

HR's Rising Star in India

By Robert J. Grossman

With an enormous, young workforce (the median age is 25) living in the largest democracy in the world, India is poised to become one of the global economy's newest powerhouses. Since India opened its markets to foreign investment in the early 1990s, its economy has grown at an impressive average 8 percent annual rate, and the nation is now projected to become the world's third-largest economy (behind China and the United States) within two or three decades, according to global investment banking and securities firm Goldman Sachs and other economists.

Most of the nation's job and economic growth has been generated by family-owned Indian enterprises and multinationals in industries such as information technology (IT), telecommunications, business process outsourcing (BPO) and pharmaceuticals.

Maintaining high growth rates is a high priority for these industries because they face increasingly stiff international competition, most notably from China. But sustaining growth may be difficult, due—ironically—to a lack of qualified people.

Despite the fact that India has a population of more than 1 billion people, and a workforce of 422 million, its literacy rate is a low 59.5 percent (compared with 99 percent in the United States). Further, only about 48 million people—less than 12 percent of the entire workforce—are college graduates. And those who do hold college degrees often don't possess the skills needed by the nation's surging industries.

The human capital challenges facing some of India's hottest sectors are similar to the skills shortages that some employers in the United States face today—and that more may encounter in the future as vast numbers of baby boomers retire, legal immigrant labor grows scarcer and America's educational system continues to struggle to produce qualified new workers.

But while similar challenges face both nations, the stakes are higher in India. For many companies in highly competitive sectors, a lack of talented workers constitutes a “make-or-break” HR issue, which makes the value of good HR management readily apparent to top executives. The profession, as a result, is gaining both respect and attention—the kind that comes from being on the hot seat.

The results from HR are mixed, however, with some observers complaining of large-scale failures and others pointing out high-profile successes.

The HR Agenda

With the national economy growing rapidly and with growth in such industries as IT and business process outsourcing more than doubling, HR challenges are coming fast and furious.

“It’s like building an aircraft while you’re in the air,” says Marcel R. Parker, president of human resources at the Raymond Group of Companies in Mumbai, a leading Indian organization in textiles and retailing with 18,000 employees.

Faced with growth at record levels in some industries and skyrocketing attrition, HR professionals say they’re spending upward of 80 percent of their time on recruitment.

Compounding the problem is the fact that, for personal or family-related reasons, half of all the women they hire will opt out of the workforce by age 30, according to Anita Belani, Country Head for Watson Wyatt India in Mumbai. That’s a potentially significant problem since women make up about 20 percent of the workforce in urban areas, and far more in certain fields.

The Have-Nots

The contrasts within India are startling. The differences among its 35 states are more disparate than California is to Mississippi when it comes to standard of living, literacy and employment options. India’s per capita income is \$3,300, yet it boasts a middle-class population of over 200 million and growing. To put it in perspective, India’s middle class is two-thirds of the United States’ total population of 300 million.

Yet wide discrepancies exist between the haves and the have-nots.

“When you look down from one of the most impressive skyscrapers in Mumbai, the corporate headquarters for a vast media conglomerate, right next to the building there’s a shantytown,” says Murray Dalziel, managing director of global practices at the Hay Group in Philadelphia.

Of India’s 422 million workers, 395 million—or 93.6 percent of all workers—toil in what is known as the “unorganized sector.” Most workers in this sector are contractors, hourly, part-time, self-employed or farm workers. Workers in this sector are not protected by employment laws and do not usually receive health benefits.

By contrast, the 27 million workers in the “organized sector” are eligible for health benefits, retirement, social security and other government-mandated entitlements.

“In India, only organized-sector employees are protected by labor laws,” explains Debi Saini, professor of human resources at the Management Development Institute in Gurgaon, India. “The unorganized workers get nothing at all—no benefits, no social security.”

Even when the national government or individual states enact legislation like minimum wage laws to extend protections to these workers, the laws are toothless. “I was talking to someone recently who employs 2,000 workers in his eight factories,” Saini says. “He

pays no attention to the basic labor laws. Virtually no one follows them.”

How to mainstream the millions of socially, economically and educationally deprived Indians potentially is the most explosive and controversial issue that India faces. It is a subject of intense political debate in the business and academic communities.

—*Robert J. Grossman*

Most important, finding workers with the right skills is a problem. Even hot industries that can attract college graduates from the top-tier business schools are being forced by market conditions to inflate salaries and lower job expectations.

“People who normally would be viewed as entry-level workers and paid accordingly are commanding much higher salaries and responsibilities,” says Philip Felando, senior director of human resources at Skyworks Solutions Inc. in Irvine, Calif. Felando, who is responsible for 4,000 employees worldwide, including 300 engineers at a design center in Hyderabad, India, says: “You’re a hot commodity regardless of your ability to perform.”

Felando says employers in India are forced to quickly boost pay for in-demand employees—or risk losing them. “Skyworks has had to fast-track its promotion timetable, moving engineers up after six months while their U.S. counterparts may wait two years,” he says.

Another factor driving up salaries is the fact that skilled Indian workers know there is always another job opportunity and tend to give long notices—four to six weeks—to survey prospects and receive counteroffers from current employers.

Retention, no matter the industry, is a nightmare—especially among younger workers. Parker, who must find staff for an ever-growing number of shopping malls, provides an example: “Until a few years ago, [turnover] was between 3 percent and 5 percent,” he says. “Now, it’s as high as 70 percent. It’s very frustrating. By the time I get them trained, they’re out the door. I ask myself, who am I really training them for?”

Some new hires never even make it to the first day of the job, having found a better offer elsewhere in the short time between the offer and the start date.

Another key problem is finding workers with the right mind-set. A survey of more than 60 CEOs in India this year by Aneeta Madhok—dean of the faculty of management studies at the Narsee Monjee Institute of Management and Higher Studies in Mumbai—found that changing the workplace culture is their most pressing HR concern.

As the CEOs see it, workers don’t match up well against their hard-driving counterparts in Singapore and China. They’re too “complacent,” less interested in working to advance their careers, more interested in balancing work with family and social activities.

“There aren’t enough young workers who are dedicated to their careers,” echoes Arun Mansukhani, associate vice president of Hutchison Essar, India’s largest cellular provider. “Not enough people are willing to work for things beyond the paycheck.”

Middle-class Indian workers today, especially the younger ones, have more disposable income and are increasingly interested in gaining material possession right away. Mansukhani compares his experience working at a call center in the BPO sector years ago with today. “I got 5,000 rupees [\$110] a month and felt I was doing well if I could buy new Levi’s jeans. Now a call sector executive gets 15,000 rupees a month; she wants jeans, a car and a mobile phone—and she wants them all at once.”

A dearth of middle managers also is a pressing problem. “India has plenty of technocrats and engineers; what’s in short supply are general managers who can pull it all together,” says Guarav Lahiri, operations manager at the Hay Group India in Gurgaon.

Even for those managers already on the job, there’s a gap in expertise and training. Rajeev Dubey, president of HR and corporate services for Mahindra & Mahindra Ltd., one of the 10 largest Indian business conglomerates, says that with the exception of the relatively few managers with multinational experience, India’s homegrown managers are poorly prepared to cope with global challenges arising from mergers and acquisitions, joint ventures, and entering new markets.

Many Are Called, Few Answer the Challenge

While the HR challenges facing many Indian companies are both daunting and crucial to the continued success of their businesses, the number of enlightened HR leaders helping to tackle those challenges in a strategic fashion is small, some claim.

HR still has not reached the strategic level that it should be at, says Watson Wyatt’s Belani. “Even in the larger companies, they talk about being strategic, but in the main they’re not doing it. In the last five years, the way growth has happened, no one has thought about the real issues. Attraction and retention are all they can focus on. These are important, of course, but they don’t go further. They don’t look at the big picture. How many are actually doing workplace planning? They tell us they want to do human capital measurement, but very few really are.”

Of 50 companies in the automotive supply sector, Lahiri estimates that only three or four are trying out cutting-edge HR practices. “It’s a case of overpromise and no deliver,” he says. “From an intellectual standpoint everyone nods their head and says strategic HR is great. Whether leaders are engaging and motivating people on the ground is a question. We seldom come across a CEO client that loves the HR managers: They’re constantly complaining about how the HR guys are clueless on the business practices.”

Mostly, Indian HR managers seem content to leave the strategizing to others. “Too many HR people expect themselves to be in the back office rather than the front,” says

Mansukhani. “Bottom line, HR people are immersed in transactions that don’t add too much value.”

Making Strides

While everyone is swimming against the tide of HR challenges in India, some companies do appear to be ahead of the curve and making progress. For example, at Skyworks, attrition is at 10 percent, well below the 30 percent to 40 percent for engineers in the software industry, according to Felando.

Likewise, outsourcer Prudential Process Management Services (PPMS) in Mumbai—a company with 1,200 employees that serves Prudential U.K.’s financial products customers in the United Kingdom—reports attrition at 20 percent in an industry where 45 percent is the norm. The company’s tactics are geared toward quickly hiring good candidates, rapidly boosting their skills and offering an environment that appeals to them on a more personal level by:

- Rapidly handling screening and selection. On average, PPMS adds 25 new hires each month. It does so by quickly zeroing in on candidates and closing the deal. In a single day, a candidate will pass through five levels of screening. “When the candidate gets here, he takes a quantitative test, then a voice test to see if he can speak English,” explains Angshik Chaudhuri, director of business solutions services. “Next we do an attitudinal assessment, separate interviews by HR and the operations manager. At the end of the day we give the person a letter of intent offering the job contingent on his passing reference checks and submitting documentation like diplomas and pay stubs. It can take anywhere from one to three weeks to get the documentation, but the candidate knows on day one that we want him.”

(To learn how a U.S. employer is using on-the-spot hiring and quick-start training to attract and retain health care workers, see the *HR Magazine* article, “Quick-Decision Hiring”.)

- Offering up-front training. PPMS invests the first 16 to 20 weeks of employment in training, teaching and testing competencies. In the first week, new hires learn about the company. Then come classes in speech, customer services training and the culture of the client country in the United Kingdom. Next, four to eight weeks are spent on specific financial products training. Finally, the person goes live under strict monitoring and begins to generate revenue.
- Emphasizing horizontal and vertical opportunities. Workers are encouraged to move laterally and cross-train. “We do this because our employees are young—most join us at 23—and at that age a person does not always make an informed choice,” Chaudhuri explains. “If you’re doing well in your role, we want to encourage you to try another.”

In addition, advancement and promotion opportunities are publicized widely within the Prudential family of companies. Candidates must pass through an assessment center where HR looks at their overall contributions and leadership potential.

- Offering continuing education. After 18 months, employees are eligible for one of Prudential's MBA programs, specially tailored in partnership with top-rated Indian business schools. The company pays for half the tuition.
- Pitching lifestyle and downplaying compensation. Culture is the No. 1 selling point. "Our position on compensation is never to be the market leader," Chaudhuri says. "We're offering a lifestyle—a family-oriented environment, training, graduate education and job advancement. We tell candidates that if you'd like more money, don't work with us."
- Stressing family ties. Family and friends, boyfriends and girlfriends are invited to visit the workplace. "We meet with them and tell them how grateful we are that the employee is with us," Chaudhuri says. "When we do this, the worker's social status increases phenomenally and the family relates to us as real people."
- Developing good branding. Building a well-respected company brand is a powerful differentiator. "If you work for a company that's well-known, your social equity is very high," Chaudhuri says. "You've been vetted; you have social status." He cautions that failing to live up to your brand can spell disaster. "If your people practices don't mirror what you stand for, you'll lose face very rapidly."

Similar Challenges

CEOs in India report HR challenges that may sound familiar to U.S. HR executives:

1. Creating a high-performance culture.
2. Retaining talent.
3. Recruiting.
4. Moving from patriarchic, hierarchical management to a more team-based, informal organizational culture.
5. Linking training with performance.
6. Compensating knowledge workers.
7. Building interpersonal relationships/managing conflict.
8. Going global.

Source: CEO survey 2006, by Aneeta Madhok, dean, faculty of management studies, and professor, organizational behavior and HR, at the Narsee Monjee Institute of Management and Higher Studies.

Talent Management: A Top Concern for Top Executives

HR executives who do have success tackling India's human capital management problems are doing so under a spotlight. Especially in those sectors where a company's growth is limited by its ability to obtain and keep talented employees, India's key human capital issues are key business issues—ones attracting the attention of top business leaders.

In fact, many CEOs in India recognized the need for good human capital management almost as soon as their markets were opened to foreign investment, says Wayne Brockbank, professor of HR management at the University of Michigan at Ann Arbor. Brockbank has been consulting in India since 1994, when he was hired by Indian companies to share HR strategies he and other experts had been extolling in the United States for decades.

In those early days, Brockbank recalls, CEOs in India “realized quickly that the human side of the business is what you have to compete with. Your people will save you, not your factories.”

Recognizing the importance of talent management, some CEOs who lacked specialized HR expertise in-house took on the role themselves. Brockbank cites ICICI Bank, the major Indian financial institution that is going head-to-head with mammoth Citibank in some markets.

“In 1998, ICICI had 8 percent of the financial services market in India,” says Brockbank. “Today it has 30 percent. Ask the CEO who guided the company during this period and he'd say his levers for creating this juggernaut are his HR practices. Initially, he actually became his own HR VP.”

Other CEOs in India went outside the HR pipeline to find executives with business acumen who could add a strategic HR perspective. For example, when the leadership team at Mahindra & Mahindra wanted strong HR leadership, they hired Yale University-educated Dubey as president of HR and corporate services. In a career path not usually seen in the United States, Dubey previously had been a CEO for two companies in the Tata Group, India's largest private conglomerate.

“I had never been part of the HR function, but I dealt with a lot of HR issues when I was a CEO,” Dubey says. Now, he leads 150 HR professionals at Mahindra & Mahindra. “We do a lot of work that's strategic to the success of our businesses: talent management, creating synergy, creating a culture of integration, mapping, succession planning and developing a global mind-set.”

The Importance of HR

The value that many top executives in India place on human capital management is clear.

“Whereas in the United States, HR often has to make the value case for human capital, it’s not lost on Indian CEOs,” says Salil Agrawal, head of the IT, BPO and Telecom Practice at ECS Ltd., a consulting firm in Gurgaon, India. “The moment CEOs talk about ramping up—which almost everyone is—finding people becomes paramount. Unless they partner with HR, they know they won’t be able to deliver.”

The importance of human capital management also is reflected in the types of executives who are hiring HR consultants.

“Six years ago, our clients were HR managers and directors, and we focused on traditional transactional activities like compensation studies,” says the Hay Group’s Lahiri. “Today, our clients include CEOs and line managers, and we’re asked to address strategic issues about managing growth and change.”

Ultimately, HR issues are business issues here, and those who tackle human capital issues in a way that meets business needs are prized—and sometimes rewarded with far broader responsibilities.

For example, at Skyworks Solutions’ facility in Hyderabad, India, the HR director is part of a triumvirate that runs the operation along with the site director and the controller, says Felando. The India HR director “sits on the board of directors of the Indian company. Along with traditional HR duties, he’s tasked with running the site from an operations perspective. He truly is strategic.”

The generally high value placed on HR management in India is illustrated by the results of a recent salary study commissioned by Hutchison Essar: Senior HR executives were the third-highest-paid executives in the country behind network architecture and sales executives.

This does not surprise Mansukhani, who says, “The way you manage HR issues in India can make or break you.”

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