PERSONNEL RECRUITMENT AND RETENTION IN FOREIGN FIRMS IN INDIA.

A RESOURCE-BASED VIEW

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Abstract

Currently, foreign firms in India face two major challenges in the field of human resource management (HRM): personnel recruitment and retention. We adapted the resource-based view of the firm (RBV) for HRM and tested which HRM practices have a positive impact on the efficiency of personnel recruitment and retention in a sample of 80 European firms. Our findings suggest that there is a close relationship between the employment of HRM practices shaped according to the RBV and HRM efficiency. In particular, personnel marketing, employer image, financial incentives, career management and idiosyncratic job creation have a positive impact on personnel recruitment and retention. The findings have important implications for both theory and practice.

PROBLEM AND OBJECTIVES

In India, foreign direct investment (FDI) has greatly increased over the last few years. In 2006, it reached 9.5 billion US$, which is an increase of 44.4% compared to 2004 (UNCTAD, 2007a). In a recent UNCTAD (2007b) study, India ranks as the second most attractive location for FDI in the world after China. This applies particularly to labor- and knowledge-intensive services such as information technologies and business process outsourcing (BPO), which account for the majority of inward FDI into India.

One of the main reasons why India is so attractive for FDI is its human resources (Venkata Ratnam 1998; Ernst & Young, 2006; Chatterjee 2007). One third of India's population is younger than 14 years old, and every fourth person in the world under 24 lives in India. By 2020, 15 million people yearly are expected to join the labor force – which is equivalent to Germany's entire workforce, for example. Along with a very young population, India offers a large pool of well-educated manpower speaking English. About three million students graduate from Indian universities every year. Indian universities have a high level of education, especially in the field of engineering and management (Rajadhyakasha, 2007). Soft skills are also well developed. For example, human resource managers of multinational corporations (MNC) praise the cultural fit and the work ethics of their Indian employees (Farrel, Kaka & Stürze 2005).

The use of human resources in India, however, is not easy. A survey among business BPO firms in India revealed that human resources- and organization-related challenges are the most critical issues (Mehta et al., 2006). For example, at Daimler in Pune, human resource management (HRM) is regarded as one of "the core challenges of the years to come" (Aulbur, 2007). The worry is similarly expressed by a manager of Lufthansa: "HRM is a big concern in India" (Pinto, 2007). In particular, two major challenges in the area of HRM are named which will also be in the focus of this study: personnel recruitment and personnel retention (Agrawal & Thite, 2003; Vaishampayan, 2006; Jain et al., 2006; Raman, Budhwar & Balasubramanian, 2007).

Most foreign firms in India are growing at a very high rate. For example, the software producer SAP plans to more than double the number of employees from current 3,500 to 8,000 by 2010 (Singh Roy, 2007). In 2006, Dell likewise announced to double its workforce to 20,000 over the year, depending on trends within the industry. In December 2005, Microsoft declared that it is expecting to double its manpower in India to 6,000 employees by 2009 (Frauenheim, 2006). Growth is not restricted to the software industry. For example, the American consulting company Accenture announced in January 2007 its plan to raise the number of its employees from 27,000 to 35,000 by August 2007 (NN 2007). Globe Ground India, a subsidiary of the Lufthansa group which employed about 650 people in 2006, plans to recruit more than 800 people in the near future after winning a ground handling concession tender for the airport in Bangalore (Lang, 2008).

To be able to grow in a fast and profitable way, many foreign firms in India are confronted with the challenges to recruit qualified personnel. Despite the overall high level of education at Indian universities and colleges, a study conducted by McKinsey found that merely 10% of all Indian students with a general degree and 25% of those with an engineering degree are regarded as suitable to work in MNCs (Farrel, Kaka & Stürze, 2005). According to Budhwar, Luthar & Bhantnagar (2006), for every 100 applicants in Mumbai, just one or two fulfill the requirements. The main reason for this shortage of qualified applicants is the large differences in the level of education at the various universities and colleges across the country. While some have a world-class reputation, others can hardly provide sufficient education to prepare students for jobs in MNCs. Consequently, there is a fierce competition among foreign and local firms for few highly qualified people who are often offered a number of jobs by different employers. This is particularly challenging for firms that are not well known in India and which must first develop a positive corporate image in order to be recognized as a potential employer.

Along with recruitment, personnel retention poses a challenge for foreign firms in India: “The challenge is not only to get the people in, but to keep them in” (Joshi, 2007). Both foreign and domestic companies struggle equally with high rates of attrition. “Firms operating in India should expect attrition rates of 15-20%, because Indian workers are aspirational and individualistic”, says Divani Vaishampayan, Regional Human Resources Director for Asia Pacific and the Middle East at BG Group (cited in Brockett, 2006). In the IT-sector, attrition rates are even higher and may rise up to 40%, thus forcing firms to replace one third or more of their employees every year in a very competitive environment (e.g., Agrawal & Thite, 2003; Budhwar, Luthar & Bhatnagar, 2006; Chatterjee 2007). As a consequence, retention is seen as a key success factor of MNCs in India and of their HRM strategies in particular. As Steven Helmholz, Director of Executive Talent Acquisition at Dell, mentions: "The company that has the better retention strategy will win" (cited in Frauenheim, 2006, p. 6).

The main reason for high attrition rates in India is the fierce competition among foreign and local firms for a small number of highly qualified employees. Since employees with work experience in MNCs have often many job opportunities, many of them sell their skills for incrementally higher pay or other benefits (Frank, Finnegan & Taylor, 2004). The commitment of Indian employees to the employer is particularly low in foreign firms, where they may not expect lifetime job security and hence, are not likely to demonstrate lifelong loyalty (Bhatnagar, 2007a). However, the motivation to change one's employer is not limited to financial motives. Job moves may also be motivated by the opportunity to learn new things and to apply marketable skills. This applies particularly to employees in the new economy, where skills become obsolete much faster and forces them to continually look for opportunities to upgrade their employability (Singh, 2005). Especially in the context of BPO, work is also often perceived as psychologically very stressful because of tight deadlines and long working hours (Budhwar, Luthar & Bhatnagar, 2006; Raman, Budhwar & Balasubramanian, 2007). Other reasons for high attrition rates are limited career opportunities and monotonous work contents (e.g., Budhwar et al., 2006).

Although the importance of personnel selection and retention for foreign firms in India is frequently mentioned, few empirical studies of this phenomenon exist. E.g., Bhudwar & Khatri (2001) compare HRM practices in Britain and India and find significant differences in recruitment, training and employee communication practices between the two countries. Singh (2003a) analyzes the relationship between HRM practices and outcomes in India, however, without focusing on foreign firms. Similarly, Som (2007) focuses on the driving forces of innovative HRM practices and Rao (2007) examines the effectiveness of performance management systems in Indian firms. A study of Budhwar, Luthar &

Bhatnagar (2006) reveals that Indian BPO firms which cooperate closely with foreign partners are characterized by formal, structured and rationalized HRM policies. One of the few studies devoted particularly to foreign firms by Björkman & Budhwar (2007) shows that firms which adapt their HRM practices to the Indian context perform better than firms with globally standardized HRM practices.

While these and other studies provide preliminary evidence for certain HRM problems, there is a lack of theoretically grounded empirical studies of HRM practices and outcomes of foreign firms in India. Moreover, existing studies rarely analyze particular HRM practices but are devoted to more abstract HRM strategies. Therefore the objective of this study is to derive testable hypotheses of the impact of HRM practices on HRM efficiency and to empirically test these hypotheses in a quantitative empirical study. In particularly, we will adopt the resource-based view of the firm and analyze whether it can explain differences in the ability of foreign firms in India to recruit and retain qualified employees.

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

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

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

The basic idea behind the RBV is that firms can be conceptualized as bundles of resources, some aspects of which can only be developed internally and which have the potential to positively differentiate the firm (Wernerfelt, 1984; Barney, 1991; Grant, 1991). The core assumption is that the success of a firm is decisively determined by its specific and unique potential. Thus, internal resources instead of external conditions are regarded as key factors of a firm’s performance and success. In this respect, human resources is particularly important because it is socially embedded in a firm (high firm-specificity) and thus may not be transferred to other firms without losing value. At the same time, human resources may be applied in different areas (low task-specificity), i.e., in contrast to technological and physical resources, they are not limited to a rather narrow field of application (Barney, 1991).

According to Barney (1991), human resources may offer a basis for sustained competence advantage if a firm is capable of recruiting and retaining the necessary human capital, i.e., a pool of employees that is (1) valuable in the sense of being profitable for the firm, (2) rare among a firm’s potential and current competitors, (3) imperfectly imitable, and (4) non-substitutable. Other authors like Lepak & Snell (1999) and Hoopes, Madsen & Walker (2003) claim “that rareness is important only if a resource is valuable and exists only if the resource cannot be imitated by competitors” (Hoopes, Madsen & Walker, 2003, p. 890). Following this view, value, uniqueness, and inimitability will be referred to as main characteristics of human resources which lead to competitive advantage. Thus, firms can attain sustainable competitive advantage in the field of HRM when they possess a workforce whose knowledge and skills are valuable, unique, and may not be imitated by competitors (Boxall, 1996; Wright, McMahon & McWilliams, 1994).

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

Uniqueness implies that the workforce has firm-specific capabilities that can be best seized in the context of a particular firm. Firm specificity makes employees less mobile, since a change of the employer would mean a decrease in value for the employee and the firm and is thus, less likely to happen: "As human capital becomes more idiosyncratic to a particular firm, externalization may prove infeasible and/or incur excessive costs" (Lepak & Snell, 1999, p. 36). Additionally, a firm-specific workforce is socially embedded in the firm and less prone to favor other employers. Hence, the firm-specificity of employees has a positive impact on attrition.

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

Value, uniqueness, and inimitability are argued to enhance HRM efficiency. In the Indian context, this means that HRM practices with these three characteristics have a positive impact on the number of qualified applicants and the attrition rate. Moreover, it is argued that these outcomes can be best achieved by particular HRM recruitment and retention practices which meet the criteria of the RBV, i.e., which are valuable, unique and inimitable. Table 1 presents the conceptual framework of the study where these concepts are systematically integrated.

On the vertical axis, the characteristics of the RBV – value, uniqueness, and inimitability – and its specifications are listed. On the horizontal axis, the two challenges of HRM in India are stated, namely personnel recruitment and retention. The result is a matrix with six fields, where for each characteristic of the RBV and each HRM instrument an appropriate HRM practice is suggested. Based on this conceptual framework, our research hypotheses will be derived in the following section.

			HRM Practices	
			Recruitment	***Retention***
Criteria of the RBV	***Value***	Task-Specificity, Heterogeneity	**Personnel Marketing**	**Financial Incentives**
	Uniqueness	Firm-Specificity, Immobility	**Employer Image**	**Career Management**
	Inimitability	Unique Timing and Learning, Social Complexity, Causal Ambiguity	**Internal Recruitment**	**Idiosyncratic Job-Creation**

Table 1: Relationship between RBV and HRM practices

HYPOTHESES

Personnel Recruitment and HRM Efficiency

According to Bratton & Gold (2003, p. 488), personnel recruitment can be defined as “the process of generating a pool of capable people to apply for employment to an organization”. Employers can either be recruited internally within a firm or from the external labor market. While there are advantages of both forms of recruitment most firms use both approaches, i.e., they “make and buy their human capital” (Lepak & Snell, 1999, p. 32).

The main goal of personnel recruitment is to attract qualified applicants from which those can be selected which presumably fit best the requirements of the firm. From a RBV perspective, particularly personnel marketing (value), employer image (uniqueness), and internal recruitment (inimitability) are argued to increase the number of qualified applicants (e.g., Wright, Dunford & Snell, 2001; Saá-Pérez & García-Falcón, 2002; Backhaus & Tikoo, 2004). In the following section, three research hypotheses with regard to the impact of these HRM policies on HRM efficiency will be derived.

In fast-growing economies like India, firms cannot survive on internal recruitment alone. When expanding on a grand scale and in a short time, they must also attract qualified candidates on the external labor market. Since the number of qualified people in India is very limited, firms have to find innovative ways of personnel marketing to enlarge the pool of candidates, e.g., by focusing on a wider geographical area or by applying a wider spectrum of recruitment instruments. Other instruments of personnel marketing include active labor market research, the formation of different target groups for personnel recruitment activities or college recruitment (Becker, Huselid & Ulrich, 2001). For example, many successful firms cooperate closely with the prestigious Indian Institutes of Management and Indian Institutes of Technology to attract talented future managers and specialists already during their masters programs (e.g., Som, 2007).

According to the RBV, it can be argued that firms which use personnel marketing intensively can enhance the number of qualified applicants. In this respect, personnel marketing is able to increase the value of human resources of a firm (Breaugh & Starke, 2000). Based on this argumentation the following hypothesis can be derived:

Hypothesis 1a: The intensity of personnel marketing is positively related to the number of qualified applicants.

The image of a company is decisive on whether it is perceived as an attractive employer or not, and therefore, on how much effort it needs to find qualified employees. Several studies have investigated the impact of factors such as location, wage level, industry or corporate culture on recruitment effectiveness, tracing back high effectiveness of recruiting to corporate reputation (Gatewood, Gowan & Lautenschlager, 1993; Orlitzky, 2007). In India, wage level, work-life balance, and career opportunities revealed to be particularly important attributes of employer image (e.g., Budwhar, Luthar & Bhatnagar, 2006; Bhatnagar, 2007b).

From a RBV perspective, employer image includes all factors which make a firm different and desirable as an employer for actual and potential employees (Backhaus & Tikoo, 2004). Thus, it is a firm-specific resource which distinguishes a firm from all its competitors on the labor market. This uniqueness allows firms to attract more qualified applicants than its competitors with a less positive employer image (Joo & McLean, 2006). Thus, the following hypothesis can be derived.

Hypothesis 1b: The employer image of a firm is positively related to the number of qualified applicants.

As mentioned above, vacancies can be filled internally or with applicants from the external labor market (e.g., Zottolia & Wanous, 2000). According to the RBV, the main advantage of internal recruitment is to sustain and enhance firm-specific qualifications: “As human capital becomes more idiosyncratic to a particular firm, externalization may prove infeasible and/or incur excessive costs” (Lepak & Snell, 1999, p. 36). In this way, employees can become unique and non-imitable resources of a firm and thus enhance its competitive advantage. Therefore it is assumed that a firm that concentrates on internal recruitment develops competitively advantageous human resources.

Internal recruitment is assumed to have two positive effects. First, it increases the social embeddedness and hence the immobility of employees. In the process of internal recruitment, the firm-specific skills (e.g., tacit knowledge of unique routines and procedures or experience with specific management systems and processes) increases. The value of these “non-portable assets” (Groysberg, Nanda & Nohria, 2006, p. 99) decreases when the employee leaves the company. For employees, this means that they would automatically lose an important part of their skills and subsequently, another company would be less interested in hiring them or at least pay them less for their work. Second, firm-specific skills are enhanced through internal recruitment, since employees learn and accumulate knowledge over time. Through internal recruitment employees gain knowledge within the firm, which strengthens their firm-specific knowledge base. Internal recruitment refers to both vertical and horizontal promotion. In that way, a large number of employees can be addressed and they become more qualified.

In the case of India, these advantages of internal recruitment are particularly important since the Indian culture is characterized by a high degree of in-group collectivisms (House et al., 2004), i.e., employees prefer the promotion of firm members over that of outsiders. Consequently, Budhwar & Boyne (2004) found that prosperous companies in the private pay more attention to internal promotion than less successful public-sector companies. Therefore, it can be proposed:

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

Personnel Retention and HRM Efficiency

As mentioned above, many foreign firms in India are not only confronted with the challenge to attract qualified employees, but also to retain them. From a RBV perspective, particularly performance appraisal systems (value), career perspectives (uniqueness), and job tasks (inimitability) are argued to reduce attrition (e.g., Jawahara, 2006; Lee et al., 2004; Maertz & Griffeth, 2004). In the following section, three research hypotheses with regard to the impact of these HRM policies on HRM efficiency will be derived.

Several empirical studies show that financial incentives are an important predictor of job choices of Indian employees (e.g., Bhatnagar, 2007b; Raman, Budhwar & Balasubramanian, 2007). Particularly highly qualified employees are often offered higher salaries if they are willing to change to another employer. As a consequence, employers either have to increase the wage level of these employees or they risk high attrition rates.

In the Indian context, however, not only the absolute level of rewards, but also the way in which this level may be influenced by individual performance is an important determinant of attrition. As an example, the study of Bhal & Gulati (2007) reveals that the process-related dimensions, i.e. the performance orientation of rewards impact job satisfaction and thus the willingness of employees to stay with their current employer. A reason for this is that performance-related rewards are perceived as fairer than traditional seniority-based systems (e.g., Pio, 2007). As a consequence, a transition towards performance-oriented reward systems is taking place in the private sector (Budhwar & Boyne, 2004).

From a RBV perspective, performance-oriented reward systems are an important mechanism to link individual performance with corporate strategy. Assuming that the individual performance of employees contributes to the overall performance of a firm, performance-oriented financial incentives may enhance its value and thus, its competitive advantage. Based on this argumentation, we propose:

Hypothesis 2a: Performance-oriented financial incentives are negatively related to attrition.

Individual career plans offer employees perspectives for their future development in a firm and are thus, assumed to reduce the attrition rate. In a study conducted by the Corporate Leadership Council

(2006), 68 percent of the respondents named employee career management as an appropriate tool for retaining high performers. This is also true for India, where systematic career development is generally viewed as key to retention (e.g., Budhwar & Baruch, 2003), because it makes “employees understand that there is a future for them” (Vaishampayan, 2006, p. 3). According to an empirical study by Mehta et al. (2006), Indian employees at the lower and middle levels are extremely concerned about where they are headed in terms of career. Similarly, an empirical study among the employees of Globe Ground India, a subsidiary of the Lufthansa group, reveals that career perspectives are the most important incentive to stay at their current employer (Lang, 2008).

Thus, firms need to design transparent career progressions for them at all levels and help them plan their careers and lives. As an HR manager of a U.S.-based software company states (cited after Budhwar, Luthar & Bhatnagar, 2006, p. 345): “We do have various schemes and incentives, etc. One is that we use ‘fast track programs’. Here the potential performers, good performers, get moved on to a fast track, and fast track essentially means that you may jump levels, you may get higher responsibilities than many others. Another is what we call the ‘hot skills program’. Here people with skills which are very much in demand in the market get paid better than others, and the list of the skills gets published every year, people can acquire those skills and move into that segment. These programs have helped us a great deal.“

Individual career management include all “activities and processes to match individual needs and aspirations with organization needs, set within an integrative framework” (Bratton & Gold, 2003, p. 484). Because it depends on the specific mingling of two factors, the employee and the employer, it is unique for each firm. Career opportunities in one firm may not be transferred to another employer, thus being a barrier for voluntary turnover. Based on this argumentation we propose:

Hypothesis 2b: Individual career management is negatively related to attrition.

Finally, job tasks are an important determinant of employee turnover. Several empirical studies (e.g., Hinton & Biderman, 1995; Hom & Kinicki, 2001) show that employees who are dissatisfied with their jobs have a strong tendency to look for alternative job opportunities and, if these are not offered by their current employer, to leave the company. This is also true for India, where tasks which do not allow employees to apply their knowledge and to learn new things are important causes of voluntary turnover (e.g., Singh, 2005; Budhwar, Luthar & Bhatnagar, 2006). On the contrary, employee participation and empowerment has a positive impact on job satisfaction and organizational commitment (Bhatnagar, 2005).

One instrument to increase job satisfaction and organizational commitment is to offer employees the possibility to design their job according to their individual qualifications and motivation. Idiosyncratic jobs are defined by two characteristics. First, the job position is created according to the current job holder. Secondly, the job tasks are defined "to match the perceived abilities, interest, or priorities of the person around whom the position was created" (Miner, 1987, p. 327).

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

Hypothesis 2c: Idiosyncratic job design is negatively related to attrition.

Figure 1 presents the conceptual model which will be tested in this study.

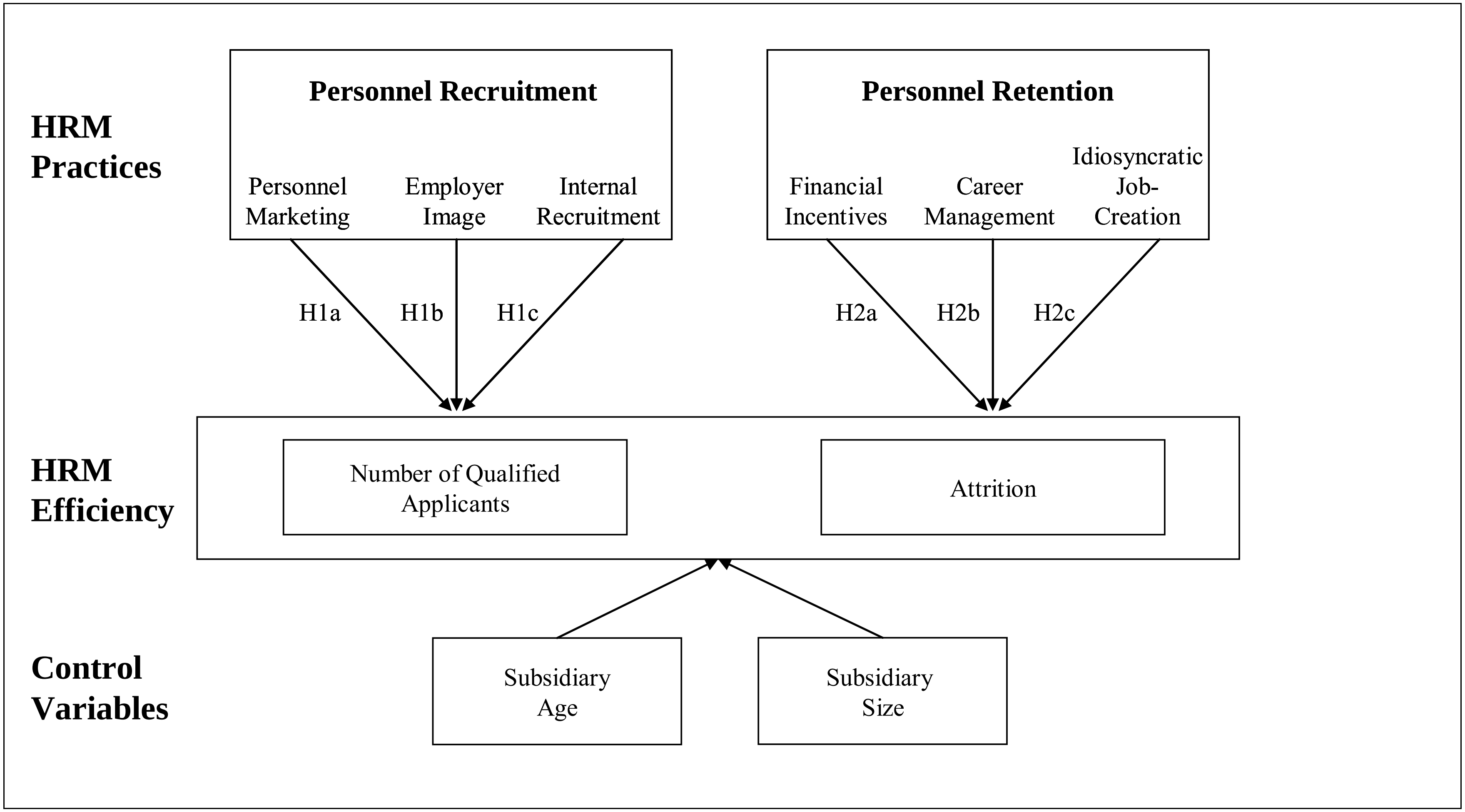

Figure 1: Conceptual Model

METHODOLOGY

Sample and Sampling Procedure

A standardized online survey using the software 'Surveycenter' 5.0 by Globalpark was conducted (http://www.globalpark.co.uk/) to test the hypotheses. There were two major reasons for the choice of this method: a) most people addressed were not known beforehand and b) anonymity needed to be guaranteed since many data in the field of HRM (e.g., attrition figures) are sensitive.

To gain access to the addresses of foreign firms in India, foreign chambers of commerce, high commissions, or similar institutions of European investor countries were contacted and requested to provide email addresses of companies from these countries operating in India. Firms for which addresses were available were asked to participate in the online survey in an email which contained the most important information on the purpose of the study. The questionnaire was available online from July 25 until August 31, 2007.

Altogether 80 usable questionnaires were received. We tested for non-response bias by comparing the answers of early and late respondents (Armstrong, & Overton, 1977). Non-response bias exists if the "persons who respond differ significantly from those who do not" (Armstrong and Overton, 1977: 396). T-test statistics revealed no significant differences for any independent variable. Therefore, non-response bias was not considered to be a problem. To reduce common method bias, we employed the strategies suggested by Podsakoff et al., (2003). In particular, we separated items measuring the same construct in the questionnaire, protected and assured respondent anonymity, and reduced the danger of evaluation apprehension by explaining that there are neither 'right' nor 'wrong' answers on the first page of the survey. Furthermore, an ANOVA revealed no significant differences regarding industry as well as subsidiary size and age. As no significant differences were found, we included all companies in the subsequent analyses.

The respondents were mainly CEOs or members of the top-management who are responsible for HRM. On average, they have worked in the respective company for 8.86 years and had 8.57 years of HRM experience. The firms in our study had on average 206 employees and have been operating in

India for between 1 and 60 years (average of 14 years). The majority of the workforce in the participating firms were employed in the Western Economic Corridor (metropolitan area of Mumbai, Pune, Nashik, Surat, Baroda, Ahmedabad, Kandia), followed by the Economic Triangle of the South (Hyderabad, Bengaluru, Madras) and the National Capital Region (metropolitan area of Delhi, Noida, Ghaziabad, Guragon, Faridabad). Five respondents came from other regions.

Measures

The measures were developed on the basis of previous empirical studies in the field of HRM. To adopt the measures to the specific conditions in India, the questionnaire has been pre-tested in four interviews with HR managers of European firms operating in India. Recommendations and suggestions were incorporated and the former questionnaire was adjusted accordingly. Moreover, it has been discussed with members of the Indian Institute of Management Bangalore (IIMB) to ensure that the questions could be understood in the Indian context.

Dependent Variables

As derived above, the efficiency of HRM was split into two areas, which refer to the most important HRM issues faced by foreign firms in India. For the number of qualified applicants, measures were adapted from Becker, Huselid & Ulrich (2001). The respondents were asked for (1) the interview per offer ratio, (2) the time-span between the first advertisements of a vacancy and the final staffing, and (3) the time it takes until a new employee can fully fill his position. The internal reliability of this measure proved to be sufficiently high, with Cronbach's Alpha = 0.72.

Attrition was measured as the ratio between the number of employees who had left the firm in the last year and the number of employees who had joined. We argue that this measure is more appropriate for the Indian context than the often used formula 'number of separations divided by average number of employees' (e.g. Glebbeek & Bax, 2004), because it takes into account the high growth rate of most foreign firms in India. Moreover, it better reflects voluntary turnover, as firm-initiated dismissals in India are generally not replaced by new applicants (e.g., Ramesh, 2007).

Independent Variables

Six independent variables were included in the study. To measure the intensity of personnel marketing, the respondents were presented a list of 19 instruments taken from Becker, Huselid & Ulrich (2001) that were adjusted to the Indian context. Respondents were asked to rate their relevance on a Likert scale (ranging from 1 = 'never applied' to 7 = 'very often applied'). The internal reliability of the measure was very high (Cronbach's Alpha: 0.91). Employer image was measured as subjective perception of the respondents on a Likert scale, ranging from 1 = 'very negative' to 7 = 'very positive'. Similar to several previous studies of employer image, this measure was used because more objective reputation rankings of foreign companies in India are not available (e.g. Turban & Cable, 2003; Collins & Han 2004). The intensity of internal recruitment was measured by the percentage of vacancies that are filled internally (e.g., Zottolia & Wanous, 2000).

According to Becker, Huselid & Ulrich (2001) and Ramaswamy, Veliyath & Gomes, (2000), financial incentives were measured by asking the respondents to rate the extent to which performance appraisal systems affect individual compensations. A Likert scale ranging from 1 = 'don't affect' to 7 = 'strongly affect' was used. With reference to previous studies in India (e.g., Budhwar & Baruch, 2003; Singh, 2003b), career management was measured by asking the respondents to assess the extent to which performance appraisal systems affect individual career plans. The respondents were presented a Likert Scale, ranging from 1 = 'don't affect' to 7 = 'strongly affect'. The degree of idiosyncratic job creation was measured by asking the respondents to evaluate the following statement on a Likert scale ranging from 1 = 'completely disagree' to 7 = 'completely agree': "We employ high potentials and talents and give them to a great extent the freedom to shape their work content". This measure was adopted from Miner's (1987) definition of idiosyncratic jobs.

Control Variables

Subsidiary age was included as a control variable. The RBV argues that HRM practices are path-dependent, i.e., the spectrum of alternatives at a given moment in time depends on the decisions made in the past. Thus the age of a company may influence both HRM practices and outcomes (e.g., Wright, Dunford & Snell, 2001). To measure this control variable, the respondents were asked for the year their company was established in India. This figure was subtracted from 2007 (the year of the study), thus indicating the length of operation.

As empirical studies (e.g. Khandekar & Sharma, 2005; Ghosh, 2007) have revealed that HRM practices of firms in India vary with their size, subsidiary size was included as a control variable as well. It was measured by the total headcount at the date of the study (2007).

FINDINGS

Table 2 shows the descriptive statistics of the dependent and independent variables.

	Mean	Standard Deviation	Min.	Max.
Number of Qualified Applicants	2.50	1.55	1	5.33
Attrition	1.90	1.71	.90	10
Personnel Marketing	2.28	1.21	1	4.47
Employer Image	4.77	2.02	1	7
Internal Recruitment	26.64	26.92	1	80
Financial Incentives	4.32	2.28	1	7
Career Management	3.98	2.37	1	7
Idiosyncratic Job Creation	4.42	2.26	1	7

Table 2: Descriptive statistics

Multiple regression analyses were applied to analyze the hypothesized relationships (Table 3). To test for multicollinearity, we calculated Variance Inflation Factors (VIFs). There were no concerns for mulicollinearity, since there was no VIF above 8 and the mean of all VIFs was below 1, as recommended by Chatterjee and Price (1991).

The first regression analyzing the antecedents of the number of qualified applicants explains 19.9 percent of the variance and is significant on a high level ($p<.01$). As hypothesized, we found a significant and positive effect of personnel marketing on the number of qualified applicants (.195; $p<.05$), providing support for Hypothesis 1a. Hypothesis 1b was also confirmed. Employer image influences the number of qualified applicants positively and on a high level of significance (.218; $p<.01$). Contrarily, the assumed positive influence of internal recruitment was not confirmed. The results show a positive, but non-significant influence. Thus, hypothesis 1c is not supported.

The second regression using attrition as a dependent variable explained 20.8 percent of the variance and was significant on a high level ($p<.01$). The results lend support for hypothesis 2a and show a significant and negative impact of financial incentives on attrition (-.290; $p<.05$). The coefficient for career management is negative and significant on a very high level as well (-259; $p<.05$). Therefore, hypothesis 2b is also supported. The same applies for hypothesis 2c. The coefficient for idiosyncratic job creation is negative and shows an acceptable level of significance (-.144; $p<.05$).

	Number of Qualified Applicants	Attrition
Personnel Marketing	.195*	
Employer Image	.218**	
Internal Recruitment	.100	
Financial Incentives		-.290**
Career Management		-.259**
Idiosyncratic Job Creation		-.144*
Subsidiary Age	.322**	-.148†
Subsidiary Size	.124†	.128†
R2	.259	.280
Adj. R2	.199	.208
F	5,474**	4,993**
n=80; † $p<.1$; *$p<.05$; **$p<.01$; standardized coefficients shown		

Table 3: Regression analysis

Both control variables have a significant impact on the two different dependent variables. While the coefficients for subsidiary size are both positive, subsidiary age has a strong positive impact on the number of qualified applicants, but a negative impact on attrition.

DISCUSSION

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

As hypothesized, personnel marketing and employer image show a significant impact on the number of qualified applicants in the first regression. This supports the strong roles of value and barriers to imitation for recruiting in India. Contrary to our expectations, internal recruitment did not enter the regression significantly. A possible explanation might be that internal recruitment has not yet been largely formalized in foreign firms in India and may therefore be of lower relevance for the number of qualified applicants. Moreover, compared to personnel marketing and employer image, this HRM practice is difficult to signal on the labor market and thus, might not be adequately perceived by potential applicants. This interpretation is in line with the result of previous studies that suggest the RBV alone cannot explain the implications of recruitment choices, but has to be combined with other concepts such as signaling theory (e.g., Joo & McLean, 2006).

For attrition as the second dependent variable financial incentives, career management and idiosyncratic job creation have a significant influence, lending support for hypotheses 2a-2c. In accordance with the RBV, our study reveals that HRM practices which enhance the value, uniqueness, and inimitability of human resources decrease the likelihood of voluntary turnover. Thus, the often reported high attrition rates in India are not inevitable, but may be avoided by appropriate HRM practices.

While our control variable subsidiary age shows are very high level of significance in the first regression, it is negative in the second regression. Thus, it can be argued that firms which operate in India for a longer period find it easier to increase the number of qualified applicants than newcomers (e.g., Budhwar, 2000). One explanation might be that firms with a long history in India are better known by potential applicants. Moreover, experienced firms are likely to have a greater knowledge of the Indian labor market and may adjust their recruitment strategy accordingly. On the contrary, older subsidiaries find it more difficult to retain employees. One reason for higher turnover rates in older subsidiaries might be that they tend to be more formalized which make it difficult for their employees to apply their knowledge and to learn new things. As Singh (2005) shows this might enhance the willingness to look for alternative job opportunities. Moreover, in older subsidiaries, career perspectives might be perceived as inferior since attractive positions are already filled.

Company size has a positive impact on both dependent variables. Thus, larger subsidiaries are able to attract qualified applicants and to retain them more easily than smaller ones. This result corresponds with previous empirical studies in India (Ghosh, 2007).

CONTRIBUTIONS, LIMITATIONS, AND SUGGESTIONS FOR FURTHER STUDIES

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

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

In India – like in most other countries – it is not only important to recruit qualified employees but also to retain them. Since the loyalty of Indian employees to their employer is low, attrition can be reduced by individual performance evaluation and reward systems. Thus, not only the absolute level of rewards, but also the ability to enhance this level by individual performance is valued by Indian employees. Moreover, career management and idiosyncratic jobs which may be individually designed by the employees to fit their specific qualifications and motivations are also feasible. In short, this study shows that the commitment of Indian employees to foreign employers may not only be enhanced by financial incentives, but also by performance-oriented reward systems, long-term career perspectives, and their participation in the design of their job tasks.

When interpreting these results and adapting them to a specific firm, several limitations of the study have to be taken into account. One shortcoming of this study is the relatively small sample size. Small sample sizes are problematic: first, because of the danger of being not representative, and second, because the potential relationships between the variables tend to be suppressed, leading to non-significant results (Lee, Phan & Chan, 2005). Therefore, this study has to be regarded as explorative and as a first investigation of a new phenomenon, only.

Another shortcoming is the heterogeneity of the sample in terms of industry and home country. Although the headquarters are all located in Europe, where a convergence of HRM practices can be observed, differences regarding global HRM strategies may still exist (e.g., Brewster, Mayrhofer & Morley, 2004). Due to the relatively small sample size, we were not able to control for possible influences of these factors. Future studies with more homogeneous samples would allow analysis of the question whether the HRM practices that proved to be efficient in our study are appropriate for all firms, or whether they have to be adapted to the particular context.

Like in many similar empirical studies, our study has a potential single-respondent bias. Although we employed several measures to reduce this common method problem, future studies should try to collect data from multiple sources to enhance the reliability of responses. In particular mirror-image designs with respondents coming from both the top-management and the HR department are useful to analyze the performance implications of HRM. Moreover, Indian employees may be asked to report about the emotional, cognitive and behavioral consequences of different HRM practices, thus shedding more light on the complex relationships between HRM practices and efficiency.

Another alley for future research is studies which compare HRM practices in foreign and local firms. As en empirical study of Som (2006) reveals, several leading Indian companies such as Wipro or Infosys have adopted innovative HRM practices which are particularly adjusted to the local labor market and may thus constitute benchmarks for foreign investors, which are less familiar with the conditions for HRM in India.

Finally, future studies should put more emphasis on the highly diversified cultural and economic conditions in India. HRM practices which are effective in prosperous and more Western-oriented regions may not be applied in lesser developed regions where traditional values prevail and the Indian labor market is more rigid.

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