CROSS-CULTURAL ISSUES IN HRM

by

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Abstract

With the rapid increase in the globalization of business, workforces are becoming increasingly diverse and multicultural. Managing global workforces has increased pressure on Human Resource managers to recognize and adapt to cultural differences, which when ignored can result in cross-cultural misunderstandings. With the growing significance of developing economies in the global business environment, Human Resource Management is facing increased difficulty in managing cross-border cultural relationships. This study presents cross-cultural issues faced by Indian management due to differences in national culture brought about by recent liberalization of economic policies.

Key Words: human resource management • cross-cultural issues • developing countries • India

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Introduction

Culture is a broad and protean concept and reality that influences who we are - as individuals, families, communities, professions, industries, organizations and nations; and how we interact with each other regionally, nationally and globally. Culture can be defined as a set of values, beliefs and notions learned by sharing our behaviours within a particular society. This characteristic of culture gives us our sense of identity and belonging. Culture is reflected in our language, communication styles, history, religion, values, notions, ideas and ways of being (Bodley, 1999).

The term 'Human Resource Management' can be explained as a concept that significantly revolves around values. Values are associated with culture; hence, Human Resource Management necessitates a direct link between human beings as a resource and their cultural backgrounds (Jackson, 2002). Human Resource Management (HRM) forms the structure in an organization that is responsible for the entire decision-making, strategy implementation, principles, operations, practices, functions, activities and processes related to the management of people (Society for Human Resource Management, 2008). The ideas behind these principles, policies and practices of managing people in organizations differ with people from differing cultural backgrounds requiring HRM to be carefully examined and altered to match their organizational objectives (Society for Human Resource Management, 2007).

The importance of HRM has grown over the past few decades. As a result, this business sector has undergone several developments, within such areas as Strategic

Human Resource Management and International Human Resource Management. Further, the increasing levels of globalization and internationalization of business, the evolution of new markets (such as in China, India, South-East Asia, Latin America, Eastern Europe and Africa), the growth of new international business organizations (such as NAFTA, ASEAN, European Union) and increasing competition both nationally and internationally have resulted in a deeper focus upon effective human resource management. Organizational leaders and policy makers are required to know how human resources (HR) are managed in different parts of the world and how they should perceive and react to different cultural beliefs and practices (Budhwar & Sparrow, 2002).

Several scholars and authors have researched and suggested various HRM models that can work both regionally and nationally. However, most of these models use an Anglo-Saxon approach, which restricts their application in a global business environment. Firms and organizations operating in different nations need to be more specific about national cultures and develop their HRM policies and practices accordingly. The Anglo-Saxon models should be carefully examined before their implementation in other regions of the world (Budhwar & Sparrow, 2002). The importance and relevance of these models becomes even more questionable in developing countries as these models have been presented by scholars from developed countries. A greater focus on understanding the cultural issues faced by human resource management in developing countries, particularly India will be of significant help in analyzing the appositeness of these models (Budhwar & Debrah, 2001).

Authors Pawan S. Budhwar and Yaw A. Debrah have presented several reasons for examining HRM in developing countries (Budhwar & Debrah, 2001):

- A large proportion of the world's population lives in the developing countries;

- Developing countries act as significant buyers for the developed nations;

- They act as essential natural and human resource suppliers for the developed countries;

- They are strong competitors to the industrialized nations due to availability of low cost labour;

- They serve as excellent expansion and production sites for multinational corporations.

These factors explain the scope of interdependency between developed and developing nations and the need to research and analyze the kinds of HR policies and practices relevant for developing countries with regard to their unique compositions of different cultural factors (Budhwar & Debrah, 2001).

The Society for Human Resource Management, 2008 has forecasted several trends in culture that are likely to influence the organizational environment:

1. Increased awareness of cultural differences in both national and international workplaces;

2. Increased need of cross-cultural understanding in business environment;

3. Management of global talent;

4. Increased emphasis on global leadership capabilities;

5. Increased popularity of virtual global teams.

These trends have transformed the role of a manager into a much more complex form than it was before. Cultural adaptation issues have become unavoidable alongside the introduction of global business orientations. The purpose of this essay is to discuss the impact of these cultural trends in HRM in developing countries specifically on Indian HRM, as India becomes an increasingly important destination for many foreign investors and multinational corporations (Munuswamy, 2008). An overview of socio-economic environment of India is presented and its impact on Indian HRM is discussed. Based on this development of the socio-economic structure, the cultural challenges faced by Indian HRM are pointed out (Budhwar & Debrah, 2001).

Chapter 1 discusses the concept of culture from perspectives of different authors. Cultural conditioning explains how people attain their culture by accepting or rejecting certain behaviours, beliefs and notions in their society. Based on Hofstede's model of work values (Hofstede, 1980), cultural comparison is explained based on individualism-collectivism, power distance, uncertainty avoidance and masculinity-femininity. The next portion of this chapter explains why the concept of culture is important in management.

Chapter 2 introduces Human Resource Management, why it is important in balancing international and domestic management, and the need for HRM in the organization. The next segment of this chapter discusses the relationship between HRM and globalization and the reasons behind the increased focus on HR practices and procedures resulting from this globalization.

Chapter 3 starts with brief background information about India with a description of its main religions, languages and present day problems. The next topic is a discussion of how the deregulation of India's closed-door policy toward Foreign Direct Investment

resulted in positive impacts on its economy creating opportunities for internationalization, expansion, diversification and competition. In addition, we will explore how these changes have strained the human resource function in Indian domestic organizations. Next, we will look at the HRM function in India and its evolution throughout India's history. This will be followed by the presentation of the socio-cultural aspects of Indian society affecting HR practices. An understanding of these factors becomes essential for any international organization to do business with India.

Chapter 4 focuses on cross-cultural issues in Indian HRM. It begins with the impact of six aspects of national culture (social behaviour of managers; common values, beliefs and behaviour; impact of pressure groups; managers' perception and thinking about the organization and overlap between organization's culture and the 'way things are being done in the organization') on Indian personnel managers as measured by a questionnaire survey. The next section of this chapter explains Hofstede's cultural dimensions for India and explains reasons for connection between national cultures and organizational cultures. Lastly, comparison of Indian managers with American, German and Swedish cultures is discussed highlighting the conflicts faced by India and reasons for the cross-cultural issues.

1: Culture

1.1   What is culture and how does it work?

Many authors have interpreted the meaning of the word *culture* differently. American anthropologists Kroeber and Kluckhohn (1952) have given more than 160 different definitions for culture (Thomas, 2008). According to their definitions, the management authors identify the concept of culture as:

> Culture consists of patterns, explicit and implicit of and for behaviour acquired and transmitted by symbols, constituting the distinctive achievements of human groups, including their embodiments in artifacts: the essential core of culture consists of traditional (i.e., historically derived and selected) ideas and especially their attached values; culture systems may, on the one hand, be considered as products of action; on the other as conditioning elements of future action (Holden, 2002, p. 21).

Kroeber and Kluckhohn's concept of culture can be construed as following (Holden, 2002):

- A set of ideas, concepts or notions, especially values are shared by the members of a culture

- This set of ideas is transferred from one generation to another through symbols

- Culture exists from the past actions of members of a group

- Culture is learned

- Culture moulds behaviour and changes one's perception of the world.

According to Hofstede (1994), culture has a tendency to influence values in the human endeavour. He has categorized culture into six broad levels as international, national, regional, organizational, professional and personal (Holden, 2002):

- Culture existing in a country and common to its nationals is national level

- Culturally different groups existing in a nation having similarities based on regional and/or ethnic and/or religious and/or linguistic behavioural levels

- Gender level depending on whether a person is male or female

- Generation level consisting of differences in generations between grandparents, parents and children

- Professional level associated with differences in education and occupation of individuals

- Organizational level operating at corporate level required by the members of that organization.

To define culture more simplistically, it can be described as how we live, how we are expected to behave and how we do things every day (Taylor, 2005). Cultures are developed over time when people in the same community spend time together and are tied by common beliefs, goals, routines, ideas and values. Carolyn Taylor describes humans as tribal animals adapting their behaviour according to the needs that require

them to fit in their particular tribe. This adaptation is referred to as survival or existence strategy. The ones who fail to do so either have to leave the tribe or are rejected by the other members of the group.

As the members try to fit into the tribal environment, they strengthen the norms and accepted behaviours of the tribe, and in turn strengthen the culture. This process is further strengthened by peer pressure from the threat of newcomers to the tribe. This allows the existing members to come together and find the weaknesses of their tribe (Taylor, 2005).

Schein (1985) has compared culture to an iceberg (Thomas, 2008). Just as an iceberg has some visible portions above the waterline, a larger but invisible portion exists below the waterline as well. Similarly, culture has some aspects that are clearly visible and noticeable while other aspects can only be imagined or ideated. That which is visible is only a small part of the entire culture. A relationship exists between the invisible and visible aspects of culture and in several cases; the invisible aspect of culture tends to influence the visible part. As an example, religious beliefs (invisible aspect) can be easily recognized by holiday customs and style of dress (visible aspect) (Peace Corps Cross-Cultural Workbook, n.d.).

1.2 Cultural Conditioning

After understanding the definition of culture, it is important to realize how people acquire their culture and learn about behaviours and values that are accepted or rejected by their society. This process is known as *cultural conditioning*, which is specific to particular groups and varies significantly from culture to culture (Peace Corps Cross-Cultural Workbook, n.d.). The process of conditioning starts to develop in early

childhood but continues to develop throughout the life of an adult as new behaviours and values are acquired continuously.

There are five steps involved in the process of cultural conditioning (Peace Corps Cross-Cultural Workbook, n.d.):

1. **Observation/Instruction:** In this process, you only observe a particular behaviour without actually doing it yourself. For example, you may have observed someone cooking a dish without actually trying your hand at it.

2. **Imitation:** At this stage, you try to do things yourself. The situation makes you a little nervous as your full concentration is applied to doing things without making any mistakes. In this process, you start to cook a dish.

3. **Reinforcement:** At this stage, people guide you on how to do things correctly and tell you about your mistakes. Over the course of several attempts, you learn to improve on your cooking skills and try to do what people ask you to do.

4. **Internalization:** At this stage, you do not need much reinforcement and practice helps you learn how to do things correctly. You still need to pay little attention but less than in stages 2 and 3. You start to cook with more accuracy and improvement.

5. **Spontaneous Manifestation:** At this stage, you are able to do things the right way without paying much attention to what you are doing. It comes naturally to you.

1.3 Culture Comparison

Hofstede (1980) has presented a classic study of work values to compare cultures across different countries (Thomas, 2008). The study is based on attitude surveys of 117,000 IBM employees representing 40 different countries, which later expanded to include 50 countries. Hofstede presented four dimensions derived from differences in national cultures. Each dimension was given a score ranging from 0 to 100. The four dimensions were *individualism-collectivism, power distance, uncertainty avoidance, and masculinity-femininity* (Peace Corps Cross-cultural Workbook, n.d.).

Individualist – It refers to the extent to which an individual identifies one's self. Characteristics include being self sufficient and self-dependent without the need for reliance on the group. People orient themselves to be psychologically and emotionally distant from each other. The success of the individual is independent of the success of the group. This is in contrast to its opposite – the collectivist.

Collectivist – An individual associates himself with a large group or a team, for example, family or work team. The success and survival of the individual is dependent on the team's success. Cooperation and integrity are required of all the team members in a group. All the group members are similar in their psychological and emotional orientation but this may vary with members of other groups.

Power Distance – It demonstrates the attitude of the society toward power differences, that is, how cultures perceive the notion of power and status. It comes into play especially in workplace relationships, particularly in the relationship between managers and subordinates. Depending on acceptable power differences, there can be high power and low power distance cultures.

High Power Distance – People in these cultures regard power and status as natural and accept that some people are powerful and influential. Power and status are used to distinguish members of the society. People with greater power are required to take more responsibility and initiative.

Low Power Distance – Contrary to high power distance, people with low power distance see power and status as artificial and pretentious. Those with power tend to reduce the differences by distributing the responsibility and initiative equally.

Uncertainty avoidance – The third dimension in Hofstede's model deals with interpretation of uncertainty of life in various cultures. All societies are affected by uncertainty but the level of threat varies differently among different cultures. Some cultures feel highly anxious about the uncertainty in life and are known as high uncertainty avoidance, while low uncertainty avoidance cultures are more tolerant to threats and anxieties.

Masculinity-femininity – It is the extent to which cultures differentiate between gender roles. Male orientations are characterized by ambition and excellence whereas female orientations have propensity more toward quality of life and harmony (Hofstede, 1980, p. 261 and 262).

1.4 Cross-Cultural Management and Challenges

From a management perspective, the concept of culture can be explained as a set of shared mental descriptions that shape the way in which managers interact with the world (Thomas, 2008). It is important for them to understand the way they behave and act in their roles and how cultural diversity influences the other members of the

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organization. Today successful organizations require their leaders to fully understand their culturally diverse work atmosphere and work effectively with people from different cultural backgrounds having different ethos, values and business rules (Society for Human Resource Management, 2008).

However, acquiring cross-cultural skills requires considerable time, training, teaching, experience, knowledge, susceptibility and awareness. Lack and ignorance of such inter-cultural expertise results in miscommunication, mismanagement and relationship disasters, thereby having serious implications on business services, project failures and increased competition (Society for Human Resource Management, 2008). Seen from a broader perspective, ignoring cultural differences on the international level results in dominance by powerful countries and corporations appear not to value cultural diversity. As a result, it increases perplexity and animosity and directly impacts trade relationships. Authors define this stage of deficit and threat as a negative spiral starting to evolve in the business environment and then having serious implication on the functions of the organizations (Quappe & Cantatore, 2005).

The challenges for HR professionals are to look for ways to reverse the effect of this spiral, leverage cultural diversity as a powerful resource to increase productivity, and develop means to meet the needs of the global business (Quappe & Cantatore, 2005). HRM's key responsibilities include an ability to understand the interaction between cross-cultural factors and HRM. It acts as a channel in the organization to implement cross-cultural intelligence and encourage cross-cultural communication throughout the organization (Society for Human Resource Management, 2008).

The next chapter discusses the concept of HRM, the role of culture-bound and culture-free determinants of domestic HRM and the functions and developments of HRM in India.

2: Human Resource Management

2.1 Introduction

Human Resource Management is expanding on its traditional role as that of a support function providing conformity with external regulation in processes such as employee selection, remuneration, termination, administrative benefits and industrial relations. It is now starting to include strategic management to provide solutions to globalization by dealing with more country-specific knowledge of union and labour policies, legal and administrative requisites, and compensation and incentive programs (Teagarden & Glinow, 1997). In other words, HRM looks after the management and administration of all employment relationships in the organization, consolidating both management and non-management staff (Budhwar & Debrah, 2001).

The function of HR has extended to international expansions involving preparations for international assignments and arranging for their re-entry after their completion. HRM is being recognized as a source for competitive advantage in the organization by enhancing organizational learning and helping it build an excellent workforce to fight global competition in the coming years. Authors have defined HRM as a strategic vehicle balancing the organization's global management and local receptivity. Such diversity may exist in a joint venture or strategic alliance operating internationally or even a large local firm (Teagarden & Glinow, 1997).

This balance between international and domestic management requires a broader approach and strategic consideration. Such an alliance of affiliates requires significant

human resource involvement for the success of the entire business. The dependence between integration and human resource management makes it vital to structure a firm's global activities and use of human capital and other human assets. The scope of business turning global has transformed the role of human resources making it much more valued than factors such as technology, research and development. This cross-cultural scope of human resource management has gained a new definition and concept labelled International Human Resource Management (Teagarden & Glinow, 1997).

As mentioned earlier, HRM practices largely follow American and Anglo-Saxon approaches. The reason for such trends has been explained as the economic dominance by the United States since the Second World War and its resultant impact on HRM practices in international management. However, with developments of business practices in countries with diverse culture such as China, India, South Africa, and Czech Republic, emergence of different concepts of organization and management took place, which were quite different from Anglo-Saxon business concepts. This predominant influence by the developed countries allowed for little vocalization of HR practices by these developing nations (Jackson, 2002).

Human resources involve effective and appropriate management, as it is important to look after the welfare and prosperity of humanity. This requires inspiring people to move to organizations usually separating them from family, recreation and social life. Once in the organization, they are required to work hard and acquire skills and expertise that have limited importance and pertinence outside the work place. This whole process varies in different organizations depending on the culture. For example, a contractual relationship might be preferred in an individualistic culture whereas a

collectivistic culture might stress a humanistic approach emphasizing loyalty and

obligation by the employee to the organization and vice versa. These differences in

human values make it important to balance life inside and outside work organizations. It

becomes critical to the organizational management to look at local stakeholders'

interests, local approaches to business, local cognition, policies and practices, as well as

needs and expectations (Jackson, 2002).

Author Terence Jackson has developed a figure describing the process of the
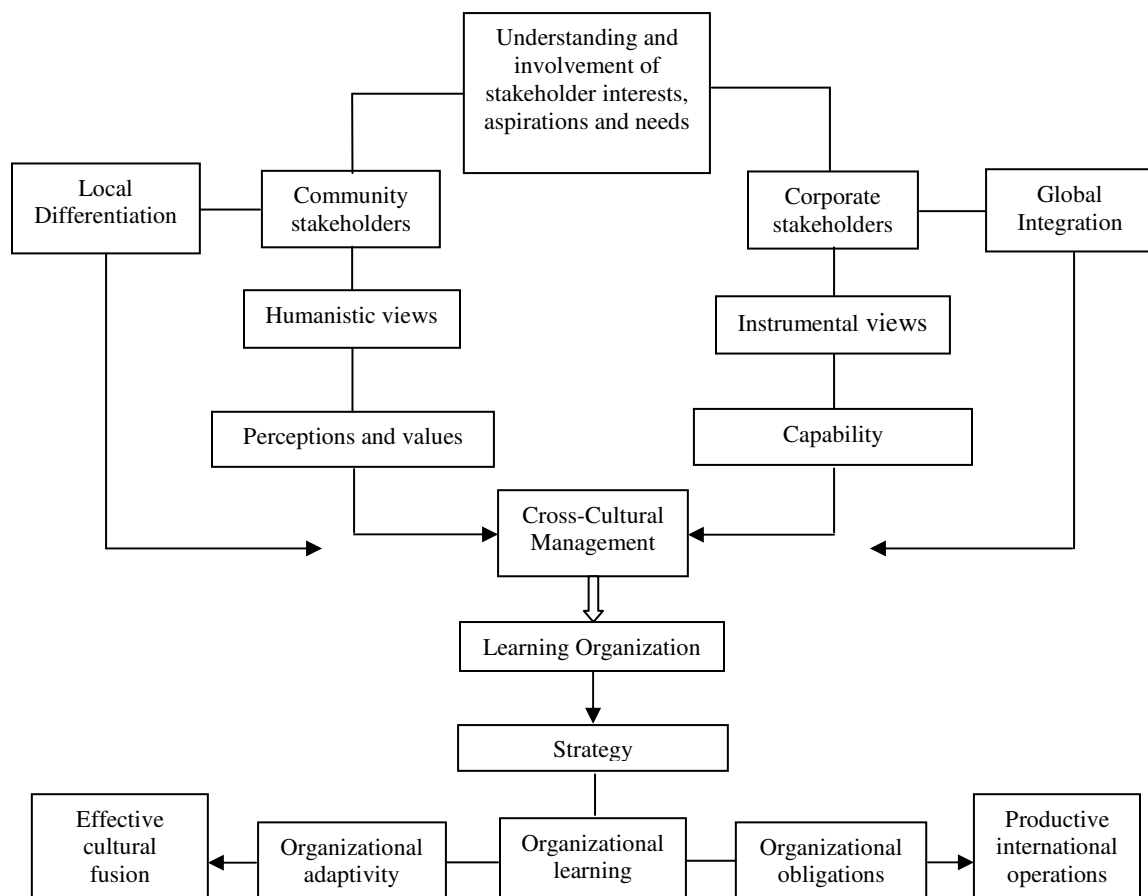
future organization:

Figure 2.1 Process of the future organization
Source: Adapted from International HRM a cross-cultural approach, Terence 2002, p. 225

Several authors have examined HRM as a means to achieve competitive advantage and success in an organization. The growing proactive nature of human resource function has changed the nature of HR, which is now perceived as proactive, descriptive and executive rather than reactive, prescriptive and administrative. An important relationship between business strategy and HRM seems to have evolved, making HRM more Strategic Human Resource Management (Budhwar & Sparrow, 1997). Lengnick-Hall has provided three main reasons for explaining this relationship between strategy and management (Lengnick-Hall, 1988):

a. This combination helps in solving complex organizational problems by providing a wide variety of solutions.

b. It guarantees equal contribution by all the resources (that is, human, technical, and financial) in deciding goals and assessing implementation competencies.

c. It defines the role of HR more strongly and takes into consideration strategic developments in the organization adding to its competence and competitive advantage.

The need for HRM in an organization can be explained as (Budhwar & Sparrow, 1997):

a. Certain complex and intricate issues to be handled by a firm's top management

b. Local HR department can look into the issues more quickly and understand the local problems and situations more effectively

c. HR as a separate department can help in motivating the employees and controlling them more effectively due to their regular connection and association with them

d. It helps in preparation of future managers by allowing mid-level managers to learn and practice decision-making skills and techniques

e. It helps in the reduction of costs.

2.2   HRM and Globalization

Differential issues experienced by firms due to their entry into a more dynamic phase of international business and globalization of world markets have resulted in critical debates around international HRM. There has been significant research conducted in the area of cross-national HRM studies. HRM departments in different parts of the world are being analysed to check for differing HRM practices globally. Writers have explained the reasons for different national HRM practices due to their dependence on both 'culture-bound' and 'culture-free' components. Investigations have been made on several contingent factors that have direct and calculable causative effects on HR policies. The factors include (Budhwar & Sparrow, 1997):

- Size of the firm/organization

- Extent of technology dependence

- Age of the organization

- Existence of a professional HRM department in the organization

- Form of proprietorship

- Presence of training divisions in the HR department

- Life-cycle stage of the organization

- Effect of environmental factors on HRM practices, policies and procedures in the organization.

However, several non-contingent factors such as national culture, national business system, governmental and organizational factors and the function and capability of HR managers have an imperceptible and abstract effect on HR practices. To anatomize the concept of HRM in any country-specific context, it is important to understand and examine the impact of all these contingent factors, corporate policies and integration levels. Since the majority of the research has been limited to Western and North American countries, comparing HR practices of organizations in different countries can help in developing an understanding of their country and culture-specific HRM models. Authors Budhwar and associates (Budhwar & Debrah, 2001; Budhwar & Sparrow, 1998, 2002) have developed a framework for studying and investigating cross-national HRM. They have recognized three levels of determinants that they believe to affect cross-national HRM policies and practices. These are (Budhwar & Debrah, 2001):

- *National Factors* – These involve national culture, national organizations, businesses, and business environments.

- *Contingent variables* – Explained above including factors such as age, size, ownership type, life-cycle stage of the business, the existence of trade unions, types of HR strategies and policies, and benefits to stakeholders.

- *Organizational Strategies* – Authors such as Michael Porter and Miles and Snow – Organizational types - propose these strategies. These strategies also include policies and practices related to HRM functions and administrative units existing in a firm dealing with labour markets.

For studying HRM in developing countries, greater stress is laid on analysis of the influence of national factors. As Budhwar and Debrah name them, national factors can be broken down into *national culture, national organizations, dynamic business environment* and *industrial sector.* These four factors tend to constitute the macro-environment of business in a national condition (Budhwar & Debrah, 2001).

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                   │ National configurations of HRM │
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│ National Factors │   │ Contingent Variables │   │ Organizational Strategies │
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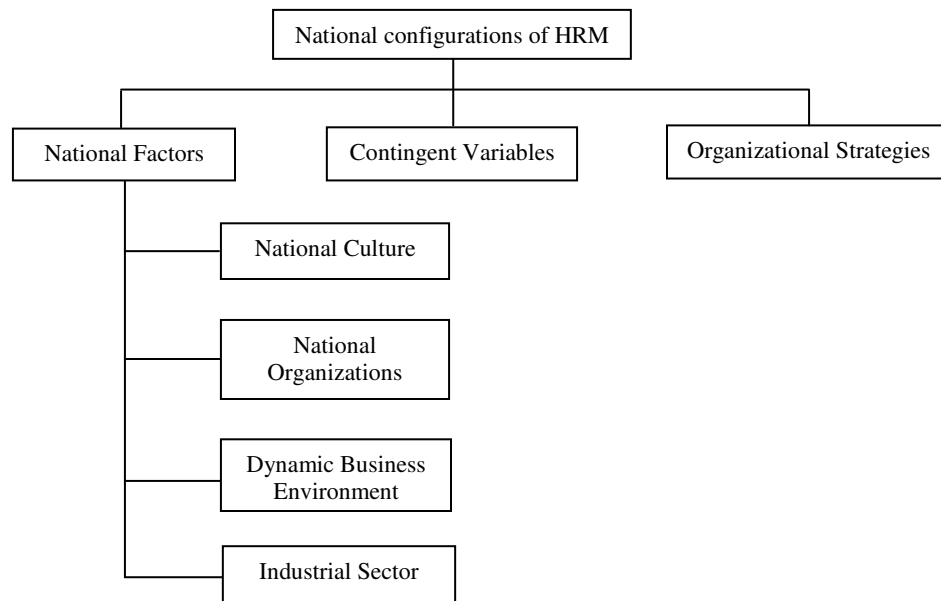
Figure 2.2 Factors determining cross-national HRM practices
Source: Adapted from Human Resource Management in Developing Countries, Budhwar & Debrah, 2001, p. 6

For the purpose of this essay, influence of national culture on HRM policies and practices will be considered. Budhwar and Debrah, 2001 have identified few important aspects of national culture:

- Socialization process

- Common values, beliefs and norms of behaviour and customs

- Power of pressure groups

- Suppositions that configure management's perceptions, thinking, and understanding

- Type of management system

- Meaning of employment and beliefs

- Personality, temperament, attitude, and way of doing things

- Attitude toward cultural diversity

- Correlation to the culture of the organization.

These concepts help in developing a greater understanding of the challenges faced by HRM due to variation in different types of cultures – the cultures of both developing and developed nations and the increasing diversification of the workforce in terms of multiculturalism (Claus, 2008).

The next portion of this essay will discuss the scenario of HRM in the Indian context that experienced significant changes due to economic reforms in recent years. The necessity to understand HRM practices in India has increased vastly as it has

liberalized economic policies and encouraged foreign investors. This liberalization has

not only created opportunities for expansion, diversification, competition, and

globalization in India but also resulted in increased pressure and challenges on HRM

policies and strategies due to varying socio-cultural aspects (Budhwar & Sparrow, 1997).

3: Human Resource Management in India

3.1 Indian Culture – Background Information

India is a country in South Asia. It is the seventh largest and second most populous nation in the world. In Asia, it ranks third in terms of geographic area after Russia and China. It shares its borders with Pakistan in the west, People's Republic of China, Bhutan, and Nepal in the north, Bangladesh and Burma in the east, and Sri Lanka, Maldives and Indonesia in the south. It is surrounded by The Indian Ocean in the south, The Arabian Sea in the west and The Bay of Bengal in the east. India's location in the continent makes it an important country for international trade and commerce. India gained its independence from The United Kingdom in 1947. Since then, it has emerged as the largest democracy in the world. India consists of twenty-eight states and seven union territories with a democratic parliamentary system. It ranks twelfth worldwide in Gross Domestic Product and has the fourth largest purchasing power (National Informatics Centre, n.d.; Budhwar & Debrah, 2001).

Three of the world's main religions – Hinduism, Buddhism, and Sikhism - originated in India. Hinduism comprises eighty percent of India's population, followed by Islam (thirteen percent), Sikhs and Christians comprise two percent of the entire country's population, and Jains and Buddhists account for less than one percent. Over three thousand castes or ranked social classes exist in the country (National Informatics Centre, n.d.; Budhwar & Debrah, 2001).

According to the 1991 census, 1,576 languages have been recognized as mother tongues and twenty-two languages have been given the status of official languages in India. The increase in the number of languages recognized as official languages has been explained as due to changes in the political process. Although India does not have any national language, Hindi and English are considered the two main official languages. This makes India one of the largest English-speaking nations in the Asia-Pacific region. An uneven distribution of the literate population of India in the entire country makes it a destination for a variant workforce (Budhwar & Debrah, 2001).

Though India experienced economic reforms since 1991 and has become one of the fastest growing economies in the world, it still suffers from problems such as rising poverty levels, illiteracy, malnutrition, increasing levels of population, political and religious insecurities, growing unemployment, corruption in government sector, prevalence of casteism, instability in various sectors especially agriculture, low per capita income, excessive administration and an increasing gap between the rich and the poor (Wikipedia India; Budhwar & Debrah, 2001).

3.2   Liberalization of the Indian Economy

India has recently become a favourite spot for many foreign firms and organizations. This has been made possible due to reforms in the public sector, in trade and exchange policies and in the banking sector and has resulted in the liberalization of foreign investment (Budhwar & Debrah, 2001). India was a state-regulated economy from its Independence in 1947 until the beginning of 1990. This resulted in poor performance of the economy due to reduced international competition and capital investment in the country, decreased industrial growth, loss of value of currency, a high

proportion of borrowing to GNP, fiscal instability, and a significantly low level of foreign

exchange. The situation even deteriorated in the late 1980s and early 1990s, when the

Indian government in an agreement with the World Bank and International Monetary

Fund, decided to change from a regulated management to a 'free market economy'. This

was followed by various modifications in Indian economic policies such as the

devaluation of currency, the implementation of a new industrial action, and the

introduction of new regulations for trade and commerce. These reforms introduced

competition and quality in Indian business (Liberalization of Indian Economy and HRM,

n.d.; Budhwar & Debrah, 2001).

India saw positive impacts on its economy with these reforms and came to be

recognized as one of the greatest emerging markets in the world. The World Bank has

predicted India to become one of the three largest economies in the world after China and

The United States in 2050 (Neill, 2007). Availability of scientific and technical

population in the country has been explained as the reasons for such a tremendous

increase. Privatization of major business sectors in India such as transportation facilities,

(that is, railways, airlines, roads, ports) and other industries (such as power,

telecommunication, oil, construction, banks etc.) are further adding to its growth and

national savings. Many projects have been started to attract Foreign Direct Investment

and encourage formation of several joint ventures thus creating opportunities for

internationalization, expansion, and diversification, generating employment, improving

productivity and quality, and reducing costs (Budhwar & Debrah, 2001).

On the other hand, the liberalization of policies increased competition between

domestic and foreign firms. This increased pressure on Indian firms as the products and

businesses had to compete for cost, quality, and technology with international companies. To compete with the international rivals, Indian companies had to modify their bureaucratic business methods from labour-intensive to that of capital-intensive production systems and prepare and develop their employees according to international standards. This process involved downsizing in Indian industries and at the same time generating new employment opportunities (Budhwar & Debrah, 2001).

The increased competition from foreign firms and liberalization of the economy has resulted in considerable strain on the human resource function in Indian domestic organizations. The goals associated with liberalization policies to increase growth and productivity, decrease costs, improve quality, create employment opportunities and reduce surplus employment in Indian industry are directly related with HR issues (Budhwar & Debrah, 2001).

3.3 Liberalization and Indian HRM

Authors have anticipated a broad scope of effects from liberalization in Indian HRM. The explanation of these implications is the competition faced by Indian organizations from the multinational corporations, who do not only have to stand up to technological upgrading but also develop and maintain a highly diverse workforce able to sustain in a highly skilled, impelling, and productive work environment. Indian firms feel greater pressure on their human resources as the foreign operators in India are believed to have better, effective, and more efficient human resource management. The stress on HRM has increased, as it has to deal with cultural implications caused by fusion of distinct beliefs and notions of both the indigenous and foreign population. The role of HR

has changed from that of a routine administrative department to that involving a strategic approach in the development of human resource functions. Many HR practices and policies are being reviewed and revised to match with the challenges brought about by liberalization and globalization. Comparative analysis of HRM functions in the private and public sectors have further brought in considerable variations in personnel functions (Budhwar & Debrah, 2001).

The following trends have been observed in Indian management since liberalization (Khanna, 1996; Jackson, 2002):

- The emphasis on customer satisfaction has increased and organizations are directing all their resources toward improving their customer services.

- With the growth of the service industry, a greater number of people are involved in providing services to the customer.

- Organizations have realized the importance of unique expertise in achieving competitive advantage than relying simply on products or product categories.

- Even technological developments are focussed directly on people rather than techniques or processes, to maximize corporate performance by using methods to extract the best from them.

3.3.1 HRM function in India

The presence of a formal HRM department has been common in Indian organizations for many years. A number of developments in Indian history shaped the face of personnel functions in the nation. The ideas of social and public administration

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are seen to have existed in the prehistoric era from early 4500 B.C. to 300 B.C. evident

by the existence of international economic and political relations in India. The world's

first book on management, 'Arthashastra', written in 300 B.C., covered concepts of

financial administration, principles for effective trade and commerce, and effective

human resource practices signifying the importance of management of people in ancient

India. These ideas influenced organizational thinking for a number of years. The growth

of trade with Romans in 250 A.D. resulted in methodical and systematic styles of

governance. The next 300 years witnessed more regulated managerial systems by

introduction of stringent policies and procedures during Gupta Dynasty. Later in 1000

A.D., trade and commerce was greatly influenced by the ideas of Islam. Further, the

managerial history of India went through intense transformation under the British system

for 200 years (Human Resource Management in India: 'Where from' to 'Where to'?

2007).

The regulation aimed at labour management relations between workers and

employers was formally recognized after the Trade Union Act of 1926. The authority to

appoint labour officers was based on the recommendations by Royal Commission on

Labour in 1929, and the eligibility and responsibilities of labour welfare officers dealing

with health, safety, welfare and rights of workers was recognized by The Factories Act of

1948 (Budhwar & Debrah, 2001).

The early 1950s witnessed the development of two prominent bodies -The Indian

Institute of Personnel Management (IIPM), Kolkata and The National Institute of Labour

Management (NILM), which were engaged in personnel management, industrial and

administrative relations, labour welfare and human resource development in India. These

two institutes merged in March 1980 to form The National Institute of Personnel Management (NIPM) as a not-for-profit institute for human resources management in India and introduced new concepts of HRM and HRD to the personnel management functions. In the 1960s, personnel management included three more areas of labour welfare, industrial relations, and development of personnel administration in addition to the normal functions of welfare of the workforce. The 1970s changed the status and scope of human management by stressing more the need for efficiency in the organizational context. These changes and developments have been gradually transforming the face of Indian Human Resource Management but the transitions have increased significantly with the economic liberalization (Venkata Ratnam & Shrivastava, 1991; Budhwar & Debrah, 2001).

The pressures linked with liberalization have accentuated the role of Human Resource Development (HRD) in Indian organizations and the term differentiates itself from HRM by dealing with more of the personnel management functions (Budhwar, 2000) and separating itself from Anglo-Saxon models (Jackson, 2002). HRD practices are being used in organizational management to provide solutions to the problems arising from liberalization. The organizations have been accustomed to operating in protected and stable markets, but with liberalization and globalization, they need to learn to operate in a conflicting environment. HRD helps in adapting to these conditions by strengthening organizational and cultural values, widening the concepts of patience, tolerance, and sacrifice, and expressing the need to show concern for human welfare, values, and dignity. HRD serves to provide a 'humanistic' approach and tailors management norms to employees thus assuming a critical position in Indian management concepts and

practices. In terms of management philosophy, HRD has changed the original aspect of control and regulation to that of involvement, relationship and self-development (Jackson, 2002).

The concept of HRD has been compared with that of democratic rights and duties and having similarities with The United Development Programme's concept of a nation's human development. HRD has been labelled as a humanistic concept based on notions of dignity, respect and the limitless capability of human beings. It emphasizes treating human beings with proper honour, regard, and values, helping them find meaning in their work, and employees perceiving themselves as a critical resource for their organizations' success rather than mere means to achieve corporate production and profitability targets (Jackson, 2002).

3.3.2   Key concepts and Values of Indian Culture

As discussed earlier, the socio-cultural aspects form an integral part of HR practices in India. Co-existence of tradition and modernism make it essential to understand the socio-cultural characteristics, beliefs, values, and attitudes that form the fundamental constituents of Indian society and influence business collaborations with the nation (Munuswamy, 2008).

Religious Impacts: Indian people consider religion as an important aspect in their lifestyle and perceive it as a way of life. They believe in maintaining and supporting good relationships with other people through religion and faith. As mentioned earlier, a diverse population of Hindus, Muslims, Christians, Sikhs, Jains and Buddhists makes up the

society in India but religious tolerance exists both in the workplace as well as outside (Munuswamy, 2008).

However, despite being a secular state, India has experienced cases where religious partiality subsists in recruitment and hiring particularly in small-scale industries and family run businesses. The personal and professional lives of Indians are highly influenced by religious rituals, symbols, omens and astrology. Although the traditional caste system has been eradicated legally, power distance is clearly perceivable due to the presence of hierarchical structures in the family and business organizations in India. The yearly official religious holidays, numbering around 15, depending on the State, serve as clear indicator of the volume and importance of religion in people's lives (Munuswamy, 2008).

Many people in India believe in the concepts of fatalism or "karma" and perceive time as an important factor in deciding and planning major events. The decision-making processes are highly influenced by ideas of karma, believing in "actions" or "deeds" actively shaping the past, present and future experiences. The notion of Karma is believed to originate in one or more of the following four ways (Karma, n.d.):

- Through an individual's thoughts

- Through the choice of an individual's words

- Through the actions performed by the individual

- Through the actions performed by others under one's instructions.

The contemporaneous aspect of time elongates negotiations and HR practices. Impatience is not tolerated in India and thus things move at a patient pace in the country (Munuswamy, 2008).

Women in business: The Indian constitution has recognized the equal status of women in society. Women in India have been increasingly taking up significant positions in professional roles. Many sectors experiencing the rise of female professionals include the IT and software industries making up nearly one third of the total employees. Further, the rise in women managerial roles and entrepreneurship in the corporate sector has been boosted by globalization and the increase in MNC's in India. Seen from the perspective of international managers, recruiting, training, and retaining women staff is not seen as a difficult task anymore (Munuswamy, 2008).

However, the conservative nature of the citizens poses some restrictions on foreign businesswomen, who have to be conscious of their dressing styles and be careful with the unwanted attention they can attract due to their strikingly different attire. Initiating a handshake by a woman employer is seen as somewhat inappropriate but the trends are changing with Indian women becoming more familiar with education and international customs and regard acts of handshaking as an act of courtesy and social conduct. In other cases, a woman might wait for a male colleague to extend his hand for a handshake. Other displays of affection such as hugging, kissing or touching members of the opposite gender are strictly considered inept and unsuitable (Munuswamy, 2008).

Role of family: Family is still considered a foundational aspect of society that helped in preserving the culture of the community for thousands of years. Family plays

an essential role in almost every aspect of business such as decision-making, methods of management, types of approaches whether collectivist or polychronic and deciding employee benefits and gratuities. Still some organizations prefer seniority in higher positions but the trend is shifting with the shift in business practices in the new economy. The colonial mindset still persists and Indians exhibit this behaviour by agreeing to a younger Western expatriate as their head (Munuswamy, 2008).

Family run businesses are highly popular in the Indian work culture and hiring or promoting caste brother is viewed as a mandatory obligation in society (Munuswamy, 2008). Involving all the members of the family in the business is seen as a natural way of doing things by preserving the resources within the family and moving the business forward.

Style of communication: A candid and straightforward style of communication is not appreciated in Indian society. Acts of flattery and commendation are quite common among Indians and they expect these pursuits as a symbol of motivation, respect and appreciation. People expect to have things explained to them without assuming them on their own or taking them for granted. An indirect style of communication is preferred as Indians find it hard to say "No". Communication styles are oriented toward relationship and vary with the age and seniority of the person in both professional and personal contexts. The manner of communication varies according to gender orientations as well. Women are expected to be more polite, considerate and submissive in their language as compared to masculine communication styles. Careful questioning and understanding of body language are expected out of a courteous, mannerly and modest Indian (Munuswamy, 2008).

Motivational factors: Indian society views perquisites and titles as status symbols. A number of mid-level management and executive positions provide company housing, cars, and other basic amenities. Other perquisites that employees expect out of their positions include company loans at low interest rates for purchasing houses, transportation facilities, and other consumer durables. People are inclined to save for their future needs. Terminations are regarded with social stigma and employees facing termination find it difficult to carry on in society and find another job with a better or similar reputation (Munuswamy, 2008).

Many employees tend to prefer voluntary retirement schemes with a good salary incentive. Varying trends of promotions and incentives can be seen in both the public and private sectors. Employees believe in loyalty and trust for many public sector companies but this tendency is different in private companies. Employees are tempted to make frequent shifts in MNC's to boost their salary packages and gain promotions. Promotions and pay increase with seniority rather than performance in the public sector whereas in the private sector, promotions and variable incentives are based on performance and accomplishments (Munuswamy, 2008).

Labour Market: India has a huge base of employable population due to its increasing populace growth. Despite being recognized as an agricultural economy, India has a tremendous pool of around 160 million workers employed in the non-agricultural workforce (Munuswamy, 2008).

The reason for availability of such a high number of educated workers has been attributed to the presence of a large network of over 15,000 educational institutions in the

country. Of this educated strata, over 22 million are college graduates with more than 7 million of them graduating in Science and Engineering. Each year around 2.5 million students graduate from the universities (Munuswamy, 2008).

The presence of an educated English speaking labour pool makes India a significant destination for call centre and outsourcing operations for many U.S. and European firms. In addition, a large number of Indian engineers and managers have had to move out of India to handle important positions and projects in other countries, thus increasing cross-cultural interaction and fusion (Munuswamy, 2008).

Starting with the boom in the I.T industry in the year 2002, the demand for technical and managerial staff has increased significantly thereby resulting in a sharp rise in salary packages. The growth in the I.T sector and call centre industry has increased intense competition and at the same time experienced high attrition rates as well. When compared with the European and U.S. salaries, the Indian salaries are typically low within the same industry (Munuswamy, 2008).

The average increase in pay in 2006 has been reported to be the highest in India (11.3%) as compared to other countries such as China (7.8%) and the USA (3.6%) (Source: Human Resources Consulting Report MERCER, 2006). The same trend has been predicted to continue in the coming years (Munuswamy, 2008).

Legal System: The legal environment in India remains complicated in spite of the liberalization of the economy in 1990s. A combined central and state authority governs the labour rules and regulations. Books and articles referring to these labour laws are available. For organizational consultation, the Personnel Department Manager is

responsible for dealing with any local labour law queries and information. However, these rules are becoming less severe for newer service industries and do not pose any regulatory hindrance on their investment (Munuswamy, 2008).

Senior management in the manufacturing sector has brought up a slightly different opinion as they feel these labour laws have not kept pace with the changing business scenario (Munuswamy, 2008).

Characteristics of Labour Laws (Munuswamy, 2008):

• A company with more than 100 employees can terminate workers only with permission from the government.

• The labour commissioner appointed by the government has to be informed about every single worker working on a night shift.

• A worker cannot work more than 75 hours of overtime in a quarter.

• A worker cannot work more than 8 hours a day. Any number of hours more than 8 is considered to be overtime and needs to be paid accordingly. The working hours in India are lower than China, which has 12 working hours a day.

• For women employees to work night shifts, government approval is needed with the exception of service sectors where this permission is already granted for women employees.

Refer to Appendix 1 for the list of labour laws.

The Trade Unions in India are active and have an organized functional structure. According to a report by Mc Kinsey, India can increase its manufacturing exports from $40 billion in 2002 to $300 billion by 2015 if it makes improvements to its labour laws. Nevertheless, India has been continuing to increase its trade and commerce and adding on a significant number of multinational companies each year (Munuswamy, 2008).

4: Cross-Cultural Issues in Indian HRM

4.1   Introduction

Cross-cultural misunderstandings can be seen among people working across MNC's with diverse cultural backgrounds. These misunderstandings often tend to create repetitive phenomena involving cross-cultural conflicts, dissatisfaction and provocation leading to communication problems, and reduced employee performance (Milliman, 2002; Higgs, 1996; Monks, Scullion and Creaner, 2001). The management techniques learned and developed by a manager in his original or home culture do not apply equally in other cultures and thus produce several clashes and ambiguities. This problem is even more critical with HR practices as they have to deal with people from different cultures, develop HR policies and practices to manage individuals, (Schuler *et al*, 2002) and resolve their problems and maintain cross-border relationships (Devine, Baum and Hearns, 2007; Kanter and Corn, 1994; Silverthorne, 2005). The following section will present the nature of Indian managers in accordance with their cultural values and the differences these aspects can create when interacting with other cultures.

4.2   Influence of aspects of national culture on Indian managers

Authors Budhwar and Debrah conducted a questionnaire survey between January and April 1995 to examine the influence of national culture on personnel specialists. The firms chosen operated in six industries (food processing, plastics, steel, textiles, pharmaceuticals, and footwear) in the manufacturing sector in India with an employee base of 200 or more. The top personnel specialist from each firm responded to the survey

with an average response rate of 30 per cent (137 questions out of a total of 450)

(Budhwar & Debrah, 2001).

The questionnaire analysed the thinking of personnel specialists based on the

following aspects: *national culture, national organization/institutions, dynamic business*

environment and business sector. Each of the aspects could be assigned a maximum of

100 points. Under national culture, the following aspects were covered:

Aspects of national culture		*No. of cases*	*Mean*
1.	Social behaviour of managers	130	21.72
2.	Common values, beliefs and behaviour	130	22.94
3.	Impact of pressure groups	118	15.92
4.	Managers' perception and thinking about the organization	135	24.44
5.	Overlap between organization's culture and 'the way things are being done in the organization'	126	20.85

Table 4.1 Influence of aspects of national culture on Indian managers
Source: Adapted from Budhwar & Debrah, Human Resource Management in Developing Countries, 2001, p.79

According to the results in Table 4.1, Indian managers give highest priority to

their perception and thinking of cultural assumptions that modify their organizations

(24.44). Authors Budhwar and Debrah have named this aspect of national culture as

'*Assumptions that shape the way managers perceive and think about the organization*'.

The second highest priority is scored by common values, beliefs and norms of Indian

culture with a mean score of 22.94 and the social behaviour of Indian managers (21.72)

(Budhwar & Debrah, 2001).

Through open-ended questions, 54 per cent of the Indian managers considered the importance of social relationships in managing human resources. 48 per cent of these managers believed in the values, norms and behaviour of Indian culture influencing human resource practices and procedures. According to their opinion, these beliefs, notions and norms of behaviour govern managers' actions and decisions. Around 42 per cent of the Indian managers felt that pressure groups (such as unions, democratic parties, political and social activists) championed rights and privileges of employees belonging to the reserved categories, imposed terms and conditions on several agreements and mostly disrupted management and caused disturbance (Budhwar & Debrah, 2001).

The next section of the chapter compares the impact of national culture of Indian managers with managers of other cultures of the world.

4.3   India through Hofstede's model of Cultural Dimensions

Hofstede's model (1991) presents ranking of Indian culture based on four dimensions – *individualism-collectivism, power distance, uncertainty avoidance and masculinity-femininity* (Thomas, 2008). Indian culture ranks relatively highly on Power Distance (77) compared to a world average of 56.5, medium in Individualism-Collectivism (48), medium in Masculinity (56) with the world average slightly lower than 51, and low to moderate in Uncertainty Avoidance (40) compared to the world average of 65 (Thomas, 2008; Jackson, 2002; Geert Hofstede Cultural Dimensions, n.d.).
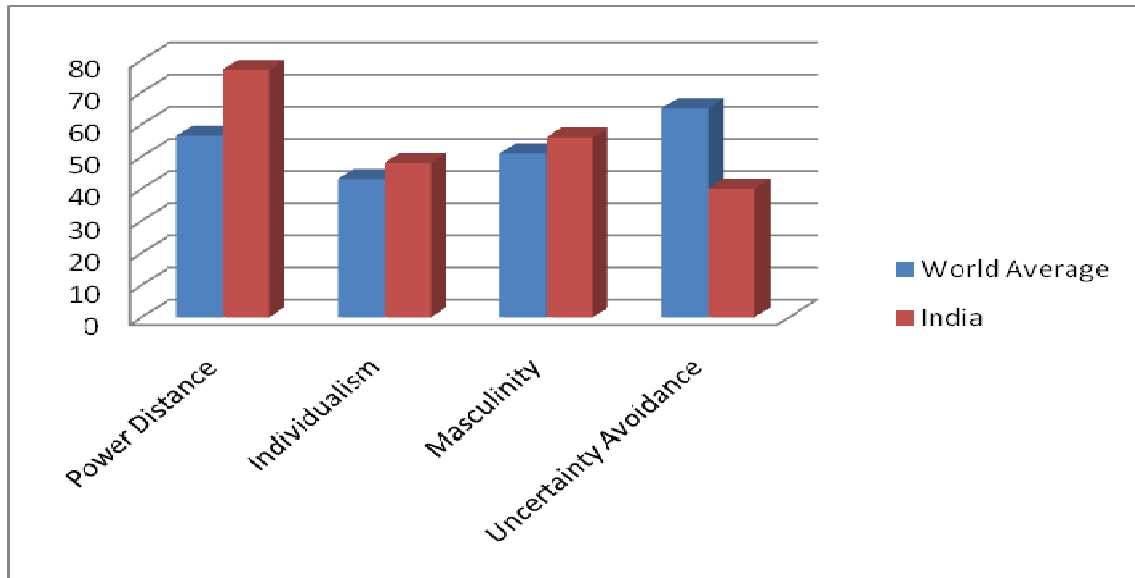
Figure 4.1 Hofstede's Cultural Dimensions – India and World Average
Source: Adapted from http://www.geert-hofstede.com/hofstede_india.shtml

The reasons for low uncertainty avoidance have been explained by several authors including Indian academics as unwillingness of the Indian managers to agree to organizational changes, not taking risky decisions or initiating problem solving tactics, being less responsive to job-related tasks, and not encouraging job feedback (Kanungo & Medonca, 1994; Singh, 1990; Budhwar & Debrah, 2001).

Indian society is inclined toward hierarchy and inequality due to the prevalence of the caste system and class groups in its traditional history. Existence of hierarchical structures in organizations, social relations conscious of status and prestige, and preference of a superior-subordinate work relationship reflect the high power distance of the style of Indian management. Further, India's high ranking on Hofstede's power distance model is explained by the presence of the hierarchical nature of Hinduism (again proven by the caste system), the early socialization process stressing the significance of the architecture of family, and the impact of British colonialism. Precedence is given to

senior members in the organization in deciding about promotions and salary increments. People prefer employees from their own castes and religions and a small amount of discrimination based on these aspects can still be seen in society. Inter-group connections are questioned and discouraged by many and the tendency of majority of the people to associate with people in powerful and reputable positions remains (Sahay & Walsham, 1997; Sharma, 1984; Budhwar & Debrah, 2001). This power distance ranking of Indian culture when compared with American (40), Canadian (39), and British (35) explains the reasons for disputable organizational correlations. For example, an Indian person may seem more fearful of people in power, more compliant to seniors and superiors, more reliant on others, and more dependent on intuition and destiny as compared to Western cultures (Tayeb, 1988; Sharma 1984; Budhwar & Debrah, 2001).

In terms of masculinity culture, India exhibits a management style oriented more toward a paternalistic viewpoint. Authors Kanungo and Jaeger (1990) have explained India's preference for personalized relationships in contrast to detached operation orientation. This induces a personality directed toward more soft and tender decision making rather than bold and courageous measures (Sinha, 1990). Accomplishments are determined on adherence to moral values and rituals instead of actual behaviour, principles, or rules. Authors Mathur *et al* (1996) and Sinha and Sinha (1990) have named this extraordinary transformational style of management as 'nurturant-task leadership' focussing significantly on household and cultural beliefs and notions, for example, emotions, reliance, and interpersonal relationships (Budhwar & Debrah, 2001).

Low individualism ranking for India can be attributed to choosing family and group achievements over actual work results. The concept of work is understood as a way

not to fulfil individual satisfaction, but instead to meet the needs of one's family and social relations. Family and social networking is the most preferred method for obtaining employment, promotions, and appraisals (Sparrow & Budhwar, 1996; 1997). Low intellectual and social mobility in India compels the organizations to recruit employees from their known pool of resources including their own families, communities, castes, and religions. The common beliefs in such practices are encouraging and promoting members of same family or community to attain and maintain higher positions in the society, creating loyalty and trust for a common cultural group, preserving wealth and resources within the family and social frame (Budhwar, 1999; Budhwar & Khatri, 2001; Budhwar & Debrah, 2001).

Author Sharma sums up the impact of Indian culture on managers as follows (quoted from Budhwar & Debrah, 2001):

> It presents a plausible picture of the average Indian's resistance to change, his willingness to delegate but unwillingness to accept authority, his fear of taking an independent decision, his possessive attitude towards his inferiors and his abject surrender to his superiors, his strict observance of rituals and his disregard of them in practice, his preaching of high morals against personal immorality, and his near-desperate efforts at maintaining the status quo while talking of change (Sharma, 1984, p. 76).

4.4 Comparison of Indian managers with other cultures

England (1975) conducted a study of the personal value systems of around 2,500 managers in five different countries – Australia, Japan, Korea, India and the United

States. The results revealed an interesting commonality between values and behaviours among managers in these countries despite the value differences. The pragmatists exhibited an economic and organizational competence orientation whereas the moralists were inclined toward a humanistic and bureaucratic orientation. On a scale of 100, the number assigned to pragmatists is 67 for Japan, 57 for United States, 53 for Korea, 40 for Australia and lowest for India with only 34. For moralistic orientation, the number was 9 for Korea, 10 for Japan, 30 for United States, 40 for Australia and a comparatively high 44 for India. This study significantly deals with the values and orientation associated with managers from India. Indian management leans more toward a moralistic orientation; values little or gradual change, favouring stability in organizations, and prefers an arrangement valuing both organizational compliance and organizational competence (Jackson, 2002).

The study reports have revealed the following implications associated with the values of the Indian management (Jackson, 2002):

- Indian managers have been found to be more receptive to the humanistic and bureaucratic results of their decisions.

- They are attracted more by positions and approaches that involve rational and principled explanations.

- Indian administrators have been found to be more sensitive to internal rewards and controls.

- Due to a large percentage of managers inclined toward moralistic orientation, any sort of variation or modification in the management is expected to be slow and tough.

Another study conducted by Smith and Thomas in 1972 helped in identifying the cross-cultural attitudinal differences between fatalistic style of Indian managers and highly efficient and achievement-oriented American managers. The study highlighted the differences between the two cultures based on authority and power of influence (Jackson, 2002; P.M, 2009):

- The mid-level and senior level Indian managers prefer team-based, collective decision making efforts, whereas American managers favour individual decision making instead of group-oriented participation.

- American and Indian managers vary greatly in acceptance of intrusions by labour and government in the actions of the organizations as Indian management is more tolerant toward such an intervention as compared to the American managerial system.

- A completely different behaviour is observed in middle-level managers in India as they are less conservative and demand more change as compared to similar level American managers.

- Indian leaders have been seen to rely more on intuition and perception than their American counterparts do.

- Indian leaders differ from American leaders in the way they identify the function of their organizations in society. Indian managers think a much larger role of the firms beyond the interests of their shareholders exists, which is to bring a positive transformation to the society. American managers on the other hand, gave the topmost management priority to their investors and ignored other priorities such as long-term strategic vision, nurturing talent in the organizations, and preserving the organizational culture.

Taking into account the cultural differences between India and Germany, a survey was conducted by Best International Human Resource Management Practices (BIHRMP) to derive comparisons in performance and pay practices between German and Indian manufacturing companies in the automobile industry. With many German organizations responding to the liberalization policy of the Indian government, promoting mutual trade, effective management and development of human resources in both the home and host countries become a critical success factor in their operations. This research by BIHRMP aimed to investigate one aspect of HRM, that is, performance and pay practices of German and Indian companies. *Performance appraisals* are necessary practices in HRM enabling it to develop and maintain an efficient and productive human resource pool (Dowling & Welch, 2004). With varying cultural and organizational patterns, performance appraisals become associated with inherent problems and disagreements leading to distraction and dissatisfaction of employees (Thomas & Bretz, 1994). For instance, some local unions in certain social and political environments might disrupt or reject the measurement standards of employee performances thus disabling managers from implementing a proficient performance appraisal method (Erwee, 2008). For global

compensation managers, it is important to comprehend the complex local pay system in diverse countries and build a unified pattern of *compensation* (Dowling & Welch, 2004).

BIHRMP project selected 24 Indian and 24 German manufacturing companies in the automobile industry from across 600 firms on the registers of the relevant Government department of companies in both the countries (IGCC, 2003). About 92% of these companies belong to automobiles or related sectors. The German sample comprised of 27 HR managers and 37 general managers. The Indian respondents consisted of 37 HR managers and 40 general managers from different companies. The general managers included finance, production, marketing, and sales managers (Erwee, 2008).

The following patterns of usage of performance appraisals and pay practices were noted (Erwee, 2008):

- About 80 per cent of Indian managers and over 85 per cent of German managers used performance appraisals as a means to identify strengths and weaknesses and to measure achievement levels of employees in both countries. However, using performance appraisals in determining clear and categorical ways to improve performances and plan development activities is apparent more in the Indian context.

- Linking performance appraisals with individualistic cultures explains the characteristics of less individualistic Indian managers inclined to review the performance of individuals in determining promotions. Indian managers use performance assessments to evaluate pay levels to identify skills and inadequacies of employees in order to plan career development and reduce

underperformance through training programmes. On the other hand, German managers use performance evaluations more rigorously to assess current and future training needs of their employees.

- German managers use performance appraisals more frequently to fix salary levels of employees whereas Indian administrators consider their relevancy in assessing promotability and development of their subordinates.

- In terms of differences in pay practices, seniority based pay decisions dominated Indian organizations. About 74 per cent of the Indian managers acknowledged the importance of seniority while just 56 per cent of the German managers confirmed only marginal relevance of seniority in pay decisions. The reason for this difference has been linked to collectivistic Indian culture treating elders with respect and honour irrespective of their personal and professional characteristics (Millman *et al* 2002; Palmke, 2007). Contrarily, the seniority factor was disregarded in German organizations.

- Most of the German managers did not associate pay practices with job performances whereas the Indian managers tend to have a relatively higher performance orientation connected with pay patterns supporting the perception of pay spread between the low and high performers (Palmke, 2007).

Another study conducted by David Maki and Viktoria Soudakova (2007) highlights major IHRM problems within a cross-cultural context faced by Swedish MNCs in India. This study presents data of two major Swedish MNCs – WM-data and Ericsson with operations in India. The empirical data for this study was collected through

interviews with WM-data's Anders Stahl, Program Manager in charge of 18 projects in India and Anna Rundkvist, Project Manager responsible for one of the 18 projects in India. Both the managers hold posts at WM-data's Stockholm office. At Ericsson, an interview was conducted with Jonas Carlsson, Sales Director India, Market Unit India Sri Lanka, posted in Gothenburg (Maki & Soudakova, 2007). Detailed information about management of these companies is discussed, highlighting the actual dissimilarities between the two cultures and how it interfered in the management process.

- *Communication Misunderstandings:*

  ➢ WM-data faced major issues related to communication problems when operating in India. Before their acquisition by LogicaCMG, all of the communication and documentation were in Swedish but problems arose after their merger with LogicaCMG and dealing with India as Swedish managers lacked English skills whereas Indian managers had good skills in the English language. Due to this language gap, several misunderstandings occurred. For example, WM-data explained how the usage of few words such as 'must' and 'should' were interpreted differently by the two cultures. The Swedish managers considered 'must' to be stronger and influential in contrast to their Indian peers who preferred 'should' as being more effective.

  ➢ WM-data faced another issue with Indian workers in acknowledging the tasks assigned to them. Indian managers are inclined more to confirming

that they have been understood as compared to Swedes, which WM-data wants Swedes to improve upon.

➢ The huge geographical distance between Swedish and Indian organizations poses another hindrance to their effective communication. Since most of the communication takes place through telephonic conversations, understanding both parties becomes even more intricate. For example, WM-data has problems explaining technical difficulties in detail in English to the Indian employees.

➢ For issues related to time management, WM-data does not face any problems in their Indian assignments as Indian employees have been reported to be more punctual than Swedish employees.

➢ One major cross-cultural issue reported by WM-data was related to Indian culture's forbiddance in saying 'no' to somebody's question as they consider it impolite to say a direct 'no' and think it insulting to the other person. WM-data considers the difficulties that arose when a manager described a task to an Indian employee and confirmed by asking if everything was clear. However, since the Indian employees feel reluctant to say 'no', it created understanding problems between the two cultures resulting in frustration and annoyance.

- *Leadership Style:*

➢ WM-data faced clashes managing Indian workers due to the differing

leadership styles of both cultures. Swedish managers practicing the consensus

way of leading and involving everyone in the decision-making process

encountered problems managing Indian culture based on hierarchy.

Apparently, Indian society being hierarchical prefers a more domineering

manager. The Indian workers choose to leave the decision making process to

their managers as they think the appointed leader has the ability to lead and

make the best decisions for them. The workers feel hesitant in going directly

to top-level management by evading the lower level managers as it might

appear offensive to the lower level managers in front of their colleagues.

➢ Indian and Swedish cultures vary significantly in their working styles. Indian

employees want detailed description and instruction from their leaders on how

to perform their tasks. The managers in Indian companies cannot take any risk

with missing or unclear information as it may result in unpredictably wrong or

unsatisfying outcomes. Indian employees have been labelled as being used to

working "in-the-box" contrary to the Swedish employees at WM-data as

Swedish management expects their employees to think "out-of-the-box". The

Swedish employees are used to enjoying more freedom and choices in taking

responsibility, coming up with new ideas and initiatives, asking questions,

finding new information, and providing solutions to problems. Swedish

managers face difficulty in specifying tasks when dealing with system

development as compared to Indian managers. The Indian engineers expect

clear specifications of the tasks when handed to them. They want detailed

information on what and how to do the assigned task. Thus, the Swedish managers and Indian engineers face issues in explaining tasks to each other. The Swedish system development culture gives a lot of freedom to their engineers in voicing their opinion that is not accepted by Indian engineers. They want clear and explicit instructions on what WM-data expects from them.

- *Motivation:*

➢ WM-data has noted different styles of motivating Swedish and Indian employees. Indian employees are technically oriented and feel it essential to grow within the world of technology. Both the cultures aim for attaining corporate success differently. For Indian employees, technical certifications serve as strong motivating criteria leading them to higher pay scales, which Swedish employees do not consider inspiring. For lower level Indian employees, a well organized and a structured work environment acts as a motivating factor.

- *Conflicts:*

➢ Although few in number, WM-data has given some examples of the general cross-cultural conflicts that occurred in the organization. At the management level, conflicts have occurred in congruous decision making when one part of the culture did not agree with the other part. Some task related conflicts have occurred at lower employee levels based on detailed and clear task descriptions expected by Indian workers from Swedish managers. The

Swedish managers' inability in explaining the task clearly and instead offering

Indian engineers the freedom of creativity resulted in frustration problems

between both cultures. To elaborate, Swedish consultants feel that Indian co-

workers demand a detailed explanation for all projects and assignments while

the Indian engineers feel Swedish consultants are incompetent in providing

intricate specifications.

Case 2: Ericsson

Ericsson is recognized as an excellent leader in providing telecommunication

services and equipment to over 140 countries. For Ericsson, India serves as a very

important country in the telecommunications industry. Ericsson has been associated with

India for almost a century now. The company introduced its first product in the Indian

market in 1903 – manual switchboards for the government. Since then, Ericsson has been

playing a significant role in revolutionizing cellular technology in the country. Ericsson

kept on expanding in the Indian market by making considerable developments in the

Global System for Mobile Communication (GSM) networks and helping India in

establishing itself as one of the strongest and growing markets globally. Today Ericsson

has more than 4000 employees across its 27 offices in India (Ericsson, India, 2009; Maki

& Soudakova, 2007).

The HRM department at Ericsson within their India headquarter handles all the

issues related to HRM and plans HRM policies and practices for their employees in India.

While planning the HR operations in India, the Swedish managers cooperate with their

Indian HR counterparts. Although Ericsson has not encountered any severe cross-cultural

conflicts with their employees in India, Jonas Carlsson stated a few minor cultural differences.

- *Communication Misunderstandings:*

  ➢ Ericsson had been attracted to India more than the Chinese market due to the fact that majority of the Indian population can speak and understand English. English being the common platform for business operations and negotiations between both the nations unites them. However, the difficulty faced by Ericsson associated with language problems is the nature of Indian employees not to use negative responses to their managers' questions. The Indian employee will try to avoid giving a negative answer to the manager even though he knows he will not be able to complete the task within the allocated period, thinking it will reveal his weakness. The Swedish managers are required to be very clear and specific in time related assignments with Indian employees to avoid any confusion and misconceptions.

- *Leadership Style:*

  ➢ Ericsson faces the similar type of leadership style problem as WM-data due to India's hierarchical management. Swedish management style based on the consensus leadership system allows its employees to respect their managers but at the same time argue with him when need be. Ericsson has tried to avoid any difficulties arising due to different leadership styles by adapting to the Indian management method.

- *Motivation:*

➢ Like WM-data, Ericsson has noticed the varying motivating factors between Swedish and Indian employees. Money and titles serve as the motivating symbols for Indians whereas Swedish people are motivated by the task itself. Absence of any social welfare system in India explains the reason Indians are attracted to money and helping them earn providence for their families.

➢ Ericsson has observed a 'wage spiral' presently emerging in India due to its attractiveness to many MNC's. With many new MNC's entering into the Indian market, demand for experienced Indian professionals working with western MNC's has increased thus increasing their salary expectations. Due to this wage spiral, Ericsson has been facing high employee turnover problems with Indian workers. Less loyal Indian employees tend to switch companies to increase their salary packages quite often as compared to Swedes.

- *Conflicts:*

➢ Ericsson has experienced the same conflicts in India as in Sweden. No significant difference has been observed in the nature of conflicts. Issues arise due to employees not getting along with each other for personal reasons or managers having different outlines. However, with Indian employees, Ericsson feels conflicts take longer to surface than it would take them to show in Sweden. This results in increased intensity of the conflicts which otherwise could have been resolved if discussed at an earlier stage.

To conclude the findings of both WM-data and Ericsson, the following factors can be deduced (Maki & Soudakova, 2007):

- Communication is the major cross-cultural problem for Swedish MNCs operating in India.

- Swedish MNCs do not find any cross-cultural problems associated with their motivation styles.

- The majority of frequent cross-cultural conflicts occur at intragroup level for Swedish MNCs operating in India.

5: Conclusion

The ever-increasing trend in globalization has resulted in world economic restructuring and liberalization with implications on organizations, employment, labour markets and employee-industrial relations. With markets moving toward global integration of production and circulation of finance capital, impact on workplace and as a result, the manner in which human resources are managed cannot be ignored. The internationalization process has resulted in many MNCs opening production sites at various locations globally and altering production methods to meet company objectives (Chaykowski & Giles, 1998; Budhwar & Debrah, 2001). The designs of their production and distribution systems as well as employment strategies are being modified to meet the demands and changes in the global economy. With these ongoing economic activities on the rise, frequent shifts in the location of employment have taken place (Peel, 1999; Budhwar & Debrah, 2001). As the global workforce becomes the norm, it becomes imperative for the HR managers to manage an increasingly diverse range of cultures. Global managers have realized that HRM strategies differ significantly across different countries with varying cross-cultural settings and that the strategies used to manage human resources in one country cannot be applied in another country (Budhwar & Debrah, 2001). Globalization has increased the pressure on HR managers to identify and adjust to cultural differences when doing business (Kanungo, 2006).

The growing significance of developing countries in the global world has increased the need for both academics and practitioners to understand how HR is

managed in developing countries and contribute to improved theory and practice development. The complex and demanding challenges of HRM in developing countries have resulted in increased focus on this subject. The employee relations practices within the organizations in most developing nations are influenced by factors such as cultural values, religious beliefs, and caste/ethnic classification resulting in decreased organizational performance (Budhwar & Debrah, 2001). This paper has discussed why and how these factors have affected the organizational growth and development.

The changing face of HRM in India due to the pressures created by liberalization of economic policies makes it an important nation to study with regard to the cross-cultural conflicts faced by Indian HRs (Budhwar & Debrah, 2001). It is one of the fastest growing economies in the world offering several areas of opportunities to companies including consumer goods, infrastructure, manufacturing, defense, biotechnology, financial services, insurance, call centres, and knowledge-based services (Culture Savvy is Smart Business, 2009). However, with Indian HR practices deeply embedded in its socio-cultural aspect, the cross-cultural challenges faced by MNCs in India cannot be ignored (Munuswamy, 2008).

Geert Hofstede's model helped in analyzing the workplace culture of India on four cultural differentiators. By presenting a broad country-wise typology of values, Hofstede's model explains what kind of value systems work in India and the reasons for cultural disparities (Varghese, 2008). It explains how India, being high on the power distance scale, creates hierarchical organizational structures, loyal and committed workers and autocratic personalities of Indian managers. Its collectivistic orientation forms a close relationship with its organizations, families, friends and society. The highly

collectivistic culture in India has created an environment of nepotism and favouritism with personal relationships superseding employment criteria, which is not seen as unusual. Scoring highly on the uncertainty avoidance scale, Indian employees prefer clearly defined roles and tasks (Society for Human Resource Management, 2008).

Finally, some examples of cross-cultural issues between different cultures and Indian culture have been presented to explain the interconnection between the theoretical concepts and their practical implications. Indian managers are working actively to bridge cultural differences through:

- Providing cross-cultural training to their employees for creating cross-cultural awareness;

- Emphasising the establishment of a "third-culture" in international operations to increase the cooperation between cultures;

- Being aware of the importance of managing cultural diversity as it is essential in determining the success and failures of international operations.

Appendix 1: List of Labour Laws

Workmen's Compensation Act, 1923

The Indian Trade Union Act, 1926

Payment of Wages Act, 1936

The Industrial Employment (Standing Orders) Act 1946

Industrial Disputes Act, 1947

Employee State Insurance Act, 1948

The Factories Act of 1948

Minimum Wages Act, 1952

Apprenticeship Act, 1961

Maternity Benefit Act, 1961

Payment of Bonus Act, 1965

Contract Labour Act, 1970

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