Employee Attrition in India

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Abstract
The robust economic consolidation of India (touching about 8.5 percent rate of growth) has taken India
to a position where there are numerous opportunities of expansion. This economic growth is also
accompanied with growing employee aspirations, high turnover rates, shortage of skilled workers,
scarcity of experts etc. Retention of key employees and treating attrition troubles has become a prime
concern for companies as it is critical to the long-term health and success of any organization. Failing
to retain a key employee is a costly proposition for any organization.

Introduction
Defining Attrition: A reduction in the number of employees through retirement, resignation or
death
Defining Attrition rate: The rate of shrinkage in size or number
The robust economic consolidation of India (touching about 8.5 percent rate of growth) has taken India
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accompanied with growing employee aspirations, high turnover rates, shortage of skilled workers,
scarcity of experts etc. Retention of key employees and treating attrition troubles has become a prime
concern for companies as it is critical to the long-term health and success of any organization. Failing
to retain a key employee is a costly proposition for any organization. There are costs associated with
recruitment, selection and training. A NASCOMM (National Association of Software & Services
Companies)-Hewett Associates’ Survey shows that the cost of attrition is 1.5 times the annual salary of
an employee. This paper discusses certain important work attitudes, their probable linkages with one
another and their possible impact upon employee retention strategies adopted by different
organizations. It is argued that retention strategies should be designed only after thorough
understanding of theoretical concepts that explain employees’ behavior. Two terms that are used in the
context of employees leaving the organization are attrition and turnover. The former means the
voluntary and involuntary permanent employee withdrawal from organizations (Robbins, 1998). The
matter of concern is voluntary exit of valuable performers. There is very little literature explaining the
difference between the two terms. Hence, the two terms have been used interchangeably in this paper.

Cost due to a person leaving
1. Calculate the cost of the persons who fills in while the position is vacant.
2. Calculate the cost of lost productivity at a minimum of 50% of the person’s compensation and
   benefits. Cost for each week the position is vacant, even if there are people performing the work.
   Calculate the lost productivity at 100% if the position is completely vacant for any period of time.
3. Calculate the cost of conducting an exit interview to include the time of the person conducting
   the interview, the time of the person leaving, the administrative costs of stopping payroll, benefit
   deductions, benefit enrollments.
4. Calculate the cost of the manager who has to understand what work remains, and how to cover
   that work until a replacement is found.
5. Calculate the cost of training your company has invested in this employee who is leaving.
6. Calculate the impact on departmental productivity because the person is leaving. Who will pick
   up the work, whose work will suffer, what departmental deadlines will not be met or delivered late.
7. Calculate the cost of lost knowledge, skills and contacts that the person who is leaving is taking
   with them out of your door. Use a formula of 50% of the person’s annual salary for one year of
   service, increasing each year of service by 10%.
8. Subtract the cost of the person who is leaving for the amount of time the position is vacant.
Attrition rates

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>42%</td>
</tr>
<tr>
<td>Australia</td>
<td>29%</td>
</tr>
<tr>
<td>Europe</td>
<td>24%</td>
</tr>
<tr>
<td>India</td>
<td>18%</td>
</tr>
<tr>
<td>Global Average</td>
<td>24%</td>
</tr>
</tbody>
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**Attrition rates in different sectors in India: Some statistics**

It is essential to understand the gravity of the attrition problem before discussing the retention strategies. Table 1 presents attrition rates in certain sectors like FMCG, manufacturing, finance (ASSOCHAM Business Barometer (ABB) Survey, [www.tribuneindia.com](http://www.tribuneindia.com)), IT and ITES (Ma Foi Employment Survey) in India, across different years. Figure 1 shows the attrition rates in different sectors in the year 2007.

**WHY DO EMPLOYEES LEAVE**

The essence of employee retention rests at the grassroots level with the relationship between managers and employees. This relationship is fundamental to any relationship between managers and employees. This relationship is fundamental to any initiative related to improved employees engagement in the workplace. Employees look to their managers for challenging work, recognition of their achievements and opportunities to learn and grow on the job. Managers who fail to meet their employees' expectations are likely to lose their employees to another firm (Rutledge, 2005).

Immediate gains in salary package and growth potential are mainly responsible for job change (ABB Survey). Pressure factors in BPO industry were found to be odd work timings, monotonous jobs, performance targets, cultural clash (for employees coming from small towns to big cities) and career growth (BPO's Young and Troubled, 2007). A Hay Group study (2002) showed that career advancement and utilization of potential is very important for employees.

BT-TNS Mercer study shows that today one of the most important reasons for employee to stay with a company is the nature of work, which offers them some challenge and sufficient autonomy to innovate; opportunity for growth and development; fair treatment and transparency in system. These studies point towards the fact that salary is not the only factor that is capable of retaining employee. Compensation may be only seen as a hygiene factor. Bad compensation may lead to higher attrition, but good compensation may not necessarily lead to higher retention. There are many intrinsic factors to which employees attach considerable importance. The importance of good work environment can be understood from the findings of a survey by Corporate Executive Board, a Washington based firm that which found that on global average, an unattractive Employment Value Proposition (EVP) of an organization requires an offer of 21% increment to hire an employee as against 11% for attractive EVP. The attributes that form core of EVP globally include collegial work environment, compensation, development and future career opportunities, quality of manager, organizational stability and respect. Attributes that are important in India are ethics, growth rate of organization, innovation, job impact, market position, work-life balance, reputation of senior leadership and job-interest alignment (Sinha, 2007).

The implications of these findings for companies are that employees value these attributes in an organization and chances are that they would stick to the organizations that have these attributes. A pro-active rather than a reactive approach is likely to be more successful to be more successful in dealing with this issue. The chances of retaining an employee who has initiated a job search are low because he has mentally left the organization.

**Retention strategies in Practice**

Ma Foi survey, July-September 2005 (Job Opportunities on the Rise in South, 2005) revealed that companies are investing heavily in controlling attrition. ABB survey found that companies now prefer to sign bonds for three years with employees as they are imparting them the necessary training and
specialized knowledge of retail functions. Competitive pressures have encouraged organizations to be proactive in diagnosing HR problems and to adopt more innovative HR practices since these are no longer a matter of trend, but rather of survival.

At Juniper Networks it is ensured that a prospective employee understands the challenges in the company at the interview stage itself so that the candidate can decide whether he wants to work in the company. Twice a year the company undertakes a market survey where it benchmarks its compensation package with others in the industry.

Poaching is another issue of concern which is responsible increasing attrition. Bilateral agreements between companies are being signed. Basic norms are being put in place and code of ethics is being stressed upon by industry. For example, GE, HSBC, Nipuna, Microsoft, etc. informally agreed that they would not recruit someone who has worked for less than a year with his employer or someone who has switched 3 jobs in 2 years (www.icmr.icfai.org).

At HTMT Global Solutions, a BPO company, employees are offered the options to move to other streams to overcome workers’ ennui. At Xansa the problem of attrition is addressed by building a strong internal referral process. This ensures that as those being referred as more aware of the work environment and have a more aligned cultural fit.

Samsung Telecommunications has evolved compensation and benefits plan where a performer can earn up to 600% of his base pay. Besides it has also evolved a career and succession plan for employees. This strategy has been successful in bringing down the attrition rate to 6% (Purkayastha).

NASSCOM Hewitt Total Rewards Study 2006 for companies in IT and ITES Sector has shown that majority of companies in IT and ITES Sector has shown that majority of companies use employee inputs to manage employee motivation/satisfaction and influence program/policy decision. Importance is attached to rewards and recognition by most of the companies. There were a variety of dependent care assistance programs, convenient services, amenities and alternative work arrangements provided and this is provided by almost all organizations in the data sample. Perks like Rejuvenating holidays, spa therapies and fine-dining and so on are used for retaining top level talent (Dhamija, 2007).

Companies are working very hard to be seen as fair employers. Sasken Communications Technologies and Mindtree Consulting have in-house policies that strongly endorse equality and democracy. Mindtree offers stock options to all employees. Microsoft India (having attrition rate of 7.2%) focuses on leadership development in employees. Career growth concerns of employees are taken care of through internal transfers. There is transparency in the system of pay and appraisal.

Similarly, HCL Infosystems recognizes and rewards employees for innovations. The example given above and an analysis of the findings of Business Today-Mercer-TNS study of the best employers in India 2007 reveal that the aspect taken care of in framing the retention strategies, particularly in the companies rated as best employers, include focus on career path and growth, inculcation of a sense of ownership, easy access to top management, giving room to be innovative, exposure to responsibility, flexi-hours, working from home, recreation programs(to facilitate socialization and de-stressing), global opportunities , educational initiatives, empowering employees, career mobility, taking care of special needs of women employees, transparency in system, counseling, learning and development, work-life balance, health and well-being, recognition and rewards.

Some Theoretical Aspects Underlying Retention Strategies

The retention strategies discussed in the previous section find their roots in different theories and concepts of organizational behavior. Concepts of job embeddedness, Employee engagement and three
key work attitudes of job satisfaction, Organizational commitment and Job involvement are discussed here.

According to Holtom, Mitchell and Lee(2006), when an employee develops a strong attachment to the organization and its environment, he is less likely to leave the organization. This is because by moving in search of better opportunities he has to forgo many things in the present environment, which are valuable to him.

Employee embeddedness is relevant to organizational staffing and retention policies. In numerous cases, organizations have operated on the assumptions that high job turnover is due to largely intra-organizational factors and, therefore, can be addressed by more effective staffing and retention programs(Rousseau,2004). However, sometimes low turnover may be due to embeddedness in a particular career path rather than to the nature of a particular organization’s environment. On the other hand, high turnover may be a function of low “sunk costs” in an occupation rather than of organizational “errors” in managing personnel. Therefore, if employee’s investment of efforts in career advancement and development and growth of his organization is increased, he is less likely to leave the job because of certain unseen and intangible losses that he may have to incur on leaving the job.

According to Mitchell et al.(2001), organizational embeddedness is the totality of forces that keep people in their current employment. These forces include fit, links and sacrifice. Fit is the extent to which an individual’s abilities match organizational requirements and an individual’s interests match organizational rewards. Links refer to the extent of ties individuals have with other people and activities at work (e.g., friendship ties or task interdependence). The more link one has in an organization, the more embedded one is in the totality of losses which individuals would incur by leaving their organizations (e.g., pension benefits or accrued sick leave). Thus, increasing the employee involvement in organization through various means like ESPOS, timely promotions, rewards, increasing his social involvement in organization, making him a part of various decision making bodies like committees etc. may increase employee embeddedness.

These researchers are also of the view that the optimal levels of turnover and embeddedness can vary over time and across industries, and, thus, the managerial strategies for addressing that balance might have to vary, too. For instance, occupations in which there are high barriers to entry (e.g., pilots), organizations in which there are high barriers to entry and companies with seniority-based incentives (e.g., fixed-benefit pension plans) will have much higher base rates of embeddedness. Conversely, in labor markets where there are extreme shortages of labor it might relational to encourage embeddedness even for average employees (Ng and Feldman, 2007).

**Employee engagement**

An engaged employee is a person who is fully involved in, and enthusiastic about, his or her work. According to Rutledge (2006) truly engaged employees are attracted to, and inspired by, their work (“I want to do this”), committed (“I am dedicated to the success of what I am doing”), and fascinated (“I love what I am doing”). Engaged employees feel a strong emotional bond to the organization that employs them(Konrad, 2006). This is associated with people demonstrating willingness to recommend the organization to others and commit time and effort to help the organization succeed (Hay Group 2002). Many organizations are making recruitments on the basis of internal referrals. The concept of employee engagement suggests that people are motivated by intrinsic factors rather than simply focusing on extrinsic factors (Robinson et al., 2003).

**Job satisfaction, Organizational commitment, Job Involvement**

Job satisfaction reflects the extent to which an individual likes his/her job. Organizational commitment can be defined as the relative strength of an individual’s identification with, and involvement in an organization (Levy, 2003). It is an important work attitude because committed individuals are expected
to display a willingness to stay employed at an organization (Kreitner and Kiniciki, 2004). Job involvement is defined as “the degree to which one is cognitively preoccupied with, engaged in and concerned with one’s present job” (Paullay et al., 1994).

A significant and strong relationship between organizational commitment and job satisfaction was found in a meta-analysis (Tett and Meyer 1993). It implies that if job satisfaction is increased, organizational commitment can be increased.

A study showed that job dissatisfaction caused employees to begin the process of thinking about quitting. Withdrawal cognitions had a greater impact on employee turnover than job satisfaction (Hom and Kinicki, 2001). This implies that managers can indirectly help to reduce employee turnover by enhancing employee job satisfaction which also increases motivation (Kreitner and Kinicki, 2004).

Job involvement was positively associated with job satisfaction, organizational commitment, and intrinsic motivation and negatively related to intentions to quit. Three implications of these results are: first, managerial attempts to improve any one of the three key work attitudes—job satisfaction, organizational commitment, and job involvement are likely to positively affect the other two work attitudes. Second, managers can improve employee job involvement by providing work environments that promote intrinsic motivation (Thomas, 2000; Kreitner and Kinicki, 2004). It may further be implied that employee’s engagement is positively related with job involvement.

There is a positive relationship between job satisfaction and organizational commitment. This is reflected in literature which suggests that job satisfaction is a causal antecedent of commitment (Riordan & Griffeth, 1995; Williams & Hazer, 1986).

Both satisfaction and commitment contribute independently to the turnover process (Tett & Meyer, 1993). Morrison (2004), on the basis of various studies, suggests that satisfaction and commitment are invariably reported to be negatively related to turnover and intention to leave. A recent study showed that employees had lower intentions to quit their job when they were committed to their respective organizations (Hackett et al., 2001).

The studies and definitions discussed above suggests that job involvement, job satisfaction and organizational may be seen to be positively related with job embeddedness. If latter three increases, Job embedded ness may be increased leading to increase in retention. Further, it may be implied from the above discussion that an increase in job involvement may give rise to an increase in employee engagement. These linkages are shown in figure 2.

Researchers have suggested that reciprocity is a mechanism underlying commitment (Angel & Perry, 1983; Robinson, Kraatz & Rousseau, 1994). By fulfilling obligations relating to, for example, pay, job security, and career development, employers are creating a need for employees to reciprocate, and this can take the form of attitudinal reciprocity through enhanced commitment and consequently influence employees to stay with the organization (Furnham, 2002; Wagar, 2003).

Previous studies of the concept of commitment (Mowday et al.1982; Meyer & Allen, 1991) have substantiated that employee commitment to the organization has a positive influence on job performance and a negative influence on intention to leave or employee turnover. In addition, empirical evidence also strongly supports the position that intent to stay or leave is strongly and consistently related to voluntary turnover ( Griffeth, Hom & Gaertner, 2000; Lambert, Hogan & Barton, 2001).

A number of employee retention-commitment models particularly advocate the advantages of high commitment human resource practices in enhancing employees (Clarke, 2001; Mercer, 2003). Previous work (Becker & Garhart, 1996; Shaw et al , 1998) indicated that high commitment human
resource practices will enhance employee retention. The identified HR practices included selective staffing, competitive and equitable compensation, recognition, comprehensive training and development activities (Icniowski, Shaw & Prennushi, 1997; Youndt et al., 1996).

Lauver and Kristof-Brown (2000) found that both person-job or person organization fit predicted job satisfaction; however, person-organization fit was a better predictor of intention to quit. Thus, people who are not well suited for the job and/or organization are more likely to leave than those who have a good person-job or person-organization fit. Lee et al. (1992) believe that an employee’s satisfaction with a job, as well as propensity to leave that job, depends on the degree to which the individual’s personality matches his or her occupational environment. This implies that the organization should not only match the requirements with personality and values with the organization’s values and culture (Kristof, 1996; Rhoades et al., 2001).

This implies that the suitable and appropriate selection methods must be implemented so as to predict successfully ‘organization-personality-job’ fit aspect of prospective employee. This is a proactive approach to prevent turnover.

This study also revealed that rewards and recognition play a key role in the commitment of core staff. A fair wage is the cornerstone of the contractual and psychological agreement between employees and employers (McCallum, 1998; Parker & Wright, 2001). A number of recent studies have highlighted the reward-retention link (Mercer, 2003; Tower Perrin, 2003).

Recent studies (Accenture, 2001; Clarke, 2001; Mercer, 2003;) suggest that there is a set of best practices for managing employee retention.

Chew and Entrekin (2004) highlighted eight key factors influencing retention. These HRM retention factors were categorized into two bundles: 1) HR factors (person organization fit, remuneration, training and career development, challenging opportunities) and 2) organizational factors (leadership behavior, teamwork relationship, company culture and policies and satisfactory work environment). Similarly to Fitzenz (1990), this study implies that both organizational factors and human resource practices may influence retention of staff and thereby commitment.

Therefore, a challenge for human resource practitioners is clearly to design holistic systems that influence commitment and provide positive work experiences simultaneously.

Studies show that the same qualities that hold employees are the ones that best serve the customers: Employees who can make quick decision on behalf of the customer and the company; employees who have a broader scope of responsibility that allows them some freedom and leverage to solve customer problems; learning opportunities that give employees the skillfulness to address customer issues; and supportive management and supervisors who use any mistakes that occur as teaching opportunities. Thus training programs can play an important role in developing these qualities within the employees who, in turn, can inculcate these attributes in their subordinates. This may also act as a retention strategy.

The findings of Business Today-TNS-Mercer survey about the aspirations of today’s employees reveal that employees want challenging jobs. This may necessitate redesigning of jobs to make them more ‘interesting’ for employees. Job design also known as job redesign refers to any set of activities that involve the alteration of specific jobs or interdependent systems of jobs with the intent of improving the quality of improving the employee job experience and their on the job productivity (Bowditch and Buono, 1985). The motivational approaches to job design attempt to improve not only employees’ effectiveness and attitudinal reactions (such as job satisfaction) but also intrinsic motivation and many behavioral outcome, including turnover(Edwards et al., 2000).
Employees tend to remain with the organization when they feel their capabilities, efforts and performance contributions are recognized and appreciated (Davies, 2001). Recognition from managers, team members, peers and customers has been shown to enhance commitment (Walker, 2001).

Conclusion
Organizations may consider to offer a distinct value proposition to successfully attract talent. The right mix of culture and HR practices contributes to the above in a big way. Compensation is most certainly a key driver in such situations but other factors are certainly very important. Organizations policies should be framed such that they encourage an employee to believe that his knowledge, skills and values match the demands of his job.

A scientific and analytical approach should be implemented to check attrition. Understanding the implications of various studies can help employers formulate effective retention strategies. It can be seen that the concepts of organizational commitment, job embeddedness, job involvement, job satisfaction and employee engagement are interrelated; focusing on enhancement of any one or two of these employee related aspects can automatically enhance the other aspects. Thus HR specialists can move in a systematic and focused manner in thinking of effective retention strategies rather than taking a random and haphazard approach involving hit and trial method to retain talent.

The recognition and rewards programs are not only ingredients for developing an engaged work-force. The factor that holds people includes effective and participative management providing good leadership, besides other factors. Old hierarchy systems are making way for knowledge-based companies where employees reign supreme, specially in IT sector.

Every company is unique, and every industry has its own set of unusual challenges. However, a very costly mistake is made when it is believed information from one sector doesn’t apply to other sectors. Retention strategies can be more successful if their theoretical bases and underlying interrelationships are better understood. These linkages between the five work attitudes discussed in the paper imply that one motivator is capable of affecting many work attitudes, each of which have a considerable impact upon employee’s intention to quit. Therefore each retention strategy must be carefully implemented. The ‘package’ must be such that each retention strategy must have an overall additive impact in the retention program of the organization, rather than having a ‘duplicating’ effect. Each strategy must complement and supplement the other strategies so as to give a synergistic effect.

References