

Local employees local pay essay



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Local Employees, Local Pay? William O' Dell, vice president for human resources at LeBert Graphics (LG), a fast growing software development firm headquartered in Boston's Route 128 technology belt, was visiting the firm's first overseas subsidiary, LeBert Graphics Bangalore Ltd. (LGB).

The visit had been going well, but a recent lunch with his good friend Ashok Rao had left him troubled. Rao was one of many Indian expatriates who had migrated to the United States in the 1980s. He had been with LG for a number of years and had recently accepted an assignment to return to his hometown to head the firm's new development lab. O'Dell was thankful to have him there, not just because of his development skills, but because he hoped Rao would serve as a cultural broker between the headquarters and the local employees. During lunch, Rao noted how the city had changed. Rao had first decided not to return to Bangalore after college in the United States because of the lack of opportunities here. Now the city was booming, and computer software was the driving force.

Neighbors in the Technology Park where LG was located included Siemens Components and Hitachi Asia. The nature of the industry had changed too. Initially, foreign firms had employed Indian workers for basic programming. Although cheap, these employees did not always have the training or skill levels seen in their American counterparts.

There were still large pools of these competent, but not exceptional employees. However, while recruiting for the new operations, he found many of the applicants had technical skills that would equal those of any of the

Boston staff. These were the employees they needed for the software development operations. The labor market had changed in other ways too.

Today, the best of these software engineers had more options. Because of a worldwide shortage, a host of firms were looking for skilled engineers. An engineer could work for the local operations of a foreign firm, on a temporary assignment basis in the United States or Europe, or in one of the many local start-up firms. Some had great success starting their own software firms in the United States. While the same range of opportunities might not exist for those with more basic skills, the growth in foreign investment and start-ups in Bangalore also gave these employees many attractive options locally. At first, the conversation appeared casual, the reminiscences of an old friend.

However, Rao had also mentioned a conversation he had overheard in which one of the brightest engineers in the development unit had complained to a co-worker that although he was a principal engineer on a joint Boston-Bangalore project, his American counterpart was receiving over four times his salary. On reflection, O'Dell was convinced that Rao had been attempting to draw his attention to an issue that was important to some of the Indian staff. O'Dell's initial reaction had been, " of course, that's why we located in Bangalore in the first place. " Technology skills were abundant, and pay rates for software engineers were a fraction of those in Boston. Moreover, the pay levels reflected the fact that productivity in the programming unit was not always up to the US standards. On reflection, he realized that the issue was much more complex.

On one hand were the economies. Cost savings not achieved now might be lost forever. Manufacturing firms that had moved operations to low-cost, off-shore sites had often found that the benefits were partly illusory. Wages were low, but at times so was productivity. Employees were often motivated, and with appropriate training, supervision and equipment, productivity levels would rise. However, as these employees became more productive, they also became more attractive to other employers.

Moreover, as the economy in these regions developed, there was often a shift in the exchange rate. Salaries rose locally, but because of exchange rate effects they rose even more in US dollars. Firms using contractors might shift to another, lower-cost site. Such shifts could be disruptive, however, and more difficult when the firm had invested directly in the overseas location. It would be simpler, O'Dell thought, if the firm were in Bangalore for the short-term. LG's interest in Bangalore had changed dramatically over the past year, however, LG had been using an Indian subcontractor to outsource basic programming for years.

Individual pay levels had not concerned them directly. The Indian firm handled all issues related to recruitment, performance evaluation, and compensation. Recently, LG had decided both to bring the programming in-house (by acquiring the Indian firm) and to open a software development lab. The decision to move the operation in-house reflected a desire for greater control.

It would allow greater emphasis on quality, especially after the programmers were trained to more closely meet the company's special needs. The

decision to open the software development lab represented an even more dramatic shift. The new lab operation could take advantage of the rapidly developing skills of the Indian engineers, particularly in “hot jobs” for which there was a worldwide shortage. Moreover, the fast-growing Asian markets held a real potential for LG.

This required the development of programs that met the special needs of their Asian customers. At first the technology would originate in Boston, but substantial local adaptation was required. Later, the lab should stand alone in developing programs for the region and possibly the world market. These efforts required day-to-day interaction and teamwork between engineers at both locations.

Soon the projects would require short-term transfers of personnel between facilities. The discussion reminded him of a project he had left on his desk before the trip—developing a compensation plan for the revamped India operations. The project had not focused on compensation levels, but it had raised related questions. What type of compensation package was appropriate? Should they follow local custom as to vacations and leave? Should the generous stock option and pension plans, available to employees in Boston, be extended to these operations? Extracted from: HRM: An Experimental Approach, Bernadin & Rusell, 2000.