HRM IN FOREIGN FIRMS IN INDIA. A RESOURCE-BASED VIEW

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Abstract

Currently, foreign firms in India face three major challenges in the field of human resource management (HRM): personnel recruitment, development and retention. We adapted the resource-based view of the firm (RBV) for HRM, and tested in a sample of 80 foreign firms which HRM practices have a positive impact on the efficiency of HRM. Our findings suggest that there is a close relationship between the employment of HRM instruments shaped according to the RBV and HRM efficiency; hence they help foreign firms in India to positively affect the HRM challenge.

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PROBLEM AND OBJECTIVES

In India, foreign direct investment (FDI) has greatly increased over the last few years. In 2006, it reached 9.5 billion US$, which is an increase of 44.4% compared to 2004 (UNCTAD, 2007). One of the main reasons why India is so attractive for foreign investors is its human resources, which are cheap and highly qualified. The use of these resources, however, is not easy. Human resource management (HRM), therefore, plays a major role because of the importance of the human resources themselves and the intricacies of their management. A survey among business process outsourcing firms (BPO) in India revealed that human resources- and organization-related challenges are the most critical issues (Mehta et al., 2006: 323). For example, at Daimler in Pune HRM is regarded as one of “the core challenges of the years to come” (Aulbur, 2007). The worry is similarly expressed by a manager of Lufthansa: „HRM is a big concern in India“ (Pinto, 2007). In particular, three major challenges in the area of HRM are named: personnel recruitment, personnel development and personnel retention (Vaishampayan, 2006: 3).

Most foreign firms in India are growing at a very high rate. For example, the software producer SAP plans to more than double the number of employees from current 3,500 to 8,000 by 2010 (Singh Roy, 2007). In 2006, Dell likewise announced to double its workforce to 20,000 over the year, depending on trends within the industry (Frauenheim, 2006). In December 2005, Microsoft declared that it is expecting to double its manpower in India to 6,000 employees by 2009 (Frauenheim, 2006: 6). Growth is not restricted to the software industry. For example, the American consulting company Accenture announced in January 2007 its plan to raise the number of its employees from 27,000 to 35,000 by August 2007 (NN 2007: 16).

Due to the fast growth, many foreign firms in India are confronted with challenges in the area of personnel recruitment. In a very short period a large number of applications must be viewed and evaluated. Firms that are not well known in India must also develop a positive corporate image in order to be recognized as a potential employer. Foreign companies compete with other foreign
companies as well as with Indian companies for the most qualified people who are often offered a number of jobs by different employers.

Despite the overall high level of education at Indian universities and colleges, a study conducted by McKinsey found that merely 10% of all Indian students with a general degree and 25% of those with an engineering degree are regarded as suitable to work in MNCs (Farrel, Kaka & Stürze, 2005). The main reason for this are the large differences in the level of education at the various universities and colleges across the country. While some have a world-class reputation, others can hardly provide sufficient education to prepare students for jobs in MNCs (Farrel, Kaka & Stürze, 2005). Consequently, foreign firms are forced to invest heavily in personnel development to reduce qualification gaps and to increase the spectrum of employee assignment.

Along with personnel recruitment and development, personnel retention poses a third challenge for foreign firms in India: “The challenge is not only to get the people in but to keep them in” (Joshi, 2007). Both foreign and domestic companies struggle equally with high rates of attrition. “Firms operating in India should expect attrition rates of 15-20%, because Indian workers are aspirational and individualistic”, says Divani Vaishampayan, Regional Human Resources Director for Asia Pacific and the Middle East at BG Group (Brockett, 2006). Retention below the senior level is seen as a key success factor for business in India. Steven Helmholz, director of executive talent acquisition at Dell, says: “At the lower and mid level, you’ve got higher attrition rates. The company that has the better retention strategy will win” (Frauenheim, 2006: 6).

The main reasons why the challenges of personnel recruitment, development and retention are greater than in many other countries are the characteristics of the Indian labor market (Figure 1) and the restrictive Indian labor law. Particularly the latter may cause “extreme difficulties” (Khanna & Palepu, 2006: 49) for foreign companies.
<table>
<thead>
<tr>
<th>Dimensions</th>
<th>Characteristics</th>
<th>Impact on HRM</th>
</tr>
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<tbody>
<tr>
<td>Basic Figures</td>
<td></td>
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</tr>
<tr>
<td>Population</td>
<td>1.095,351,995 (July 2006, est.)</td>
<td>Recruitment</td>
</tr>
<tr>
<td>Population Growth Rate</td>
<td>1.38% (2006 est.)</td>
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<td>Number of Employed/Unemployed</td>
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<tr>
<td>Number of Employed</td>
<td>509,300,000</td>
<td>Recruitment</td>
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<tr>
<td>Unemployment Rate</td>
<td>7.8% (2006 est.)</td>
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<td>Educational System</td>
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<tr>
<td>Literacy</td>
<td>Total population: 59.5% (2003 est.)</td>
<td>Recruitment Personnel</td>
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<td></td>
<td>Male: 70.2%</td>
<td>Development/Training</td>
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<td></td>
<td>Female: 48.3%</td>
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<tr>
<td>Language</td>
<td>15 official languages exist; English is the most important language for national,</td>
<td>Recruitment Retention</td>
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<td></td>
<td>political, and commercial communication.</td>
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<tr>
<td>Degree Holders (2001)</td>
<td>Post graduate degree other than technical</td>
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<td>6 949 707</td>
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<td>Graduate degree other than technical degree</td>
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<td>Engineering and technology</td>
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<td>Agriculture and Dairying</td>
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<td>Veterinary</td>
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<td>99 999</td>
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<td></td>
<td>Other</td>
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<td>22 588</td>
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<td></td>
<td>Total</td>
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<td>37 6701 47</td>
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<tr>
<td>Labor Market Infrastructure</td>
<td></td>
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<tr>
<td>Difficulty of Hiring Index</td>
<td>33 (scaled 0 and 100)</td>
<td>Recruitment Personnel</td>
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<td></td>
<td>Development/Training</td>
<td></td>
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<td></td>
<td>Retention</td>
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<tr>
<td>Labor Force by Occupation</td>
<td>Agriculture: 60%</td>
<td></td>
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<tr>
<td></td>
<td>Industry: 12%</td>
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<td></td>
<td>Services: 28%</td>
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<tr>
<td>Average Salary Increase</td>
<td>11.9%-16% (2005)</td>
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<td></td>
<td>14.4% (2006)</td>
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<td></td>
<td>14.5% (2007, predicted)</td>
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Table 1: Characteristics of the Indian Labor Market (Sources: Census India 2001; World Bank 2007; CIA – The World Factbook 2007; Sen & Earsdon 2007)
For example, the World Bank’s Ease of Doing Business Survey ranks India 116 out of 155 countries, 56 places behind Pakistan (neighboring country) and 25 places behind China (competitor) (World Bank, 2006). The Employing Workers Data published by the World Bank (World Bank, 2006) supports these observations. According to this report, the difficulty of firing index is nearly twice as high as the regional average (see table 2). For example, companies employing more than 100 people need special government permission before they are allowed to terminate employee contracts (Koepff, 2005).

<table>
<thead>
<tr>
<th>Indicator</th>
<th>India</th>
<th>Regional Average</th>
<th>OECD Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficulty of Hiring Index</td>
<td>33</td>
<td>41.8</td>
<td>27.0</td>
</tr>
<tr>
<td>Rigidity of Hours Index</td>
<td>20</td>
<td>25.0</td>
<td>45.2</td>
</tr>
<tr>
<td>Difficulty of Firing Index</td>
<td>70</td>
<td>37.5</td>
<td>27.4</td>
</tr>
<tr>
<td>Rigidity of Employment Index</td>
<td>41</td>
<td>34.8</td>
<td>33.3</td>
</tr>
<tr>
<td>Non-wage Labor Cost (% of salary)</td>
<td>16.8</td>
<td>6.8</td>
<td>21.4</td>
</tr>
<tr>
<td>Firing Costs (weeks of wages)</td>
<td>55.9</td>
<td>71.5</td>
<td>31.3</td>
</tr>
</tbody>
</table>

Table 2: Employing Workers Indices (World Bank, 2006)

Although the importance of HRM and particularly personnel selection, development and retention for foreign firms in India is frequently mentioned, few empirical studies of this phenomenon exist. E.g., Bhudwar & Khatri (2001) compare HRM practices in Britain and India and find significant differences in recruitment, training and employee communication practices between the two countries. Sing (2003) analyzes the relationship between HRM practices and outcomes in India, however, without focusing on foreign firms. Björkman & Budhwar (2007) show that foreign firms which adapt their HRM practices to the Indian market perform better than firms with globally standardized HRM practices. While these and other studies are devoted to individual firms and provide first evidence for
certain HRM problems, there is a lack of theoretically grounded empirical studies of HRM practices and outcomes of foreign firms in India. Therefore the objective of this article is to derive testable hypothesis of the impact of HRM practices on HRM efficiency and to empirically test these hypothesis in a large-scale study. In particularly, we will adopt the resource-based view of the firm and analyze whether it can explain differences in HRM efficiency of foreign firms in India.

The remaining part of this paper is organized as follows. In the next section, the resource-based view of the firm as the conceptual framework of the study is described and adapted to HRM in India. Afterwards, the research hypotheses are derived. In the fourth section, the research design (sample and measures) is explained. Then the main results of the main study are presented and critically discussed. The paper ends with a summary of the main contributions, its limitations and important implications for further research.

CONCEPTUAL FRAMEWORK: THE RESOURCE-BASED VIEW OF THE FIRM AND ITS ADAPTATION TO HRM

The resource-based view of the firm (RBV) was chosen as a conceptual framework because it provides a theoretical bridge between strategy and HRM (Wright, Dunford & Snell, 2001). Moreover the RBV has become the most often applied theory in the field of HRM research (McMahan, Virick & Wright, 1999) and has emerged as “perhaps the predominant approach” (Morris, Snell & Wright, 2006: 433) in this area. The basic logic of the RBV that HRM efficiency leads to a higher firm performance has been the topic of many previous studies (for an overview see Becker & Gerhart, 1996). More than one hundred research papers in reputable academic journals have treated that issue in the last two decades, elevating the issue to “the HRM Holy Grail” (Purcell & Kinnie, 2007: 533). As Wright, Dunford and Snell (2001: 706) state, “the RBV provided a compelling explanation for why HR practices lead to competitive advantage”.

For a long time, the HRM literature was dominated by an ‘outside-in’ perspective. External factors such as the labor market, the competition within the industry or national culture were argued to
influence the use of HRM practices (e.g. Huselid, Jackson & Schuler, 1997; Brewster, 2004). The
RBV opposes this idea. The core assumption is that the success of a firm is decisively determined by
its specific and unique potential. Thus, internal resources instead of external conditions are regarded as
key factors of a firm’s performance and success. According to the RBV, human resources are an
important source of sustainable competitive advantage which contribute to the success of a firm (Saá-
Pérez & García-Falcón, 2002; Wright, Dunford & Snell, 2001).

According to Barney (1991), to obtain competitive advantage a resource must be (1) valuable in the
sense of being profitable for the firm, (2) rare among a firm’s potential and current competitors, (3)
imperfectly imitable, and (4) non-substitutable. Other authors like Lepak & Snell (1999) and Hoopes,
Madsen & Walker (2003) claim that of these characteristics only value and inimitability are crucial
and argue “that rareness is important only if a resource is valuable and exists only if the resource
cannot be imitated by competitors” (Hoopes, Madsen & Walker, 2003: 890). Following this view,
value, inimitability and uniqueness (firm-specificity) will be referred to as main characteristics of
human resources which lead to competitive advantage. Thus, firms can attain sustainable competitive
advantage in the field of HRM when they (1) possess a valuable and unique workforce that differs
from that of their competitors, and (2) apply HRM practices which are imperfectly imitable for
competitors.

Value refers to the workforce and is based on the strategic advantage of minor task-specificity.
Employees with broad qualifications can take up different tasks and “enable a firm to conceive of or
implement strategies that improve its efficiency and effectiveness” (Barney, 1991: 106). Hence a
workforce with broad knowledge and skills is more valuable for a firm than employees with narrow
qualifications.

Uniqueness – based on firm-specificity – implies that the workforce has firm-specific capabilities that
can be best seized in the context of a particular firm. Firm specificity makes employees less mobile
since a change of the employer would mean a decrease in value for the employee and the firm and is
thus less likely to happen: “As human capital becomes more idiosyncratic to a particular firm,
externalization may prove infeasible and/or incur excessive costs” (Lepak & Snell, 1999: 36).

Additionally, a firm-specific workforce is socially embedded in the firm and less prone to favor other employers. Hence, the firm-specificity of employees has a positive impact on attrition.

Imperfect imitability is the third pillar of sustainable competitive advantage. Processes need to be developed in such a way that they are too complex for competitors to be imitated. Three ways of creating barriers for imitation are mentioned in the RBV literature. (1) Unique timing and learning means that “valuable specialized resources (...) are developed over time through opportunities that do not repeat themselves” (Boxall & Purcell, 2003: 76). (2) Social complexity may be defined as patterns of teamwork and coordination and is “the prime reason, why firms in some sectors sometimes try to recruit an entire team of employees” (Boxall & Purcell, 2003: 77). (3) Causal ambiguity exists “when the link between the resources controlled by a firm and a firm’s sustained competitive advantage is not understood or understood only very imperfectly” (Barney, 1991: 108).

Value, uniqueness and inimitability are argued to enhance HRM efficiency. In the Indian context, this means that HRM practices with these three characteristics have a positive impact on the number of qualified applicants, the spectrum of employee assignment, and the attrition rate. Moreover, it is argued that these outcomes can be best achieved by particular HRM instruments in the areas of recruitment, development and retention which meet the criteria of the RBV, i.e. which are valuable, unique and inimitable. Table 3 presents the conceptual framework of the study where these concepts are systematically integrated.

On the vertical axis, the characteristics of the RBV – value, uniqueness, and inimitability – and its specifications are listed. On the horizontal axis, the three challenges of HRM in India are stated: recruitment, development, and retention. The result is a matrix with nine fields where for each characteristic of the RBV and each HRM instrument an appropriate HRM practice is suggested. Based on this conceptual framework, our research hypotheses will be derived in the following.
<table>
<thead>
<tr>
<th>Criteria of the RBV</th>
<th>Value</th>
<th>HRM Instruments</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>Recruitment</td>
</tr>
<tr>
<td><strong>Value</strong></td>
<td>Task-Specificity, Heterogeneity</td>
<td>Personnel Marketing</td>
</tr>
<tr>
<td><strong>Uniqueness</strong></td>
<td>Firm-Specificity, Immobility</td>
<td>Employer Image</td>
</tr>
<tr>
<td><strong>Inimitability</strong></td>
<td>Unique Timing and Learning, Social Complexity, Causal Ambiguity</td>
<td>Internal Recruitment</td>
</tr>
</tbody>
</table>

Table 3: Relationship between RBV and HRM instruments
HYPOTHESES

Personnel Recruitment and HRM Efficiency

According to Bratton & Gold (2003: 488), personnel recruitment can be defined as “the process of generating a pool of capable people to apply for employment to an organization”. Employers can either be recruited internally within a firm or from the external labor market. While there are advantages of both forms of recruitment most firms use both approaches, i.e. they “make and buy their human capital” (Lepak & Snell, 1999: 32). From a RBV perspective, particularly personnel marketing (value), employer image (uniqueness), and internal recruitment (inimitability) are argued to increase the number of qualified applicants.

In fast-growing economies like India, firms cannot survive on internal recruitment. When expanding on a grand scale and in a short time, they must also attract qualified candidates on the external labor market (Ding, Fields & Akthar, 1997). Since the number of qualified people in India is very limited, firms have to find innovative ways of personnel marketing to enlarge the pool of candidates, e.g. by focusing on a wider geographical area or applying a wider spectrum of recruitment instruments. By applying appropriate instruments of personnel marketing, firms can enhance the number of qualified applicants (Breaugh & Starke, 2000). This leads to the following hypothesis:

Hypothesis 1a: Personnel marketing is positively related to the number of qualified applicants.

The image of a company is decisive on whether it is perceived as an attractive employer or not, and thus on how much effort it needs to find potential employees. Several studies have investigated the impact of such factors as location, wage level, industry or corporate culture on recruitment effectiveness, tracing back high effectiveness of recruiting to corporate reputation (Birker 2002; Gatewood, Gowan & Lautenschlager, 1993; Orlitzky 2007). This leads to the assumption that employer image, being firm-specific, leads to a higher number of qualified applicants. Thus the following hypothesis can be derived.
Hypothesis 1b: Employer image is positively related to the number of qualified applicants.

According to the RBV, the main advantage of internal employment is to sustain and enhance firm-specific qualifications: “As human capital becomes more idiosyncratic to a particular firm, externalization may prove infeasible and/or incur excessive costs” (Lepak & Snell, 1999: 36). In this way, employees can become a unique asset to a firm and its competitive advantage. Thus it is assumed that a firm that concentrates on internal recruitment develops competitively advantageous human resources. Internal recruitment is assumed to have two positive effects. First, it increases the social embeddedness and hence the immobility of employees. In the process of internal recruitment the firm-specific skills, e.g. tacit knowledge of unique routines and procedures or experience with specific management systems and processes increases. These “non-portable assets” (Groysberg, Nanda & Nohira, 2006: 99) lose its value when the employee leaves the company. For employees this means that they would automatically lose an important part of their skills, and subsequently another company would be less interested in hiring them. Second, firm-specific skills are enhanced through internal recruitment, since employees learn and accumulate knowledge over time. Through internal recruitment employees gain knowledge within the firm which enlarges their firm-specific knowledge base. Internal recruitment refers to both: vertical and horizontal promotion. In that way a large number of employees can be addressed and becomes more qualified. Therefore it can be proposed:

Hypothesis 1c: Internal recruitment is positively related to the number of qualified applicants.

**Personnel Development and HRM Efficiency**

Personnel development is essential to create a unique and valuable workforce. In India, facing a great demand for people and a partially deficient educational system, companies may not expect newly recruited people to be able to take up jobs without intense company training (Hamm, 2007; Mankad, 2006). From a RBV perspective, particularly team-oriented training (value), firm-specific training (uniqueness), and in-house training (inimitability) we argued to enhance the spectrum of employee assignment.
A workforce that possesses a broad spectrum of capabilities (minor task-specificity) is a main source of competitive advantage (e.g., Grant, 1991). Particular teamwork where employees are working in multifunctional teams and have to fulfill tasks that are not directly related to their usual tasks are argued to enhance the variety of qualifications (e.g., Huselid, Jackson & Schuler, 1997; De Saá-Pérez & García-Falcón, 2002). Thus, team oriented training enables employees to take over a broader spectrum of positions and increases the value of employees for the company. Based on this assumption it can be proposed:

Hypothesis 2a: Team-oriented training is positively related to the spectrum of employee assignment.

According to the RBV, a unique workforce leads to competitive advantage. One instrument to increase the uniqueness of employees is firm-specific training. Firm-specific training supports the development of a unique corporate culture and of idiosyncratic organizational structures and processes. Moreover, it increases the mutual dependency between the company and its employees. E.g., Perez, Wen & Mahatanankoon (2004) describe the case of team-based development in combination with SAP software which leads to an environment where the success of any individual is critically dependent on the skills possessed by the other team members. Thus, the firm specificity of the employees’ knowledge and qualifications reduces their ability to change their employer and increases their ability to take over different positions in the same company. Based on this argumentation it can be proposed:

Hypothesis 2b: Firm-specific training is positively related to the spectrum of employee assignment.

Generally, training can be offered externally or by in-house facilities. According to the RBV, in-house training is particularly useful because it does not only impart explicit but also implicit knowledge which is deeply embedded in firm routines, procedures and structures. Therefore, it is difficult to imitate by other firms. At the same time, it enhances the spectrum of employee assignment (van der Klink & Streumer, 2006). For example, firms can give their employees access to implicit knowledge that is critical for its success without fearing that this knowledge may be misused when these
employees leave the firm. The embeddedness of implicit knowledge in the specific context is a barrier to imitation. Thus is can be proposed:

Hypothesis 2c: In-house training is positively related to the spectrum of employee assignment.

**Personnel Retention and HRM Efficiency**

Empirical studies (e.g., Bhal & Gulati, 2007; Jawahara, 2006; Lee et al., 2004) reveal that employee turnover depends on several factors such as calculative, alternative or contractual forces (Maertz & Griffeth, 2004). From a RBV perspective, particularly performance appraisal systems (value), career perspectives (uniqueness) and job tasks (inimitability) are argued to reduce attrition.

Offering financial incentives is seen as one of the most important instruments to retain employees. Several studies have shown that a firm’s pay system affects the probability of voluntary turnover (Griffeth, Hom & Gaertner, 2000; Sturman et al., 2003). The compensation, in turn, reflects the value of the employee for a firm, which is expressed in Hypothesis 3a.

Hypothesis 3a: Individual compensation is negatively related to attrition.

Individual career plans offer employees perspectives for their future development in a company and are thus assumed to reduce the attrition rate. In a study conducted by the Corporate Leadership Council (2006), 68 percent of the respondents named employee career management as an appropriate tool for retaining high performers. This is also true for India where systematic career development is generally viewed as key to retention, because it makes “employees understand that there is a future for them” (Vaishampayan, 2006: 3). Individual career management is task-specific because it depends on the specific mingling of two factors, the employee and the firm, thus creating uniqueness for the firm. Hence, individual career management in terms of “activities and processes to match individual needs
and aspirations with organization needs, set within an integrative framework” (Bratton & Gold, 2003: 484) are assumed to reduce attrition.

Hypothesis 3b: Individual career management is negatively related to attrition.

Finally, job tasks are an important determinant of employee turnover. Several empirical studies (e.g., Hinton & Biderman, 1995; Hom & Kinicki, 2001) show that employees who are dissatisfied with their jobs have a strong tendency to look for alternative job opportunities and, if these are not offered by their current employer, to leave the company. One instrument to increase the satisfaction of employers with their job tasks is to offer them the possibility to design their job according to their individual qualifications and motivation. Idiosyncratic jobs are defined by two characteristics. First, the job position is created according to the current job holder. Secondly, the job tasks are defined “to match the perceived abilities, interest, or priorities of the person around whom the position was created” (Miner, 1987: 327).

Idiosyncratic jobs are difficult to imitate because their contents largely depend on the particular job holder. Moreover, they reduce the likelihood to leave the firm and to look for another employer since idiosyncratic jobs perfectly fit the employee’s qualifications and motivation (Hatch & Dyer, 2004). Thus, the following hypothesis can be derived.

Hypothesis 3c: Idiosyncratic job design is negatively related to attrition.

Figure 1 presents the conceptual model which will be tested in this study.
Figure 1: Conceptual Model
METHODOLOGY

Sample and Sampling Procedure

To test the hypothesis developed in the last paragraph, a standardized online survey using the software ‘umfragecenter’ 5.0 by Globalpark was conducted. The reason for the choice of this method was the fact that most people addressed were not known beforehand. In addition, the aim was to guarantee anonymity since many data in the field of HRM, e.g. attrition figures, are sensitive.

To gain access to the addresses of foreign firms in India, foreign chambers of commerce, high commissions or similar institutions of the most important investor countries were contacted. They were sent an email containing information about the research project with the request to provide addresses of companies from these countries operating in India. Addresses were provided for companies originating in France, Germany, the Netherlands, and Switzerland. Firms from these countries were asked to participate in the online survey in an email which contained the most important information on the purpose of the study. The questionnaire was available online from July 25 until August 31, 2007.

The link to the online questionnaire was sent to all addresses that were provided by the institutions from the above named countries. These lists of addresses were partly outdated, which resulted in many failed deliveries. Since it is not obvious how many of the email addresses were still in use, the number of firms that received the questionnaire is not known.

Altogether 80 questionnaires were received. Although the sample size might appear relatively small, it allows to test the research hypothesis in the previous chapter and to provide at least first insights into HRM policies of foreign firms in India. Nevertheless, the relatively small sample size is a limitation of this study and will be discussed further in the final section.

The respondents were mainly CEOs or members of the top-management. On average, they work in the respective company for 8.86 years and have 8.57 years of HRM experience. The firms in our study
have on average 206 employees and have been operating in India for between 1 and 60 years (average of 14 years). The majority of the workforce in the respective firms are employed in the Western Economic Corridor (metropolitan area of Mumbai, Pune, Nashik, Surat, Baroda, Ahmedabad, Kandia), followed by the Economic Triangle of the South (Hyderabad, Bengaluru, Madras) and the National Capital Region (metropolitan area of Delhi, Noida, Ghaziabad, Guragon, Faridabad). Five respondents come from other regions.

**Measures**

The measures were developed on the basis of previous empirical studies in the field of HRM. The questionnaire has been pre-tested in four interviews with HR managers. Recommendations and suggestions were incorporated and the former questionnaire was adjusted accordingly. Moreover, it has been sent to Indian students of the Indian Institute of Management Bangalore (IIMB) ensure that the questions are understood in the Indian context.

**Dependent Variables**

The efficiency of HRM was split into three areas which refer to the most important HRM issues faced by foreign firms in India: (1) the number of qualified applicants, (2) the spectrum of employee assignment and (3) attrition.

For the number of qualified applicants, measures were adapted from Becker, Huselid & Ulrich (2001). The respondents were asked for (1) the interview per offer ratio, (2) the time-span between the first advertisements of a vacancy and the final staffing, and (3) the time it takes until a new employee can fully fill his position. The internal reliability of this measure proved to be high with Cronbach’s Alpha = 0.72.

To measure the spectrum of employee assignment, the respondents were asked to indicate the percentage of employees who had been shifted horizontally and vertically within the last year.
Attrition was measured as the ratio between the number of employees who had left the firm in the last year and the number of employees who had joined.

Independent Variables

Nine independent variables were included in the study. To measure personnel marketing, the respondents were presented a list of 19 instruments taken from the literature (e.g., Becker, Huselid & Ulrich, 2001) and asked to rate their relevance on a Likert scale (ranging from 1 = “never applied” to 7 = “very often applied”). The arithmetical average of these instruments was calculated, showing the extent of efforts to enlarge the pool of applicants (Cronbach’s Alpha = 0.91).

Employer image was measured as subjective perception of the respondents on a Likert scale, ranging from 1 = “very negative” to 7 = “very positive”.

Internal recruitment was measured by the percentage of vacancies that are filled internally.

Cross-training was measured by asking the respondents to assess the relevance of team work and team-orientated training on a Likert scale (ranging from 1 = “not relevant, never to” 7 = “very relevant, very frequently”). These three measures to evaluate the extent of cross-training were adapted from Becker, Huselid & Ulrich (2001) and provided a reliability of 0.62 (Crombachs Alpha).

To measure firm-specific training, the respondents were asked to evaluate the relevance of “training which concentrates on knowledge and practices that are specific and unique to a particular firm (e.g. firm-specific software or product knowledge)” on a Likert scale with 1 = “not relevant” and 7 = “very relevant”.

In-house training was measured by asking the respondents to indicate the percentage of training that is provided by in-house facilities in the particular firm.

Financial incentives was measured by asking the respondents to rate the extent to which performance appraisal systems affect individual compensations. A Likert scale ranging from 1 = “don’t affect” to 7 = “strongly affect” was used.
Career management was measured by asking the respondents to assess the extent to which performance appraisal systems affect individual career plans.

The degree of idiosyncratic job creation was measured by asking the respondents to evaluate the following statements on a Likert scale ranging from 1 = “completely disagree” to 7 = “completely agree”: “We employ high potentials and talents and give them to a great extent the freedom to shape their work content”.

Control Variables

Subsidiary age was included as a control variable. The RBV argues that HRM practices are path-dependent, i.e. the spectrum of alternatives at a given moment in time depends on the decisions made in the past. Thus the age of a company may influence both HRM practices and outcomes. To measure this control variable, the respondents were asked for the year their company was established in India. This figure was subtracted from 2007 (the year of the study), thus indicating the length of operation.

Several measures to reduce common method bias were employed (Podsakoff et al., 2003). In particular, we separated items measuring the same construct as well as dependent and independent variables in the questionnaire. Moreover, we protected and assured respondent anonymity and reduced the danger of evaluation apprehension by explaining in the cover mail that there are neither ‘right’ nor ‘wrong’ answers.
FINDINGS

Table 4 shows the descriptive statistics of the dependent and independent variables.

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>Standard Deviation</th>
<th>Min.</th>
<th>Max.</th>
</tr>
</thead>
<tbody>
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<td>1.55</td>
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<td>5.33</td>
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<tr>
<td>Spectrum of Employee Assignment</td>
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<td>19.99</td>
<td>1</td>
<td>80</td>
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<tr>
<td>Attrition</td>
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<td>1.71</td>
<td>.90</td>
<td>10</td>
</tr>
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<td>1.21</td>
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<td>4.47</td>
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<td>Employer Image</td>
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<td>Cross-Training</td>
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<td>1</td>
<td>7</td>
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<td>Firm-specific Training</td>
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<td>1</td>
<td>7</td>
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<td>In-house Training</td>
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<td>1</td>
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<td>Financial Incentives</td>
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<td>7</td>
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<td>Career Management</td>
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<td>7</td>
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<tr>
<td>Idiosyncratic job creation</td>
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<td>2.26</td>
<td>1</td>
<td>7</td>
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</table>

Table 4: Descriptive Statistics

Multiple regression analyses were applied to analyze the hypothesized relationships. To test for multicollinearity, we calculated Variance Inflation Factors (VIFs). There were no concerns for multicollinearity since there was no VIF above 8 and the mean of all VIFs was below 1 as recommended by Chatterjee and Price (1991).

The first regression analyzing the antecedents of the number of qualified applicants explains 17.8% of the variance and is significant on a high level (p<.01). As hypothesized, we found a significant and positive effect of personnel marketing on the number of qualified applicants (.095; p<.05), providing support for Hypothesis 1. Hypothesis 2 was confirmed, too: employer image influences the number of qualified applicants positively and on a high level of significance (.216; p<.01). Contrary to that, the assumed positive influence of internal recruitment was not confirmed significantly. The results show a positive, but non-significant influence.
In contrast to the first regression, the second regression was non significant and even produced a negative adj. R2. Thus, while positive relations between the variables were found, our data could not confirm any of the hypothesized relations (Hypotheses 4-6).

The third regression using attrition as a dependent variable explained 18.5% of the variance and was significant on a high level (p<.01). The results lend support for hypothesis 7 and show a significant and negative impact of financial incentives on attrition (-.289; p<.05). While the coefficient for career management is negative, too, it is not significant. Therefore, hypothesis 8 could not be supported by the data. Finally, hypothesis 9 was supported by our results. The coefficient is negative and shows an acceptable level of significance (-.174, p<.05).

<table>
<thead>
<tr>
<th>Number of qualified applicants</th>
<th>Spectrum of employee assignment</th>
<th>Attrition</th>
</tr>
</thead>
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<td>Personnel Marketing</td>
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<td></td>
</tr>
<tr>
<td>Employer Image</td>
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<td>Subsidiary Age</td>
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<td>Adj. R2</td>
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<td>-.015</td>
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<tr>
<td>F</td>
<td>5.273**</td>
<td>1.230</td>
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</tbody>
</table>

n=80; *p<.05; **p<0.01; standardized coefficients shown

Table 5: Regressions
DISCUSSION

The results of the regression lend support to our theoretical framework and reveal significant influences of the independent variables on the dependent variables ‘number of qualified applicants’ and ‘attrition’.

As hypothesized, personnel marketing and employer image show a significant impact on the number of qualified applicants in the first regression. This supports the strong roles of value and barriers to imitation for recruiting in India. Contrary to our expectations, internal recruitment did not enter the regression significantly. A possible explanation might be that internal recruitment has not yet been largely formalized in foreign firms in India and may therefore be of lower relevance for the number of qualified applicants.

The regression on the ‘spectrum of employee assignment’ was not significant. A possible reason can be found in the current structure and high volatility of the Indian labor market. Most employees do not stay with a firm for a long time. To move on in their career, it is seen more promising to change the employer than to stay with the same firm for a longer period of time. Hence, even when cross-training, firm-specific training and in-house training are provided, this does not necessarily result in an enlarged spectrum of employee assignment in the same firm. The result of training might be only become obvious once the employee who has started working for another employer.

For the third dependent variable – attrition – financial incentives and idiosyncratic job creation have a significant influence, lending support for hypotheses 7 and 9. The assumed relation between career management and attrition could not be confirmed. Again, the reason might be the volatility of the Indian labor market. Career management, being an instrument which can only be assessed in the long term, might not become effective in the Indian labor market which has, on average an attrition rate of 15-20% (Brockett, 2006). Thus, before career management tools can effectively help to reduce attrition, the employee might already work for another firm. The other two variables which showed an influence on attrition are both short term instruments, resulting in effectiveness even in a labor market which is characterized by employees with a low loyalty to their current employer.
While our control variable subsidiary age shows are very high level of significance in the first regression, it is not significant in the second and third regression. Thus it can be argued that firms which operate in India for a longer period find it easier to increase the number of qualified applicants than newcomers. One explanation might be that firms with long history in India are better known by potential applicants. Moreover, experienced firms are likely to have a greater knowledge of the Indian labor market and may adjust their recruitment strategy accordingly.
CONTRIBUTIONS, LIMITATIONS AND SUGGESTIONS FOR FURTHER STUDIES

This study has investigated which HRM practices support foreign firms in India in overcoming the HR challenges of recruitment, development and retention, thus creating a competitive advantage. On the basis of the RBV, nine hypotheses of relationships between HRM practices and outcome were derived and empirically tested in a sample of 80 firms originating from France, Germany, the Netherlands, and Switzerland. The study makes several important contributions both to practice and theory.

A key result of this study is that foreign firms in India are able to increase the number of qualified applicants by personnel marketing and by enhancing their employer image. This is important since there is a strong competition among foreign and local firms on the Indian labor market for a very small number of qualified employees. Only those firms which are able to recruit the most qualified employees may realize sustainable competitive advantage.

In India – like in most other countries – it is not only important to recruit qualified employees but also to retain them. In this context the study has shown that high attrition rates in foreign firms can be reduced by individual performance evaluation and reward systems. Since the loyalty of Indian employees to their employer is low, attrition can be reduced by individual performance evaluation and reward systems. Moreover, idiosyncratic jobs which may be individually designed by the employees to fit their specific qualifications and motivations are feasible, too.

When interpreting these results and adapting them to a specific firm, several limitations of the study have to be taken into account. One shortcoming of this study is the relatively small sample size. Small sample sizes are problematic, first because of the danger of being not representative (Bortz & Döring, 2006; Schnell, Hill & Esser, 1999), and second because the potential relationships between the variables tend to be suppressed, leading to non-significant results (Lee, Phan & Chan, 2005). For example, this might be the reason why our second regression analyzing the impact of HRM practices on the spectrum of employee assignment was not significant. Therefore, this study has to be regarded as explorative and as a very first investigation of a new phenomenon, only.
Another shortcoming is the heterogeneity of the sample in terms of home country and industry. Due to the relatively small sample size we were not able to control for possible influences of these factors. Future studies with more homogeneous samples would allow to analyze the question whether the HRM practices that proved to be efficient in our study are appropriate for all firms or whether they have to be adapted to the particular context.

Like in many similar empirical studies, our study has a potential single-respondent bias. Although we employed several measures to reduce this common method problem, future studies should try to collect data from multiple sources to enhance the reliability of responses. In particular mirror-image designs with respondents coming from both the top-management and the HR department are useful to analyze the performance implications of HRM.

Finally, future studies should put more emphasis on the question which characteristics of the Indian culture, labor market and business environment may explain the efficiency of different HRM instruments. One alley for future research are case studies which are able to shed more light on the complex relationships between country-specific conditions, HRM practices and their outcomes as well as their overall performance implications.
REFERENCES


