Organizational Dynamics (2017) xxx, xxx—xxx

Available online at www.sciencedirect.com

ScienceDirect

journal homepage: www.elsevier.com/locate/orgdyn

Value creation and capture through human resource management practices:
Gazing through the business model lens

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> *Not long ago the term 'business model' was not exactly on the tip of everyone's tongue. Then, in the early to mid-1990s, 'business model' became a catchphrase that describes how a company makes money or saves money.*
>
> Marc Ostrofsky

> *My model for business is 'The Beatles'. There were four guys who kept each other's kind of negative tendencies in check. They balanced each other and the sum was greater than the sum of the parts. That's how I see a business: great things in business are never done by one person, they are done by a team of people.*
>
> Steve Jobs

SUSTAINED GROWTH THROUGH BUSINESS MODEL INNOVATION

The above quotes convey two critical aspects of any firm's business model: the ability to make a profit and the role of people in achieving the same. Broadly speaking, a business model refers to a firm's blueprint for creating and capturing value through a set of interlocking activities. It is important because a business model provides clear direction to managers in understanding how a business generates and captures surplus through a range of activities. Based on our research findings of over the past decade or so in the Indian IT industry, we highlight the role of human resources and human resource management (HRM) practices in supporting two dominant business models.

a) *The Repetitive Efficiencies Model*: defined as one that creates value for repetitive work often associated with efficient delivery.
b) *The Service Experience Model*: which focuses on creating value for various services.

By focusing on the learning from these models managers can, depending on their firm's orientation and strategy, implement specific HR practices related to each model.

The Indian IT industry offers a fertile research ground to study business model change and innovation as this industry, according to the Industry's professional body, NASSCOM, has grown in the last three decades from US$200 million to nearly US$ 143 billion in 2016, of which US$ 108 billion is from export revenues. The industry is of high significance to Indian economy on numerous counts: it is a sustained source for foreign exchange earnings and foreign direct investment; contributes to nearly 4% of its GDP; and provides employment to nearly 3.7 million people. The industry also has several indirect and positive technological spill overs for the Indian economy. There are more than 16,000 IT firms operating in the Indian IT industry, of which there are a number of entrepreneurial technology start-ups (more than 4200) that are changing the innovation and technology landscape of the industry. Further, through its global service delivery model, firms in the Indian IT industry now have operations in more than 80 countries. Therefore, over the last three decades, India as an offshore outsourcing location has improved its talent value proposition and is now considered as the first choice location for technology and IT-related offshore outsourcing by majority of overseas firms. Globally, India accounts for nearly 8.5% of the outsourcing market, and the learnings, HR practices and business model employed by this

http://dx.doi.org/10.1016/j.orgdyn.2017.09.002
0090-2616/

industry, is increasingly becoming mainstream in other parts of the global IT market.

The story of sustained growth in the Indian IT industry is one of business model innovation at different stages of its evolution. Several functional and strategic activities contribute to a firm's business model. In this article, we uncover the role of HRM practices for business models that are being pursued by IT firms in India. Globally, the IT industry is a knowledge-intensive one. We describe how several HRM practices support value creation. To understand value creation, we need to view how users of a product or service evaluate the benefits they derive from the same. Value capture is about how well a firm can retain a percentage of the value provided in every transaction in the form of surplus, in spite of the competition it faces. Often this is done through its combination of idiosyncratic and a hard to imitate set of resources and processes. By focusing on these two key aspects of a firm's business model, we highlight the importance of a core value proposition perceived by a firm's customers, and how a business model design can help create and capture value from this proposition.

The remainder of this paper is structured as follows. We begin by explaining the concept of a business model, its theoretical bases and current gaps in the relevant literature. Next, working on the identified gap of activity systems of a business model, we apply activity systems to the function of HRM. This is followed by a discussion on the role of HRM activity systems in supporting a firm's business model. We present an analytical framework of how HRM practices support the processes of both value creation and the value capture in the context of the Indian IT industry. This is followed a discussion of how firms can balance multiple levels of fit in delivering on its business model. We conclude by highlighting the managerial implications of our analysis. The outcomes of this analysis are also applicable in other industry sectors.

For example, the duality of these two processes can be understood in the health care sector, particularly the not-for-profit organizations, where value creation is the principal objective. In health care, value creation means providing sustainable care for patients within the constraints care providers have to deal with. Only focusing on value capture would mean undertaking actions that increase a firm's profit.

UNDERSTANDING BUSINESS MODELS

A business model is a guiding framework for managerial cognition and action. It informs managers' strategic choices. Business models specify the "how" and "why" behind managerial thought and actions. In this regard, a business model is a firm's theory of how its product/services are created and delivered to meet the needs of its customers. Firms do so in a way that is dictated by its customers. Thus a firm can organise its resource architectures and value chain in a profitable way.

Business Models: Theoretical Frames and Functional Activities

The common elements of a business model include: customer value proposition, communicating the value, creating value, and delivering and realizing value. A firm must pay attention to the front and back-end elements of a business model to help it create and capture value. A successful business model must focus on aspects such as finding a clear way to generate profit through resources, capabilities, products, customers, technologies and so on through the right business model design and its ongoing innovation to meet the dynamic needs of the market. For example, the global IT industry is increasingly faced by both technological and social challenges, and continues advancing and inventing new processes, products and new ways to deal with this challenge. In the process, the ongoing transition costs may become too high, as the risks of moving away from traditional ways of doing things and the threats to environmental sustainability could be too great to bear. Hence, firms strive to find that right business model and many times they succeed (e.g., firms like Tata Consultancy Services — TCS, Infosys, Wipro, HCL, etc.), in order to overcome this challenge. Information technology industry firms have paid attention to HRM and management practices for value creation and realisation. Like any industry, value creation in the IT industry occurs by addressing the key critical demands of the customer. In the Global IT industry this means lower resource and development costs, faster development and access to large pools of technical talent with ease. Many firms in the Indian IT industry have played an active role in dealing with such challenges. An example of this was aptly demonstrated by TCS (India's largest IT firm), in the early phases of the IT industry's evolution (1980s). By suggesting to key stakeholders (e.g., Government of India and large US-based IT organisations), TCS leadership convinced the use of satellite communications for offshore development when the US Government had put restrictions on H1-B visas (limiting the access to technical IT talent) and required Indian software programmers to be paid US level salaries (increasing the cost of talent) for delivering software services. Through the use of satellite communications and Internet technologies, the issue of H1-B visa restrictions was aptly dealt with, and this resulted in significant cost reductions as well (as IT programmers were based in India and paid accordingly and by working on two time zones — India and the US). Accordingly, the production cycle time was almost cut to half.

Another example of value creation can be seen where Infosys Technologies pioneered the 'Global Delivery Service Model' (GDSM). Adoption of this business model involved Infosys setting up multiple delivery centres in all the continents to not only support the demand from a regional presence perspective but also to gain local expertise and understanding of the clients and geography's specific needs. The GDSM business model enabled IT firms to create value for clients by addressing their key challenges via (1) delivering IT solutions where the client wanted it to be delivered; (2) a quicker turnaround time; and (3) delivering contextual, technical and business knowledge through this model. This business model became the mainstream and was followed by firms such WIPRO, Accenture, Convergys, IBM, GE and Colvill Banks to name a few.

Similarly, for value realisation or capture, IT firms employed a number of HRM practices that helped in capturing the surplus. One major trend pioneered by Motorola and General Electric was to minimise wastage and errors through