraints that hamper the progress of business organisations and the economy. The rise of service industry in India raised significance of Human resource management practices. The advent of foreign direct investments in the service industry enhanced roles and responsibilities of Human resource

management. At present most of the foreign firms in India are facing major challenges in the field of human resource management such as recruitment and selection, training and development, employee retention, cultural diversity etc

Growth of Indian service Industry: The economic reforms initiated by the government of India in the year 1990 led to the growth in services sector in Indian economy. After Independence in the first three decades i.e., 1950s to 1970s the GDP growth rate was less than four per cent. The Indian economy was depending upon the agriculture and the share of services sector was only nominal because large number of services was government monopolies. Indian Services sector evolved in the mid-1980s but growth rate has geared up in the 1990s when India announced its new economic policy as a consequence of severe balance of payment crisis in the country.

Figure: 1

Sector-wise FDI in India: 2000-2009



Source: <http://store.ectap.ro/articole/606.pdf>

The figure 1 depicts that the service sector is forming considerable share of Indian industry. The services sector is one among the three major sectors which is performing the best in

economy of India. After 1990's growth rate is much higher than the rate of growth in agriculture and manufacturing sectors.

Emergence Foreign multinationals in Indian service Industry:

With the liberalisation of restrictions on foreign direct investment flows in the developing countries led to the widespread of Multinational companies. In fact, in developing countries FDI capital is resultant of the reduction in the official and private capital inflows due to the debt crisis. In India the inflow of FDI can be identified as an important indicator of the increasing operations of foreign multinationals companies in India.

Role of Human Resource Management in Foreign firms in India

The increased flow of foreign funds emphasizes the demand for talent workforce, many firms are facing acute talent crunch. Thus companies have realised the need to rethink on their HR strategy. The implications of compensation on talent management, governs the modern workplace. Especially the business operations of industries in service sector like banking, insurance, aviation, retail etc., heavily depend on the frontline employees. This signifies the role of human resource management practices in service industry. The significance of highly motivated and talented employees becomes crucial for these firms. Hence the foreign firms should invest many efforts to develop suitable and appropriate HR strategies so as the organisations can leverage their workforce to gain full benefits from the FDI reforms in Indian service industry.

Review of Literature: when an attempt is made to review the existing literature it is found that most of the studies are in western part of the world with regard to the management of expatriates by the Indian foreign firms and on the role of human resource management in the foreign firms in India. The existing literature in this area has been presented below:

Ferner, 1997, states that HRM practices of multinationals of US highly differ with the HRM practices and management styles of Japanese multinationals in their subsidiaries. According to Bartlett and Ghoshal, 1992, Japanese multinationals management style can be characterized as strong but with informal centralization and are high depend on establishment of international networks. According to Rosenzweigh and Nohria, 1994, enough attention is

not paid towards the MNCs in emerging economies like India by the researchers on global HRM. Though the HRM is the most sensitive in the local context much concentration has been levied towards other management domains. Further Harzing and Sorge., 2003, have expressed that inspite of internationalization of multinational companies the organizational and management practices are prescribed by their country of origin. As per the studies conducted by Ding, Fields & Akthar, 1997, firms belonging to the fast-growing economies like India, cannot survive only internal recruitment. If they want to expand in larger scale in a very less time period they must also attract qualified candidates from the global labour market. Breugh and Starke, 2000 state that In India the availability of qualified people in India is very limited, firms have to work on innovative practices of recruitment to attract large pool of talented and potential employees.

Need for the study: Rising inflows of FDI in Indian service sector led to the emergence of foreign firms in India. Human resource management can be considered as one of the critical success factors. After the review of existing literature in this domain it is found that not many studies have been identified. Hence the study has been initiated.

Research purpose: An attempt is made to examine critical HRM functions which are posing major threats to the foreign firms in Indian service sector. Further this paper aims to know the serious HR initiatives undertaken by these foreign firms in India to excel in their business operations.

Research approach: The study is non-empirical in approach and relied on secondary data.

HRM challenges being posed by Foreign Firms in Indian service sector: Diverse cultures can be seen in India. The entry of foreign firms in Indian service sector led to new challenges for the management of human resources. Such major challenges are presented below:

Work culture challenges: The work culture of Indian firms is quite different from those of foreign firms. The success of the organisation is determined by its work culture. The CEO of a firm needs to concentrate more on attracting and retain talented workforce. The flexibility in deployment of HR policies - related to people is one of the characteristic features of Indian work culture; global companies follow the rigid HR policies. The employees will get only which are depicted in the policies. This is considered as a great challenge for the foreign firms especially in Indian service sector wherein the success of firm is heavily dependent on

the frontline employees. When it comes to the response to change in employees in India they resist the change

Attracting talented work force: The one of the positive consequences of entry of FDI in Indian service sector is the increase in the employment opportunities in the country. Companies are now interested in hiring people in more numbers, and positions say in retail, insurance, aviation, health care etc. But absence of talented workforce to fill these positions is yet another challenge to the foreign firms located in India. Hence companies need to be prepared for an all-out war for talent.

Expatriate failures: Initially foreign firms adopted allocating foreign postings to long serving and loyal managers. Later on gradually the selection process started taking into consideration the talent, suitability and adaptability in a foreign country. In such situation if the expatriate fails it becomes a major concern to the company. Such failure of expatriates leads to heavy costs and difficulties in arranging immediate replacement.

Groom the career paths: The industry like insurance which is considered as capital intensive the increased the limit of FDI in this industry has more growth opportunities but the industry is facing talent crunch at all the levels. Hence grooming the career paths of its employees is yet another challenge.

Work-life balance: Another major issue in Indian service industry is employees are not able to balance and work life. The emergence of foreign firms into service industry increased opportunities for women. This led to the rise of percentage working women in Indian service industry. Especially women in India prefer to choose family rather than work if she is asked to choose any one. Hence women have to strike a balance between the family and work-life if she likes to pick both. Therefore striking a balance between work and family life is becoming significant challenge and is a reality for most women across the country and around the globe.

Bridge the Skill gap: Foreign firms in Indian service industry much skill gap has been identified which is to be bridged. Government of India and companies have initiated several steps to develop requisite skills among the people but it may take some more time to acquire the expected results. The immediate need for skilled manpower must be addressed by

companies themselves to build a talent pipeline. The emphasis on quality and quantity will make training the need of the hour.

HR Initiatives of Foreign firms in Indian Service Industry: To encounter the above-mentioned challenges the foreign firms in India are initiating the following HR practices:

Recruitment and Selection: Think globally and act locally is the slogan of today's business organisation. Many foreign firms are using employer image as their recruitment strategy to attract qualified applicants and moreover they prefer the host country national rather than the parent country nationals because this draws the goodwill and cooperation from the host country in various aspects. This further protects the foreign firms from the huge losses that may be incurred if the expats fail.

Training and development: The multinational companies in Indian service sector is facing heavy talent crunch. Hence the companies are offering in-house training. In-house training is particularly useful because it not only impart explicit knowledge but also implicit knowledge which is deeply embedded in firm routines, procedures and structures. Therefore, it is difficult to be imitated by other firms. HCNs are sent to the headquarters for training and development. This is mainly for technology transfer. The number of people to be deputed depends upon the availability of skill level. Employees are also encouraged to pursue higher education in the relevant domains such as pursuing degrees in retail management, tourism management, hospitality management, banking and insurance etc.

Career Planning: Foreign companies in India are adopting career planning policies which allow employees to grow along with the organisation. Career plans are drawn for every employee and are regularly reviewed to ensure that they stay aligned with business strategy. Many companies are encouraging their subsidiaries to develop international experience among employees. They are also given opportunities either to go for lengthy assignments or return to the home place.

Work-life balance strategies: Women executives are playing a major role in Indian service sector. Multinational firms are initiating several measures such as flexi time and flexi work, Special leave grants to the women executives for child rearing and caring and for the elderly

care. Women executives who went on maternity leave are invited to rejoin and are given special training to enable them to update their skill sets.

Employee Retention strategies: Employee retention is yet another challenge for the foreign firms. The rate of attrition is very high in almost all service sectors. It is observed more in retail industry, banking, insurance etc. As global competition for talent intensifies, retaining talented workforce becomes increasingly important for companies. Monetary incentives are not sufficient: the package must include challenge, personal growth and job satisfaction. Employees are given overseas assignments and cross-border task forces which help to retain good managers.

Work culture strategies: Indian work culture rely on paternalistic approach. Hence foreign firms in India are initiating measures such as emphasising relationship management, working in teams, flexibility in policies, evaluating qualitative aspects of their work, giving ratings to the loyalty and dedication.

Conclusion: The new economic policy of India has experienced a significant increase in FDI inflows. This led to establishment of foreign companies in Indian service sector. Hence there is an urgent need for a better understanding on the major HR challenges. The foreign firms have initiated all such HR strategies such as recruitment and selection practices, training and development practices, career planning strategies and employee retention strategies and work culture practices which ultimately help MNCs to improve their understanding on India's business world particularly service sector.

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