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Post-GFC people management challenges: a study of India's information technology sector

This paper analyses the impact of the GFC on human resource management (HRM) practices in India's information technology industry. The findings support the presence of a hard approach to HRM. Despite the negative impact of the GFC, there was evidence of growth in certain IT services. The specific positive and negative impacts include: firms' unethical and opportunistic behaviour in performance management, pay freezes, reduced billing and employee turnover rates, increased competition, addition of new service areas, and improvisations to firms' business models. The short-term outlook for managers is to tread with caution. Implications for theory and practice are also discussed.

Keywords: Global financial crisis; HRM practices; India; IT /BPO services; offshore outsourcing.

Introduction

Following the aftermath of the global financial crisis (GFC), a body of literature is emerging that examines the events and its impact on a range of business and people management practices (Viljanen and Lähteenmäki, 2009, Zagelmeyer, 2010). Although much of the literature is in the form of critical commentaries and media reports on the GFC, including the recent developments in Europe (O'Toole, 2010, Lynn, 2011), there is a slow, but steady stream of research examining the impact of the GFC on various management practices (Sweet, 2009, NCVER, 2010). Recent studies (Viljanen and Lähteenmäki, 2009, Zagelmeyer, 2010) identify research propositions to fully assess the impact of the GFC on human resource management practices. Even the recent literature on the impact of the GFC on HRM practices has yielded equivocal findings (International Journal of Human Resource Management, 2012). Viljanen and Lähteenmäki (2009) find that, in Finland, the degree of adverse HRM outcomes resulting from the GFC on employees is related to an organisation's HRM philosophy. They compared outcomes of firms adopting *hard*, *soft* or *neutral* HRM approaches (Storey, 1989, Legge, 2005). Finnish MNCs that adopted either a neutral or soft HRM

philosophy allowed more consultation and employee voice and made efforts to avoid or minimise job losses and off-shoring following the GFC crisis, whereas the reverse was found for organisations that adopted a *hard* approach to HRM. Zagelmeyer (2010) presents evidence from five German enterprises affected by the GFC, explaining how they developed a range of people management responses to adapt to declining business demands. Zagelmeyer (2010) posits that, although it is difficult to draw a strong link between the GFC and work reorganisation, evidence suggests there was an attempt by German firms to reduce the impact of job losses and he notes an increase in organisational change and restructuring activity in the workplace.

These studies also point to the need for ongoing context-specific research in order to understand the diverse impacts of the GFC phenomenon within a range of industry sectors and national contexts. Hence, this study will enhance understanding of HRM policies and practices post-GFC by investigating India's globally integrated offshore outsourcing IT industry. This is an industry that was affected by the changes brought about by the GFC and is of particular interest due to five key reasons:

- (1) Nearly 70% of the revenues of the Indian IT industry are export-based;
- (2) It has a presence in more than 50 countries;
- (3) It has more than 500 global delivery centres employing more than 60,000 foreign nationals;
- (4) It has more than 700 wholly owned subsidiaries of firms from all around the world with operations in India;
- (5) A third of the industry's total revenues are from the outsourcing of banking, financial services and insurance (BFSI) sectors' business and technology services, the sector that was worst affected by the 2008 GFC (NASSCOM 2010, 2011a, b).

Given these comments, it is not surprising that many of the recent academic and practitioner debates have focused on the increased proliferation of outsourcing and offshoring activity and its adverse impacts on home employment and employment conditions (D'Cruz and Noronha, 2006, Noronha and DCruz, 2007). Surprisingly, few studies have been undertaken thus far on the impact of the GFC on firms' HRM practices while there is also limited empirical evidence focusing on the offshore outsourcing industry's fastest growing sub-sector—the offshore outsourcing of information technology and related services—of which India commands a significant market share (NASSCOM, 2010). As such, this research setting presents a fertile ground for contemporaneously researching the impact of the GFC on a firm's human resource management practices. Against this background, this research begins with a brief overview of the Indian IT industry, then sets the particular context and highlights the focus of key research previously undertaken in the offshore outsourcing industry in India. Next, an outline of the methods employed is presented. This is followed by analysis and discussion of the findings. Finally, the implications for practice and research is set against the conclusion to the effect that the impact of the GFC has resulted in both positive and negative outcomes with regard to the business and people management practices employed within the country and sector analysed and, thus, the short-term outlook is to proceed with *cautious optimism*.

The Indian IT industry: an overview

In the last three decades the Indian IT industry has posted remarkable growth rates. Of an estimated global expenditure of US\$1.5 trillion on IT-BPO and related services, the Indian IT industry accounts for approximately US\$ 88.1 billion (NASSCOM, 2010, NASSCOM , 2011b) and 51% of the global IT/BPO offshoring market share of approximately US\$94 billion (NASSCOM, 2010). This makes India the

single most preferred offshore location in the world for IT/BPO services. Moreover, the IT sector's contribution to India's GDP has increased from 1.2% per annum in 1998 to 6.1% in 2011 (NASSCOM, 2011b) which is reflected in its growth from employing a few thousand people in the 1980s, to more than 2.5 million in direct employment in 2011 (Malik, 2009, Malik and Nilakant, 2011, NASSCOM, 2011b).

In terms of the structure of the Indian IT industry, there are, broadly, four divisions: IT software services (ITSS), IT hardware manufacturing (ITHM), IT product development (ITPD), and business process outsourcing (BPO) services. ITSS and BPO account for the largest share of the sector's revenues and cater to industries such as telecom, banking, financial services and insurance (BFSI), automotive, transport and logistics, utilities, manufacturing, IT, government, healthcare, and fast-moving consumer products. Within these industries, the sector offers services in a number of business and technology domains and these services range on a continuum of low- to high-end complexity (Malik, 2009). Firm ownership in the sector includes domestic firms, multinational corporations (MNCs), and some form of collaboration between the two. Firms operate as third-party service providers (mostly large domestic firms), captive operators (commonly referred to as wholly owned subsidiaries of MNCs), or as a joint venture business partnership of some form (for example, third-party service providers setting up a shop for MNCs on a build, operate and transfer, or build, operate, lease and transfer basis).

The above growth has resulted in an emerging body of literature on the sector focusing, for example, on explaining its growth, business models, training decision-making models, strategy, capabilities, and HR challenges (see, for example, Arora *et al.*, 2001, Arora and Athreye, 2002, Banerjee, 2004, Athreye, 2005, Agarwal *et al.*, 2011, Malik and Nilakant, 2011, Malik and Blumenfeld, 2012, Malik *et al.*, 2012, Varma and

Budhwar, 2011). However, much of the literature on the impact of the GFC on the Indian IT industry is in the form of popular media reports (Current IT Market, 2009a, Current IT Market, 2009b, Financial Trading Times, 2009) and anecdotal evidence.

Gereffi and Fernandez-Stark's work (2010) provides an analysis of the impact of the GFC on the offshore services value chain in developing countries, such as India and the Philippines. However, with regard to this study, the authors find limited impact of the GFC on the overall structure of the offshore IT/BPO outsourcing industry and the demand for its services in India. They find two opposing forces in action creating *reduction* and *substitution* effects. The *reduction* in demand for services occurring as a result of the recession is offset by what the authors call a '*substitution*' effect, which has resulted in demand for additional technology and business activities to be sourced from low cost centres in developing countries.

The top 20 global offshore outsourcing service providers, all of whom had operations in India, reported varying levels of decline in their revenues and margins in the corresponding period between October 2008 and 2009 (Gereffi and Fernandez-Stark, 2010). Nevertheless, in the late 2009 period, the majority of these service providers turned into net hirers within their Indian operations (Current IT Market, 2009a, Current IT Market, 2009b, Financial Trading Times, 2009). A reduction in employee attrition rates and salary increments was also reported in the October 2008 to 2009 period for most large and medium IT employers in India (BPOWatch India, 2008, Current IT Market, 2009b).

It should be noted, however, that most of this research relies predominantly on secondary and published information in the form of media reports and information from the organisation's websites. Consequently, the lack of systematic empirical data collection and analysis pertaining to the business and human resource management

(HRM) practices of firms in this sector calls for further exploration into this recent phenomenon. To address the gaps that exist in the literature, this investigation addresses the following questions:

- (1) Post the global financial crisis (GFC), what were the key areas of change impacting on organisations' business and HRM practices?
- (2) How did organisations address these changes in their business and HRM practices?

Methodology

Following Eisenhardt (1989) and Yin (2003) , a multi-case study design strategy was employed with the use of 'what' and 'how' questions considered appropriate, in conjunction with an exploratory research design. Semi-structured interviews and organisational documents that were available from the public domain formed the main source of data collection. Additionally, a review and analysis of organisational media reports and pertinent literature was also undertaken in order to analyse the key themes of this study.

Using a detailed case-study protocol, the questions posed in the semi-structured interviews explored how the business was organised, the nature of its service lines, the workforce composition, and employee size. Next, additional semi-structured questions examined the impact of the GFC on the overall business and its strategy. This was followed by an in-depth exploration of the specific impacts of the GFC on various aspects of the employment life-cycle. For example, questions were developed for each practice area of HRM, such as recruitment and selection, training and development, career management, rewards and remuneration, employee motivation and turnover, and performance management. Finally, respondents were asked questions relating to how the organisation responded to the changes impacting on its HRM practices. The case

study protocol and questions were developed according to the extant literature and to focus of the analysis. See Table 1 for details.

[Insert Table 1 near here].

Following Yin (2003), pattern-matching and explanation-building analytic strategies were employed. The use of a case study protocol, interview and documentary data, and employing a maximum variation purposive sampling strategy in case and respondent selection enhanced the reliability and validity of the research design (Eisenhardt, 1989, Yin, 2003). As the ITSS and BPO services sector constitutes the bulk of the revenues and employment share of the Indian IT industry, six case organisations were selected using NASSCOM's directory of ITSS and BPO organisations and the author's contacts in the IT industry. The above is in line with Yin's (2003) suggestion of having between four to six cases for literal and theoretical replications. To this end, within the two sub-sectors of the IT industry that were explored, further service specialisms and industry segments to which these sectors catered were included in the sample. For example, the industries these organisations were servicing ranged from banking, automobiles, finance and insurance, information technology, healthcare, and real estate. Within these industries, services offered included: software applications development, call centres, business process outsourcing of finance and account services, human resources, and other back office processes (see Table 2 for specific details).

[Insert Table 2 near here]

The Indian IT industry has approximately 5000 organisations, of which less than 0.5% are extremely large case organisations, less than 2% are large, approximately 7% are medium-sized, and the rest are small and start-ups (NASSCOM, 2010). Following a purposive sampling frame, relative to small and medium organisations, the study selected a larger number of very large and large organisations as these organisations

account for more than 60% of the revenues and employment in the sector. Organisations based on the size of the enterprise were selected as follows: small (less than 500 employees), medium (more than 500 and less than 3000 employees), large (more than 3000 and less than 10,000 employees) and very large (more than 10,000 employees), ownership (Indian, MNC or a joint venture) in the ITSS and BPO sub-sectors that catered to a broad spectrum of industries and is consistent with extant research (Malik, 2009, Malik *et al.*, 2012). A total of 11 senior managers (HR, Training, Operations, Business Development and Country Head) were interviewed. Although the organisations were requested to provide access to interviewing a diverse range of employees, a number of the organisations were either reluctant or did not see the rationale for non-HR employees to participate in what they viewed as a HRM study. For example, Organisation D did not allow anyone other than the Head of HR. Table 2 contains a summary description of the case organisations and the interviewees. To assess the full impact of the GFC, data were collected and analysed between the late 2009 to mid-2011 period.

Findings

The findings suggest there was a mixed impact of the GFC on the industry's HRM and business practices. Overall, the impact of the GFC on India's IT sector was characterised by *cautious growth*. This conclusion was reached because, although the findings support the general negative impact noted in the post Asian-Financial Crisis era (Rowley, 1997, Benson and Rowley, 2003) and studies from different industry and national contexts (Business-in-Asia, 2008, Gereffi and Fernandez-Stark, 2010, Viljanen and Lähteenmäki, 2009, Zagelmeyer, 2010), the study points to strong signs of optimism and growth with regard to a number of service lines. The nature and extent of the negative impacts and positive spin-offs from the GFC varied with the size of the

organisation, its capabilities, sub-industry sector grouping, strategic orientation, and the services it offered. For example, those servicing in the BFSI, real estate and telecom industry sectors were the most severely affected by the GFC. Based on the analysis of emerging themes, this study presents a thematic account of the general industry level and specific HR practice level impacts of the GFC.

General and industry level impacts

During the September 2008 to the mid- to late-2011 period hard lessons were learned by employees, businesses, and their leaders (Das *et al.*, 2011, Diwan, 2010). Most interviewees agreed that the worst period was the immediate nine to twelve month period following the October 2008 collapse of Lehman Brothers. At that time, the message was clear that large enterprises could (and would) be allowed to fail. But, paradoxically, some firms began recruiting due to an increased demand for services resulting from the pressure the GFC put on firms in the developed countries to further reduce costs; hence, the immediate, short-term reaction of cutting back budgets and changing the hiring strategy that was adopted by all case organisations, excepting A and B. This approach did more damage to Organisations C, D, E, and F's workflow because, when the demand for their services started to rise again in early 2010, they did not have the appropriate levels and quality of staffing in certain lines. Head of Human Resources at Organisation D noted:

... We hired people at a discounted rate – that's a good strategy in the short-term, but in the long-term it does not pay-off when the market picks up See, people are not a commodity that you can readily buy or replace...When we started re-hiring, only 70% of our total staff strength was good in the context of the business needs of 2010. So ...we suffered a negative impact from [our]...hiring and firing decisions.

The Head of HR further added:

We were living by the day. We had no idea... what tomorrow would present.... I think the single most important task of the leadership is to ...keep the business afloatI would not say that this marks the beginning of an end...I don't get that feeling yet...we have a long way to go....but the outlook is one of extreme caution.

In many cases, business leaders had not fully anticipated the nature and extent of the impact of this phenomenon. As such, one of the sharpest criticisms concerned the failure of leadership, and there was mixed feelings as to whether the period beyond 2011 would promise growth in the services value chain.

There is a total failure of leadership; in terms of strategic thinking and alignment. There is no pioneering work or innovation and technology policy in place...Leadership here is often perceived to be transactional [operational] excellence.... Unlike in the US, where changes are expected due to legislation, in the UK, it is the pressure in the form of a social revolution that is demanding change. Similarly, Europe has traditionally had a very inward looking geography. Head of HR - Organisation E

Furthermore, the respondents highlighted the increasing pressure for efficiency from clients due to increased transparency and the availability of benchmarking data for most services. The clients increasingly exercised greater control by including year-on-year productivity improvement clauses in their service level agreements. As a consequence, the service providers were continuously facing a downward spiral of pressure on their margins. With clients becoming more demanding, there was little room for upward negotiation in the billing rates. As a result, service providers began asking their clients for new, higher-end and complex (higher dollar billing) projects to offset the pressure on their margins and to maintain their ability to deliver more from their traditional transactional work. Most discretionary costs and expenses on innovative and non-billable activities were also cut back by the case organisations. The above concerns were substantiated by managers at Organisations A and F.

Business volumes dipped...optimism turned into pessimism. We'd had to control costs and put a hold on innovation. We grew, but the growth rate declined (from 60-70% to 40-50%) because we are dealing with money ...discretionary spending (travel and utilities) reduces and thus... affects our revenues and profits. Country Manager - Organisation A

...an annual 10% productivity improvement on a range of performance metrics puts immense pressure right from the top to the bottom; people's jobs are on the line. ...it brings in the element of lateral thinking...creativity and innovation what activities should we give up and what new activities should we focus on... You can do your own research on this... a lot of it is still artificially propped up. Head of Operations - Organisation F

Another (although specifically culturally rooted) emergent theme, is the lack of an appetite for risk and the entrepreneurial focus of Indian business leaders operating in the IT industry. Heads of HR at Organisations E and D noted:

.... See, culturally we have a very strong service mentality and our minds are so hardwired in this that we cannot ...engage in innovative activities ...[and] there is no ...economic advantage for employees to engage in such thinking. Head of HR- Organisation E

The Indian mindset is short-term [and] our ability to sustain in the longer term is very low. We always want a low break-even point ...the appetite to take risk is very low...this is the psyche of the entrepreneur you are dealing with. Head of HR- Organisation D.

Indian cultural values score very high (seventh) on Hofstede and Bond's (1988) Long-term Orientation (LTO) index, which is derived from a set of Confucian values including, for example, persistence, thrift, pragmatism, and status differences. As applied to this industry's context, one needs to understand the mindset of the *breed* of entrepreneurs participating in this industry. Although there is an element of there being a deep-seated cultural mindset relating to risk aversion and opportunistic behaviour (or pragmatism) amongst Indian business leaders, part of the problem is also linked to the

dynamic and uncertain nature of technology, shorter project and process life cycles, and the very nature of work that is received from the client firms. One explanation for what the respondents viewed as short-term orientation may be explained by the business leaders' pragmatic approaches in dealing with the immediate problem and sustaining business growth in the longer term (Hofstede and Minkov, 2010). Another explanation might be the unequal and thus greater power exercised by the clients on the service providers, leaving them with little leeway to exercise any significant strategic choices in terms of their people management practices (Kochan *et al.*, 1984). The incentives and remuneration are so closely tied to the vicious cycle of servicing to clients' contractual obligations that only a handful of highly experienced and established organisations have been able to develop new products successfully and bring about innovations in HRM practices and processes. As a consequence, the longer-term vision and organisational capability building activities are down-played and the ability to improve margins and sustain in tougher economic conditions weakens. Thus, the perceived short-term orientation (Hofstede and Bond, 1988) of Indian business leaders may create an unsustainable climate for future investments in strategic resources, however, as Hofstede and Minkov (2010) suggest, countries that scored high on LTO index will eventually come out of the crisis quicker than nations with low LTO indices, a view that is consistent with Das's (2012) study of the post-GFC performance of Asian nations. Das (2012) found that, not only did the Asian nations report a quicker recovery from the GFC, they also contributed significantly to the overall global recovery. What follows from the above analysis is the operation of two opposing forces of *contraction* and *expansion* in business services (Gereffi and Fernandez-Stark, 2010), thus providing some balance.

In line with extant research, the following section analyses the impact of the GFC on specific aspects of the employment lifecycle (Viljanen and Lähteenmäki, 2009): recruitment and selection, training and development, career management, rewards, performance management and change, employee turnover-voluntary and involuntary- and the impact of the changes in HRM practices on the organisation as a whole (See Table 3 for an analysis of differences between firms' hard versus soft approaches to HRM).

[Insert Table 3 near here]

Specific impact on the employment lifecycle

The hard versus soft HRM practices dichotomy is best understood if it is viewed as a continuum rather than as pure types (Roan *et al.*, 2001). Overall, this study found support for two firms (A and B) following a soft HRM approach and four firms (C, D, E, and F) following a hard approach to HRM (Storey, 1989, Legge, 2005) in their response to dealing with the GFC. This study's findings resonate with recent research undertaken (Viljanen and Lähteenmäki, 2009). However, a year after the GFC, when business started to improve, there was an inclination by employers following a hard HRM approach (C, D and E) to move towards the 'soft HRM' end of the continuum, suggesting that the people orientation is also context dependent and influenced by changes in a firm's strategic environment. This change is reflected in the new HR practices implemented by the case organisations and it includes: investment in long-term training capabilities, holistic rewards management, and career planning. For example, the Head of HR at Organisation E noted:

...in 2010 when the business was able to absorb new costs ...[what] we did was to look at focused competency development programme...for our sales and marketing team as well as for our quality management folks... how can they better manage the risk... what are the

internal and external metrics they need to understand?...How can we bring in some lending prudence?

Misaligned and backfired hiring

As one would expect, the immediate twelve to fifteen month period following the GFC saw dramatic cutbacks in hiring as firms were restructuring and downsizing. The worst affected group was that of the recent college graduates. Although firms were still hiring graduates, they invented a new concept of ‘delayed joining dates’ and ‘conditional project deployment’. What this meant was that employees had assured employment, but with a later commencement date and, in some cases, their employment was tied to the timing, scale, and scope of available projects. As organisations were recruiting staff for specific client projects, in the event of any breakdown or collapse of a client account, the employment contract offered a very minimal employment safety net for the affected employees.

As noted earlier, another negative outcome was due to the opportunistic behaviour of the hiring firms. With a sudden glut in the external labour market, firms began to offer reduced salary packages. This approach backfired for employers when the demand for offshore services started to improve. From a strategic recruiting standpoint, and to support the dominant low cost, hard HRM (Storey, 1989) business model, the hiring mix (qualification and experience levels) had a critical role to play. To manage the labour costs, organisations started to increase the percentage composition of its workforce in favour of recent college graduates. Organisation E’s Head of HR added:

...recruitment is focusing on keeping the costs down by increasing your percentage of graduate recruitment. The higher the percentage of people with 0-3 years in your population mix, the higher will be your GPM [gross profit margin] ratio...What we are missing here is

a holistic and an integrated approach with longer term thinking. ...Knowledge management is an area ...where leadership has failed.

Another related and an unanticipated consequence of the GFC was the practice of misrepresentation of work experience in the BFSI industry sector in applicants' resumes. Owing to the shameful performance of the global BFSI sector, applicants with BFSI experience were looked down upon by some employers and the study's findings suggest that employees concealed their BFSI experience to minimise their chances of being excluded from the recruitment process. An IT specialist confirmed:

Following the aftermath of the GFC, people were hesitant to put their BFSI (Banking Financial Services and Insurance) industry experience on the CV...[it] was seen as career limiting information. It was extremely hard to get employment as a suitable technical leader for the BFSI sector. Head of IT-Organisation C

Employee training and career development

The dominant low cost provider strategy that was followed by most case organisations, and their need to stay afloat, meant that all non-billable activities such as soft-skill and quality management training, research and development, and marketing back-end support functions incurred cut backs, thus confirming a hard approach to HRM. Heads of HR at Organisations D and E confirmed the impact of GFC:

For training and development, there is a general belief and, that's what it is reduced to, is that if you create a strong internal training infrastructure, you can reap huge economies of scale and keep your HR costs low. While in principle such designs of this HRM practice sounds good...what is missing is here is a well-coordinated knowledge management approach and rethinking what capabilities are needed for the future. The leadership has to be held accountable for not doing enough Head of Training-Organisation D

Training was worst affected because of limited recruitment and ongoing downsizing.

the question was of existence...of survival. Anything over and above operations had to go.

Head of HR-Organisation E

As the business volumes started to recover in 2010 and 2011, recruitment picked up and investment in training with specific technical and domain-specific skills returned back to the HRM agenda (Gereffi and Fernandez-Start, 2010; NASSCOM, 2011c). The focus was, initially, to manage the risks by reinvesting in strategic capabilities, such as sales competencies and the development of quality management and market-based organisational learning capabilities, as was found in recent research on India's business process outsourcing firms (Malik and Blumenfeld, 2012, Malik *et al.*, 2012).

A significant change from an employee perspective was a move away from the short-term and hedonistic job-hopping behaviour undertaken by entry-level employees (Malik *et al.*, 2010) to a longer-term, more stable, and evaluative approach. Part of this change was fuelled by a slowing down of the opportunities in the external labour market and was also partly due to an increase in the new college graduate population. Another reason for a decline in employee attrition rates was the steady wage inflation of 10-15% that had occurred for nearly five years prior to the GFC. The positive impact of reduced employee turnover and reinvesting in capability development was starting to emerge:

There has been a general decline in the high employee turnover rates of our entry level population; however, this is offset by a medium to high increase in attrition at middle and senior management levels As a consequence-and this is often the most untold part of the story- when these frustrated and pressured [senior] executives quit, they set up their own ventures to grow and experiment in areas where they thought potential exists. ...this is another example of where the leadership has not demonstrated how to harness the key resource in this industry—its people.... Head of HR- Organisation E

However, reduction in employee turnover and changing labour market had rendered senior and middle level employees less employable at their existing salary packages, especially those who were in the upper quartile of the salary range. These changes in reward and remuneration practices are analysed in depth in the section on rewards and remuneration.

Rationalising and repackaging rewards and remuneration

Prior to the GFC, along with other contract types, most offshore outsourcing service providers entered into a build, operate and transfer (BOT) pricing model offering a 30-40% labour cost arbitrage to their clients. Head of HR at Organisation E noted the changes to high wage inflation:

Prior to the GFC, there was annual wage inflation varying between 12-25%. Today, and following a 12-18 month period of wage freeze, we have seen the wage inflation come down to the 5-12% range.... [Earlier] wages were going through the roof No salary increases and bonuses were given in the last two years.

Typically, once the contracts are open for renewal, clients, through their experience of working closely with the service provider, become aware of the associated pricing and performance metrics and, thus, have renegotiated contracts with annual in-built productivity improvements clauses. As a result, clients have been able to exercise greater control in the day-to-day management of their service provider's workflow, whereas the service providers have had to manage the annual wage inflation and also deliver on annual productivity improvements. The GFC changed this situation, albeit for a small window of twelve to eighteen months (Shinde and Mishra, 2010). With a tight external labour market and an unsustainable business model for most small to medium sized players, employees started to look for stability and considered only meaningful changes to their careers. To accommodate these changing mindsets, HR managers

brought about a significant change in the design and implementation of reward and remuneration practices. For example, Organisation D's Head of HR noted:

After the GFC, from an employee standpoint... when mortgage payments started falling short...a lot of people realised that they need to think of the long-term. So, earlier HR did not look at the long-term employee wealth creationApart from the legislated baseline pensionable benefits, given a choice, people would take all the components in cash.

With increasing pressure to bring about the in-built annual productivity improvements in the service level agreements, the senior management layer was the worst affected segment, because their salary costs constituted a significant proportion of the overall staff pyramid costs. Senior executives became vulnerable due to the threat from younger and relatively less experienced and reasonably competent employees who were willing to compete for such roles for approximately three fourths of their senior colleagues' pay levels. Head of Operations-Organisation F noted:

In 2008, the average vice-president package was 40-55 lakh rupees [Indian Rupees [INR] 4-5 million]. Now, it is in the INR 25-30 lakhs [INR 2-3 million]... this salary is offered to people who are not necessarily of the same vintage [experience].... I would have left 2 years ago, but there is no one [outside in the industry] to match my salary bracket.... To manage the labour cost pyramid, the easiest way to do it is reduce the headcount at higher levels.

Unsettled performance management

Increasing labour costs and declining profit margins severely impacted on the nature and extent of performance management practices. Owing to the highly structured, directed, and transactional nature of work, coupled with the short-term risk-averse outlook of service providers, the presence of opportunistic performance management practices is not surprising. As noted by Organisation C's Head of IT:

The organisation has devised two very opportunistic ways of managing people out.... When projects are not coming in and they want to get rid of the people ... employees are either deployed to a project that is outside of their skills area or a fault is found in the work or CVs. ...if you put on a person to manage a Java project who does not have Java skills, you know s/he is out of their comfort zone ... you micro manage him/her on a daily or weekly basis. ...In the second case, to avoid any public embarrassment from being exposed of a potential wrong declaration in the application, CV or other work.

Organisation D's Head of HR added:

Performance management is the biggest sham! There is no room for face saving no matter how subtle the actions are. Management has lost its face in the wake of the opportunistic performance management practices. Whether it is in the guise of skills and capability building or staff deployment, they have lost their face...Performance management is chaotic and there is no leadership left to articulate a long-term vision and take people through that future journey. Head of HR-Organisation E

The pressure from downsizing and delivering unsustainable productivity improvements meant that the pressure to manage the performance metrics in clients' agreements had to be pushed down as management bonuses and variable pay components of up to 45%, depended on delivering these improvements. Pressure to stay afloat and keep jobs meant hard HRM decisions were common.

During the GFC the compulsions were not performance related-it was downsizing.... So, to maintain the business' viability you had to manage the performance with the remaining 80% or so to the same level of efficiency. Head of HR-Organisation D

This short-term orientation of business leaders to get out before they started to lose money had an impact on longer-term sustainability.

Positive impacts of the GFC

The impact of the GFC was not all negative. As early as the start of 2010, the service providers saw an increase in business volumes and the level of complexity of new work received. Growth took place in both the existing and new service lines. The service providers also had some respite from the declining employee attrition and falling wage rates. Additionally, during the late 2008 to 2009 periods the Indian Rupee also depreciated, thus making the services more competitive. The collective impact of these three changes allowed the much needed room for manoeuvring by the service providers to recover and reposition their offerings and competitively price their value propositions.

Discussion

The above themes suggest majority of firms adopted a hard approach to HRM in the post-GFC period. With the changing attitudes of these employers towards their employees, the mindset of employees in relation to their careers also showed a shift. Employees were selective with regard to where they worked: they sought greater meaning in their roles, lesser monetary gains, and more intrinsically rewarding workplaces. There were also an increasing number of start-ups being formed as a result of the frustrations of working in a highly structured, risk-averse, and control-oriented work environment. A steep decline in employee turnover rates translated into savings on the hiring and training front. Another marked shift was the ability of the client firms to exercise control over service providers and the service providers becoming an extension of the clients' business. Furthermore, with the increased capability of the service providers and a better understanding by the clients of how to optimise this relationship, clients exercised high levels of control at the early stages of the contract. In

some cases, the service providers had become a de-facto extension of the clients' business, without the client taking on any commercial risk.

Specific negative impacts of the GFC on HRM policies and practices included: unethical and opportunistic behaviour by some players in managing the performance of employees; pay freezes for up to two years (Shinde and Mishra, 2010); and a reduction of billing rates and increasing competition for business. On a positive note, firms used this opportunity to improvise their business models and value propositions.

The continuous pressure from lower billing rates for existing projects was offset by negotiating for newer and higher complexity projects, which commanded better billing rates, at least for the first year of operations. Thus, the overall top line revenues and bottom line margins in the latter part of 2010 reported better growth. Business volumes increased in 2010, due to the changes in the demand for the nature and extent of the services. These included the fast growing infrastructure technology outsourcing, legal knowledge process outsourcing and high-end consulting solutions for both technology and business services. Despite moderate recovery in early 2010 following the recent European crisis, the business environment in the second half of 2011 changed and media reports confirmed firms' approach of 'extreme caution' in their investments and growth plans.

Implications for theory and practice

Although managers have demonstrated their ability to step back and readjust to manage the transition, and to improvise their business models and HR practices, the real test will be in their ability to sustain these improvements in the longer term. Shiu *et al.* (2010) developed a framework for HR managers for a post-GFC environment and they identify, among other competencies, strong work ethics, self-management and

coordination, understanding of legislation governing labour relations covering a firm's entire operations, team work and communication, and self-oriented learning ability as a means of better fulfilling their HR obligations. However, additional competencies are needed for a wider population of frontline managers. These include rewarding a culture of innovation and risk-taking, self-directed problem solving and demonstrating open-mindedness in sensing and disseminating client-specific information within the groups. Moreover, as the success of any competency framework lies in its interpretation and implementation, a supporting work environment and buy-in from frontline managers is critical in managing change.

The above data also suggests that on-going strategic investments in human capital and organisational capabilities development that is specific to the industry are needed. As this study is an exploration into the phenomenon of the impact of the GFC at an HR practice level, further investigations could consider the impact of these changes by adopting an integrated approach wherein the phenomenon is studied at a philosophical, policy and practice levels (Rowley, 1997, Benson and Rowley, 2003). While the above account captures some of the changes evident in the industry following the 2008 GFC, further research is also needed regarding the nature and extent of human capital development and innovative human resource management practices necessary for surviving in a post-GFC era.

Conclusion

Overall, this study suggests that, while the general impact following the immediate twelve to fifteen months of the GFC was negative, the sector also experienced gains in 2010 and 2011 (NASSCON, 2011a, NASSCON, 2011b). The data suggests that firms can make rapid changes to their people management philosophy when the broader economic environment worsens. As noted in this exploratory study,

except for Organisation F, Organisations A, B, C, D, and E followed a soft approach to HRM in the pre-GFC period. Nevertheless, the analysis also suggests that a soft approach to HRM was difficult to sustain for organisations C, D, and E, when the macroeconomic environment became less munificent. With the recent European crisis and the World Bank's warnings regarding the potential for a double dip recession in the next three years, further research is critical for informing changes in theory development and management practices.

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Table 1. Key questions for semi-structured interviews

Focus area	Questions
<i>Key changes in business and HR practices post the GFC</i>	<p>What are the key changes in the business and HR practices in the period following the GFC (post-September 2008)?</p> <p>Explore individually:</p> <ul style="list-style-type: none"> i. Changes in business strategy, ii. Nature and extent of organisational change (technological or structural), iii. Expansion/contraction in business services/ product lines, iv. HR practices- explore individually the entire employment life cycle: <ul style="list-style-type: none"> 1. Recruitment and selection (workforce composition, skill level and emphasis on lateral or graduate hiring), 2. Nature and extent of induction, training and development, 3. Rewards and compensation (growth and composition), 4. Performance management (system and implementation), 5. Redundancy/retrenchments (increase/decrease) 6. Employee turnover (rates and reasons).
<i>Organisational responses</i>	What were the key strategies employed in dealing with these changes?
<i>Future outlook</i>	In light of the above changes identified and strategies implemented, how do you think the future business and HR practices will be affected?

Table 2. Case description and summary of respondents

Organisation	Case description and approximate number of employees	Interviewee details	Interviewee experience, service area	Service line and industry catered for
A	Small Indian-owned IT-enabled financial services. BPO 250+	Country Manager. Business Development Manager.	20+ years in IT and non-IT industries.	Debit cards. Finance, retail, tourism, telecom and technology.
B	Large UK banking MNCs process centre. 1200+	Head of HR. Head of HR Shared Services.	8 years in BPO HR. 21 years in BPO & hospitality.	Banking and finance back-office process centre. Banking.
C	Very large Indian-owned ITSS and BPO firm. 35000+	IT specialist. General Manager HR.	25 years in BFSI and telecom work. 20 years in HR in IT firms.	Application development, BPO, ITO. Engineering, manufacturing, BFSI Telecom and IT.
D	Very large diversified services. US MNC 10,000+	Head of HR.	22 years in HR in BFSI and BPOs.	Diversified BPO service lines. BFSI, Government, retail, technology, Utilities.
E	Very large diversified Indian-owned ITSS and BPO services firm. 95,000+	Head of HR and Head of Training.	23 years in HR and training in IT and manufacturing.	Applications development, ITO, BPO, consulting and ITHM. Highly diversified firm catering to more than 20 industries.
F	Medium US MNC servicing the real estate and banking sector. 2700+	Head of HR. Head-Service Operations	15 years in diverse industries. 22 years in operations in exports and BPOs.	Serving mortgage collections and loan modification sub-prime accounts. US Real estate market.

Table 3. Specific impacts of the GFC on HRM practices with researcher's notes

Organisation	Impact and researcher's notes	Recruitment and selection	Training and career development	Rewards	Employee turnover	Restructuring and performance management
A	Impact	Cutbacks in hiring plans.	No change as it needed unique blend of skills.	Reduction in benefits and discretionary travel funding.	Marginally better. Less than 10% per annum.	No redundancies.
	Researcher's notes	<i>Organisation A's focus on investment in technical and domain skills, hiring full-time permanent employees instead of casual employees, and avoiding redundancies suggested the presence of a <u>soft approach to HRM</u>.</i>				
B	Impact	Hiring plans were put on hold. No contract staff employed; only full time permanent staff due to sensitivity in data being dealt with.	Increased investment and move from external to internal training and building capability frameworks for roles across the firm. 90-day on-boarding programme.	Less than market rates continued, but this was offset by stability and career development.	Medium to high employee turnover due opportunities in the market.	Strongly discouraged. Strong emphasis on redeployment and transfers locally and globally.
	Researcher's notes	<i>Organisation B's focus on investment in technical and career development, offering stability and opportunities for internal promotions and cross-skilling, and hiring only full-time permanent employees showed a <u>soft approach to HRM</u>.</i>				
C	Impact	Hiring freezes and use of contract workers.	Soft skills training and career development decisions put on hold.	No pay rise for two years.	Reduction in voluntary turnover.	Opportunistic micro managing and focus on increase in involuntary turnover.
	Researcher's notes	<i>Organisation C demonstrated a strong evidence of a <u>hard approach to HRM</u></i>				
D	Impact	Recruitment freezes for 18 months and opportunistic hiring with lower pay.	Biggest cutbacks.	No pay increases for 18 months.	Employee turnover declined.	Performance manage people out. Job losses helped keep business afloat.
	Researcher's notes	<i>Organisation D demonstrated strong elements of a <u>hard approach to HRM</u>. This was evident in opportunistic hiring and firing decisions with cutbacks in training and rewards.</i>				
E	Impact	Minor slowdown in hiring, but not significant.	Proportionate decline in training volume offered by its corporate university.	No increases for 12-15 months.	Employee turnover declined.	Opportunistic micro managing and isolating poor performers.
	Researcher's notes	<i>Overall, in Organisation E, despite its investment in people development, there was strong evidence that pointed to a <u>hard approach to HRM</u></i>				
F	Impact	Hiring freezes, selecting people with lesser skills and low wages to exploit market opportunity.	Essential elements of technical training were retained and soft skills and career plans were deferred.	18-24 months freeze on reviews by the firm and its clients.	Sharp decline despite the transactional nature of the core business.	Redundancies and micro managing. Increasing stretch targets.
	Researcher's notes	<i>Organisation F demonstrated a strong evidence of a <u>hard approach to HRM</u></i>				