HRM as a Source of Enduring Competitive Advantage in the Post Pandemic World - A Perspective from Indian Software Sector

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ABSTRACT

Indian IT sector grew rapidly during the first three decades since the 1980s largely due to its ability to build scale on system integration projects (application development, maintenance and testing projects) and largely on programming prowess. The companies' ability to hire talent, train and deploy them in large numbers – in a factory model – was one of the biggest reasons for its success – apart from supportive government policies, steady supply of talent from Indian universities and cost arbitrage. However, during the past few years, the spectacular growth witnessed in the earlier decades has slowed down due to multiple shifts that are happening in the marketplace. The pandemic situation has aggravated the business velocity of end clients forcing them to cut discretionary spend on technology projects, which has worsened the growth forecast of Indian IT companies. The Indian IT companies need to relook at their business strategy and need to pivot it to – new age skill sets, building connects with business heads in client organization (not just with IT heads), review the hiring and training strategies and build resilience of the workforce to tide over the pandemic among others. Therefore, HR managers will play a key role, for the foreseeable future, in revitalising the growth of Indian IT companies. The industry whose competitive advantage for decades was the technology skills will now have to look at HR strategies to build sustainable competitive advantage.

INTRODUCTION

Indian IT sector which generated revenue of $ 190 billion in FY 20 employs over 4 million people in its 15,000 companies that constitute the sector. This sector also provides indirect employment to 12 million people, an employer of choice to the millions who graduate from Indian universities, employ the largest proportion of women in its workforce (majority of them are primary bread earners of their families) and earn precious foreign exchange for the country (NASSCOM, 2020). Indian IT companies support the technology infrastructure for most of the global 2000 corporations around the world and have built an enviable reputation as the technology power house of the world – which built brand India. However, tough business environment, changing customer demands, shift in buying centres, IT budget moving to new age areas like digital, competition from companies in other countries like Philippines and Eastern Europe have threatened to slow down the growth of the sector. The pandemic has aggravated the situation not just in terms of business slowdown but also in terms of reduced morale of the workforce, globally.

This is the opportune moment for HR managers to take the lead in revitalising the growth of Indian IT companies to create and capture value in the post pandemic world. HR needs to prepare their workforce and their companies - reskilling, building resilience, redesigning the organization structure to encourage agile way of working, aligning incentives to team outcomes instead of individual hero model, adopting non-monetary rewards, reinforcing the overall purpose of the firm and shift in hiring and training apart from adoption of technology – to ride the next wave of opportunities available in the market.

Hitherto, the competitive advantage of Indian IT sector was built by its technology and project delivery teams. Henceforth for the near future, delivery capability that relied more on repeatability and process excellence apart from scale will no longer be a differentiator as competition from other countries have mimicked it too. Therefore, the next set of competitive differentiation will come from HR management (HRM) strategies – purpose, culture, new age technologies, agile mode of working, self-governing teams, business problem solving and more. While technology and programming skills can be imitated; HR best practices that build culture and purpose cannot be mimicked by competition and therefore can become a source of enduring competitive advantage. This chapter list few of those HRM best practices.

GROWTH OF INDIAN IT COMPANIES

Indian IT companies grew rapidly during the first three decades during the following reasons

a) ***Availability of talent at attractive costs:*** India's focus on STEM (science, technology, engineering and maths) education paid rich dividends for the IT sector as it benefitted from a steady supply of high quality talent that was strong in logic and math background (Mani & Mishra, 2019). These graduates could be readily deployed with minimal amount of training in programming skills (which also offered by several independent vocational institutes) on customer projects which helped to build scale

b) ***Cost arbitrage:*** The cost arbitrage of leveraging the foreign exchange conversion between Indian rupees and much stronger western currencies helped a great deal to win contracts which fuelled the growth of Indian IT sector for several years before other countries with similar exchange rate benefits caught on recently (IBEF, 2020)

c) ***Supportive government policies:*** Successive governments both at the centre and at the states were supportive of the IT sector – SEZ policies, tax breaks among others like opening up of Indian economy in 1991 – helped power the growth of the sector

d) ***Ingenuity of Indian managers:*** The leaders in IT sector quickly realised that building scale is the fastest way to capture value from technology outsourcing and therefore built large factory of hiring and training engine to build scale.

e) ***Focus on continuous training and world class process:*** Indian IT companies had invested on training infrastructure for their resources so that they are current and ahead of the technology curve which would make them project ready. Also, these companies adopted world-class software development processes by way of incorporating the best practices of CMM & ISO certification recommendations which helped them in replication and scaling the business.

f) ***Ability to pivot the business continuously:*** Indian IT sector began by moving their resources from India to the western world, at the client locations, to work on projects on what was popularly called as 'body shopping', then pivoted when they needed to build scale and give a mix of resources, Indian IT companies started moving the projects offshore to India delivery centres, what was popularly called as 'offshoring'. The IT companies pivoted again by having delivery centres at multiple countries what was popularly referred to as global delivery centres. The moot point is this sector has always pivoted when needed to create and capture value for clients and can do so now too.

CURRENT CHALLENGES FACED BY INDIAN IT SECTOR

The Indian IT sector is facing multiple challenges in the VUCA world which has been aggravated by the recent pandemic that has hit the world. Some of the key disruptive ones are given below

a) ***Competition from other countries:*** Apart from India, other countries like Philippines have encouraged growth of IT sector in their respective regions which has become a stiff competition to Indian IT sector. Philippines have already taken a lead over India in the BPO business. IT companies in Hungary have built impressive programming capabilities which offer at price points similar to those of Indian software companies with closer geographical proximity to European countries

b) ***Changing skill sets:*** Indian IT companies built scale on traditional projects – application development, maintenance, support and testing projects. However, the client IT budget is increasingly going to new age areas such as design, digital, AI/ML and data analytics. The training managers in the HR team need to shift gears to reskill many of the existing engineers to new age skills apart from hiring from the market

c) ***Rise in cost structure while billing rates continue to remain flat:*** The billing rates have not increased to keep pace with inflation (in some cases the billing rates have reduced) while the cost of human resources and other operational costs have increased. This had put pressure on margins for lot of players in Indian IT sector. With stiff competition, many of these companies are forced to offer deeper discounts thereby aggravating the low profitability situation

d) ***Reduced avenues for use of monetary levers:*** As profitability continues to be a challenge, the HR managers are forced to do more with less. This sector which was known for generous use of monetary levers (high salaries, generous increments, bonus and stock options) which attracted the best talent available in the country has to now rely on non-monetary levers to enhance motivation

e) ***Competition for similar skillsets:*** The growth in start-up ecosystem, rise of unicorns, growth in banking and retail sectors that need technology skills for their platforms, setting up of large delivery centres in India by multinational IT companies and captive centres have created a 'war for talent' from the same pool of resources

f)   *Morale*: Pandemic has hit the morale of employees across sectors. News of layoffs in other sectors appear in popular business press regularly. With slowdown imminent, job security concerns have hit the morale of the workforce. HR therefore has its task cut-out.

HR STRATEGIES TO BUILD SUSTAINABLE COMPETITIVE ADVANTAGE

There are multiple strategies that can be adopted by HR to build sustainable competitive advantage for IT companies. Select ones are

a)   *Build resilience*: When faced with a crisis, each individual will cope in their own way. Weiten (2014) mentioned that individuals cope in three broad ways – appraisal focused, problem focused and emotion focused coping. Positive emotions broaden the thought-action repertoire and build the necessary physical, emotional and psychological skills needed to tide over the crisis Fredrickson (2009, 2013). Based on the intensity of emotions (low, medium and high) and recovery from adversity (slow, moderate and quick) there are nine different recovery archetypes (Mani & Mishra, 2019b) and HR will have to deal with these archetypes

b)   *Adopt a multidisciplinary approach for motivation*: DOSE (Dopamine, Oxytocin, Serotonin and Endorphins) are called angel chemicals that are triggered in the body with the right triggers in the work environment and are known to enhance feeling of well-being, reduces anxiety and stress, promotes trust, increases motivation and boost self-esteem (Mani & Mishra, 2021). DOSE can be synthesized when people collaborate, bond, receive an award for job well done, spend time outdoors and engage in moderate exercise. HR can enable most of these by making minor modification to daily routine of employees

c)   *Leverage non-monetary levers for enhancing engagement*: Non-monetary rewards that can be leveraged to enhance employee engagement/motivation include meaningful and purposeful work, accelerated career growth, flexible working arrangements, fun filled work environment, work-life balance, generous vacation policies and training among others as per Mani and Mishra (2020). Research has convincingly shown that non-monetary levers enhance work engagement and can sustain motivation for long.

d)   *Build agile teams*: Agile as a concept has been popularized in software engineering. HR can use agile concepts to reorganize their teams in agile teams – quick on experimentation, fail fast – fail forward, pivot quickly, high tolerance for ambiguity and for failure among others as shown in Table 1. Agile teams or self-governing teams have constructs that resemble the necessary constructs of work engagement. Given the fast paced changes in the business environment, agile mode of working may be a necessity. Also, quick wins that is seen in agile team will boost the morale of the workforce and can create a multiplier effort of positive emotions that can broaden the thought-action repertoire and build necessary resources for employees.

Table 1: Characteristics of employee engagement and agile workforce

Characteristics	Engaged employees	Agile workforce
Involvement at work	High	High
Willingness to help the company succeed	High	High
Enthusiasm for task at hand	High	High
Discretionary efforts	Positive	Positive
Corporate citizenship behaviour	Visible	Visible
Risk appetite	Healthy	Healthy
Tolerance for ambiguity	High	High
Fear of failure	Low	Low
Progress towards goals	Positive	Positive

Source: Mani and Mishra (2020b)

e)   *Gamification:* Millennials constitute significant proportion of the IT workforce in India. Therefore, HR would need to gamify most of their interventions to ensure compliance and adoption by the workforce and make it sticky. If the employees don't adopt meaningful interventions, then there is not much HR can do to enhance engagement

CONCLUSION

Indian IT sector is in the cusp of a major disruption in the market – VUCA environment, changing nature of buying centres, budget moving to business to pandemic – which needs new strategies for competitive differentiation. Hitherto, technology skills, large program delivery capabilities and scale proved to be the differentiators in IT sector. However, these have been imitated by IT companies in other countries and are increasingly being commoditized. The next wave of competitive differentiation can be built by HR with its next generation HR strategies. IT industry had seen disruption in the past and has successfully emerged from those – Y2K challenge, slowdown due to 9/11 and sub-prime crisis– due to the ingenuity of its employees. People are the most important assets for an IT services firm therefore decrease in morale and employee engagement may exacerbate the situation. HR can play an important role to ensure that motivation levels of the workforce remain high. Also, building resilience – ability to bounce back from an adversity – is an important skill that will be a force multiplier. Business literature is full of examples of how companies had used scale, access to customers, factories, design, brand name, marketing and licensing to build competitive advantage. It is time for HR to step up and help build sustainable advantage for Indian IT companies. IT sector contributes 10% of India's GDP and expected to play a critical role in the $ 5 Trillion by 2024 aspiration. Therefore, there is too much at stake here.

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