

EMPLOYEE ATTRITION IN INDIA : A STUDY OF THEORETICAL BASES OF COPING STRATEGIES

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Abstract

The economic growth in India is accompanied with employee attrition problem. The attrition rate has been rising in various sectors. Organizations are devising innovative ways to retain talent. All retention strategies seem to be based upon certain theoretical concepts. Various researchers have tried to discover and analyze the work attitudes which play a key role in retaining employees. This paper discusses the concepts of Job Embeddedness, Organizational Commitment, Job Involvement, Job Satisfaction, and Employee Engagement in understanding 'what retains employees'. An attempt has been made to identify linkages between these work attitudes so as to provide theoretical framework for devising effective retention strategies. The paper concludes with a discussion of implications for management practice.

Keywords: Job Embeddedness, Organizational Commitment, Job Involvement, Job Satisfaction, Attrition, Employee engagement, Employee retention

Introduction

The robust economic consolidation of India (touching about 8.5 percent rate of growth) has taken India Inc. 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 there are costs associated with recruitment, selection and training. A NASSCOM (National Association of Software & Services Companies)-Hewitt 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 each other and their possible impact upon employee retention. These attitudes explain the reason why people stay in their organizations even when other opportunities are available elsewhere. It also discusses the retention strategies adopted by different organizations. It is argued that retention strategies should be designed only after thorough understanding of theoretical concepts that explain employee behaviour. 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 organization (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.

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 represents attrition rates in certain sectors like FMCG (<http://retention.naukrihub.com>), manufacturing, finance (ASSOCHAM Business Barometer (ABB) Survey, 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.

Table 1: Attrition rates in certain sectors in India across different years.

	2004 (%)	2005 (%)	2006 (%)	2007 (%)
FMCG 9.8	9.8	10.8	17	16-18
Manufacturing	-	-	Almost 20	20
Financial	-	-	32	40
Services	23.63% (IT) and 16.82% (ITES)	-	35-40	25-30

WHY DO EMPLOYEES LEAVE?

The essence of employee retention rests at the grass-roots level with the relationship between managers and employees. This relationship is fundamental to any initiative related to improved employee 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 best employees to another firm (Rutledge 2005).

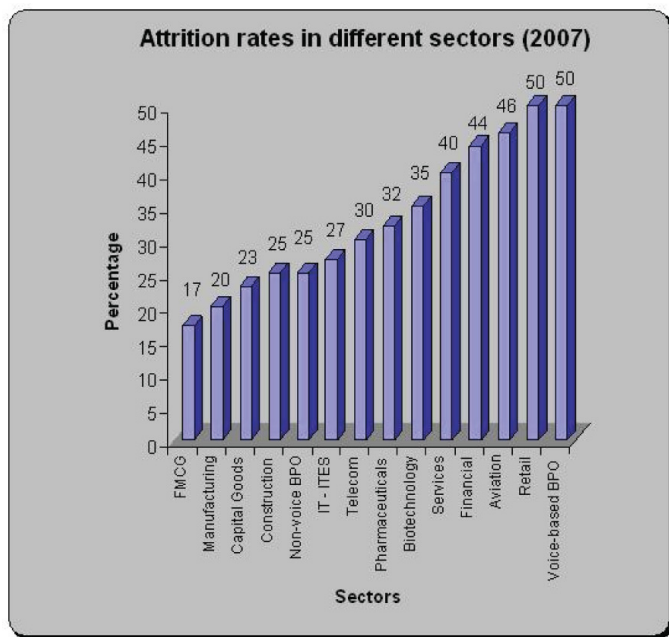


Figure 1: Attrition Rates in Different Sectors in India

(source: <http://retention.naukrihub.com/attrition-rates-in-different-sectors.html>)

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 job, 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 employees 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 seen only 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 a 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 organization having these attributes. A pro-active rather than a reactive approach is likely 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 problems of attrition is addressed by building a strong internal referral process. This ensures that as those being referred are 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 use employee inputs to manage employee motivation/satisfaction and influence program/policy decision. Importance is attached to rewards & recognition by most of the companies. There were a variety of dependent care assistance programs, convenience services, amenities and alternative work arrangements provided by the sample companies. Flexible timing is the most common alternative work arrangement 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 Communication Technologies and Mindtree Consulting have in-house policies that strongly endorse equality and democracy. Mindtree offers stock options to all the 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 examples given above and an analysis of the findings of Business Today-Mercer-TNS study of the best employers in India 2007 reveal that the aspects 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, education 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 behaviour. Concepts of Job embeddedness, Employee engagement and three key work attitudes of Job satisfaction, Organizational commitment and Job involvement are discussed here.

Job embeddedness

According to Holtom, Mitchell and Lee (2006), when an employee develops a strong attachment to the organisation and its environment, he is less likely to leave the organisation. 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 assumption that high (or low) 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 organisation 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

links one has in an organization, the more embedded one is in the organization. Sacrifice is 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 ESOPS, 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 be rational 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 organisations 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, Organisational commitment, Job Involvement

Job satisfaction reflects the extent to which an individual likes his/her job. Organisational commitment can be defined as the relative strength of an individual's identification with, and involvement in an organisation (Levy, 2003). It is an important work attitude because committed individuals are expected to display a willingness to stay employed at an organiza-

tion (Kreitner and Kinicki, 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) third, improving job involvement can reduce employee turnover (Kreitner and Kinicki, 2004). It may further be implied that employee engagement is positively related with job involvement.

There is a positive relationship between job satisfaction and organisational commitment. This is reflected in literature which suggests that job satisfaction is a causal antecedent of commitment (Riordan & Griffith, 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 organisations (Hackett et al 2001).

The studies and definitions discussed above suggest that job involvement, job satisfaction and organisa-

tional commitment may be seen to be positively related with job embeddedness. If latter three increase, Job embeddedness 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 (Angle & Perry, 1983; Scholl, 1981) and that employees will offer their commitment to the organisation in reciprocation for the organisation having fulfilled its psychological contract (Angle & 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 organisation (Furnham, 2002; Wagar, 2003)

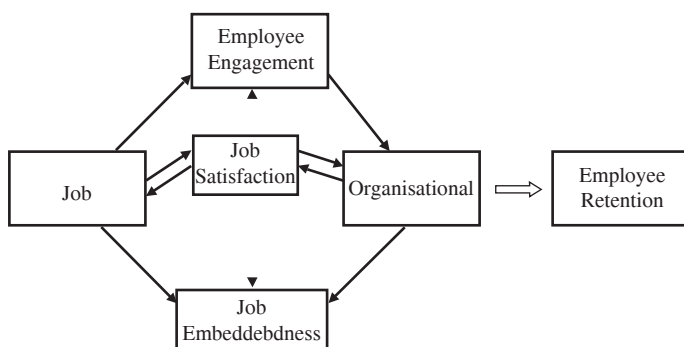


Figure 2. Linkages between the five work attitudes

Previous studies of the concept of commitment (Mowday et al.1982; Meyer & Allen 1991) have substantiated that employee commitment to the organisation 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 involvement or high commitment human resource practices in enhancing employees (Clarke, 2001; Mercer, 2003). Previous work (Becker & Gerhart, 1996; Shaw et al., 1998) indicated that high-involvement work practices will enhance employee retention. The identified HR practices included selective staffing, competitive and

equitable compensation, recognition, comprehensive training and development activities (Ichniowski, Shaw & Prensushi, 1997; Youndt et al., 1996).

Lauver and Kristof-Brown (2000) found that both person-job fit and person organisation fit predicted job satisfaction; however, person-organisation fit was a better predictor of intention to quit. Thus, people who are not well suited for the job and/or organisation are more likely to leave than those who have a good person-job or person-organisation 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 organisation should not only match the job requirements with personality but should also carefully match the person's personality and values with the organisation's values and culture (Kristof, 1996; Rhoades et al., 2001).

This implies that suitable and appropriate selection methods must be implemented so as to predict successfully 'organisation-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 rewards-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 Entrekkin (2004) highlight eight key factors influencing retention. These HRM retention factors were categorised into two bundles: 1) HR factors (person organisation fit, remuneration, training and career development, challenging opportunities) and 2) organisational factors (leadership behaviour, team-work relationship, company culture and policies and satisfactory work environment). Similarly to Fitzenz (1990), this study implies that both organisational 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 are that the same qualities that hold employees are the ones that best serve the customers: Employees who can make quick decisions 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 behavioural outcomes, including turnover (Edwards et al., 2000).

Employees tend to remain with the organisation when they feel their capabilities, efforts and performance contributions are recognised 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. Organisational 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 imple-

mented to check attrition. Understanding the implications of various studies can help employers formulate effective retention strategies. It can be seen that the concepts of organisational 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 the only ingredients for developing an engaged workforce. The factor that holds people includes effective and participative management providing good leadership, besides others factors. Old hierarchy systems are making way for knowledge-based companies where employees reign supreme, especially 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 intentions 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 organisation, rather than having a 'duplicating' effect. Each strategy must complement the supplement the other strategies so as to give a synergistic effect.

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