Critical Factors Affecting Retention: Case of the Indian IT Industry

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Critical Factors Affecting Retention: Case of the Indian IT Industry

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1. Introduction

The Indian IT Industry is playing a vital role in India's economic growth. It accounts nearly for a 5.2 percent of the country's GDP. Over the last 10 years, this industry has grown at an average annual rate of 30 percent. The major areas include IT services, BPO and outsourcing. According to National Association of Software and Services Companies (NASSCOM), IT services are generating 68 percent of the total revenue of Indian IT industry (Annual Report 2010-2011). While 70 percent of the total IT companies are small companies, the balance 30 percent include Infosys, TCS, Wipro, Cognizant and Genpact as the top 5 companies (Figure 1). This sector provides employment to more than 2.5 million people either directly or indirectly, thus making it one of the biggest job creators in India (Confederation of Indian Industry, 2011).
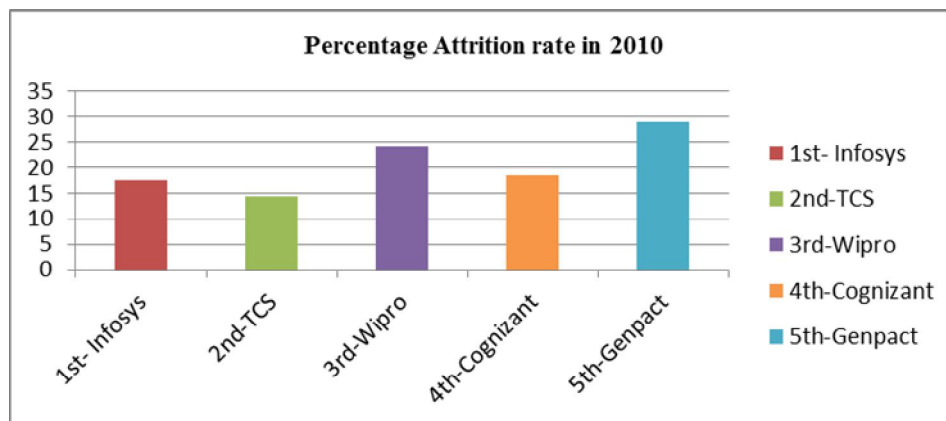
Source *Company Annual Reports; 2010, 2011*
Figure 1 *Attrition Rate of Top 5 Companies of Indian IT Industry*

India has the second largest English-speaking scientific professionals after the US (Atanu Adhikari, 2009). It is considered as a knowledge economy with a highly talented technical workforce. A knowledge economy is one that relies intensively on human skills and creativity, the utilization of human intellectual capital supported by life-long learning and adaptation, the creative exploitation of existing knowledge, and extensive creation of new knowledge through research and development (Konana and Balasubramanian, 2001). Knowledge-workers are the main resource in the IT Industry. They add value to their organizations through their communications skills, high level of education, and domain knowledge. As such, employees in the IT Industry are valued human assets and not nonessential cost-centers.

Many researches indicate globalization, customization of services, upgrading quality, improving employability, developing soft skills, attracting and retaining talent, generating motivation, increasing efficiency, and developing creativity are the many challenges faced by the Indian IT industry. Human resources are not only the drivers and principal value-creators of the output of this industry; but they are also the intellectual capital or the 'infrastructure investment'. Therefore, attracting, training, retaining and motivating employees are the critical success-determinants (Kiran Karnik, 2006). The objective of this brief research paper is threefold: first to identify the crucial factors of retention; next to attempt determining the extent to which these factors are affecting employee retention; and finally as a case study at a major IT company is analyzed for identifying the factors of retention at a major Indian IT industry.

2. Employee Retention

Employee retention is a method in which the employees are motivated to remain within the organization until the completion of a project or their retirement. It is beneficial for the organization as well as the employee. Attrition is another organization term which is number of employees who are leaving the organizing before

finishing the project or their retirement. Employee retention and attrition is 'flip side' of each other. It is the time period during which an employee does the assigned task independently and starts adding value to the organization. As the employee is a matter of great concern for the organization(s), many organizations including IT industries are investing in the retention phase of employees. In the same way, for reducing the attrition rate good retention practices has to be adopted and performed.

In today's scenario, attrition is one of the major challenges in IT industry globally as well as in India. According to a recent survey conducted by All India Management association (AIMA) on CEO's and HR managers of different IT organizations, attrition is the second important issue related to HR department. In any organization, the employee life cycle is divided into five parts: selection and hiring, induction and orientation, retention, ongoing performance management and career development given in Figure 2 (Dennis Costelle, 2006).
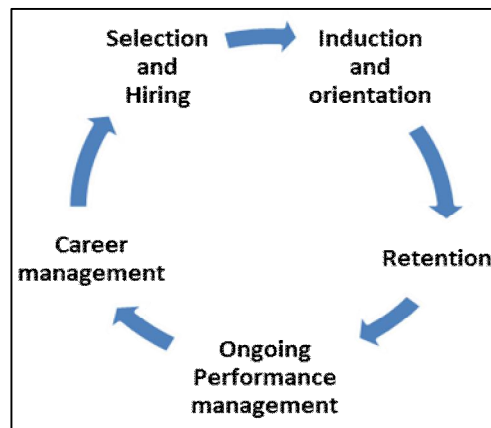
Source *Dennis Costelle, Leveraging the Employee Life Cycle, 2006*

Figure 2 *Employee Life Cycle*

Why Retention is necessary

Retention of knowledge workers is a process in which the employees are encouraged to remain with the organization until the completion of the project or till the time of their retirement. High attrition not only reduces the efficiency or customer satisfaction, but is also expensive. When an employee quits, there is departure of knowledge, skills and contacts creating a huge dip to the organization. In such a scenario, the competitor's organization gets a competitive advantage. When the employees move they not only take skills and knowledge but also trade secrets with them as they typically moved to the competitor's organization (Abassi and Hollman, 2000).This create a great need to identify the reason for the high attrition rate.

Companies are facing high attrition rate due to which they are losing their top talent. It is very important to retain top talent by talent management. 'Talent Management is the process through which employers anticipate and meet their needs for human capital' (Peter Cappelli, 2008). Talent management is 'getting the right people with the right skill into the right job'. It is very important to retain top talent to promote innovation and creativity which will help organization to differentiate from its competitors.

For employee retention two factors are important i.e. length of relationship and relative concern for individual. At one extreme, organizations seek only long-term relationships with IT professionals under the assumption that organize-specific knowledge and commitment is valuable for obtaining productive contributions. At other side, companies are not concerned with employees and lead to short term relationship. Short term relationship leads to high attrition rate. This includes contractors under the assumption that their most pressing need is generic IT skills. To increase the length of relationship, organizations are investing more in career development and security and position their recruiting efforts to reflect the long-term benefits of employment. Those seeking short term relationships are most likely to expend additional resources on compensation and benefits (Agarwal and Ferratt, 2001).

Why Motivation is important to retain Employees

Before giving training to employees to retain them, it is very important to do need assessment before incurring any cost. First step to motivate the employees to identify the factors which can influence employees to stay back in an organization. Once factors are identified, it is easy to implement those factors to reduce the attrition rate. The three common theories concerning the motivation of employees through needs include Maslow's Hierarchy of Needs, The Human Resource Model and Herzberg Two Factor Theory.

According to Maslow's Theory, human needs include physiological need, safety needs, social needs, esteem and self-actualization (1943). Various factors which influence the attrition rate include:

- **Physiological Needs:** Increment, Location Preference, Salary structure and Band change.
- **Safety and Security Needs:** Personnel Bonds, Ombud Process and Performance linked growth.
- **Social Needs:** Team building, Cultural events and Professional membership.
- **Self-esteem:** Reward and Recognition and Promotion.
- **Self-actualization:** Role/ Responsibility change and Job rotation.

A second theory of motivation concerning the needs of employees is the Human Resource Model. This seminal work challenges the traditional 'command and control' of management, to release the creativity and self-direction of the entire organization. McGregor (1960) is one of the first leadership gurus to profess a faith in the leadership abilities and effectiveness of common workers. One of his concepts was asking employees to help evaluate them, using well-known Theory X/Theory Y concept. While Theory X says workers have little ambition, treats are necessary to motivate employees; employees avoid work because they hate it, and avoid all responsibility; in Theory Y employees crave responsibility, dislike threats; work is as natural as rest, and want to satisfy their need for esteem and self-actualization. Theory X mangers view their employees as lazy and disobliging and thus, needing to be controlled through punishment and rewards in order for them to be productive (Pfeiffer and Ballew, 1991). On the other hand, Theory Y managers regard (Pfeiffer and Ballew, 1991) their employees as energetic, hardworking, creative employees who seek out responsibility. Its noticeable how Theory X centers on the two lower levels of Maslow's Hierarchy of Needs: physiological and security. Theory X managers are autocratic, while Theory Y managers are democratic. Theory Y managers will succeed more at having motivated employees. However, the Human Resource Model also has its shortcomings by providing little concrete basis for action.

Herzberg two-factor theory (1959) is taken as a background for the development of the questionaries' to explain factors affecting the retention. Categories under the two-factor theory include: motivators or hygiene which will satisfy an employee to get retained. Hygiene is what which is only concerned with work environment and motivators makes job itself enriched. Motivation for employees includes having sense of achievement, recognition, advancement, responsibility and opportunities for personnel growth as given in Figure 3. Hygiene factors include organization policies, working conditions, supervision, interpersonal relations, money, status and security (Jordan, 2003).

Attrition rate can be minimized if employees are satisfied with job. The need of employees should be fulfilled to increase the employee retention. According to Herzberg theory, there are two categories in which factors are divided i.e. hygiene and motivators.

- **Hygiene:** Organization policies, working conditions, supervision, interpersonal relations, money, status and security.
- **Motivators:** Sense of achievement, recognition, advancement, responsibility and opportunities for personnel growth.
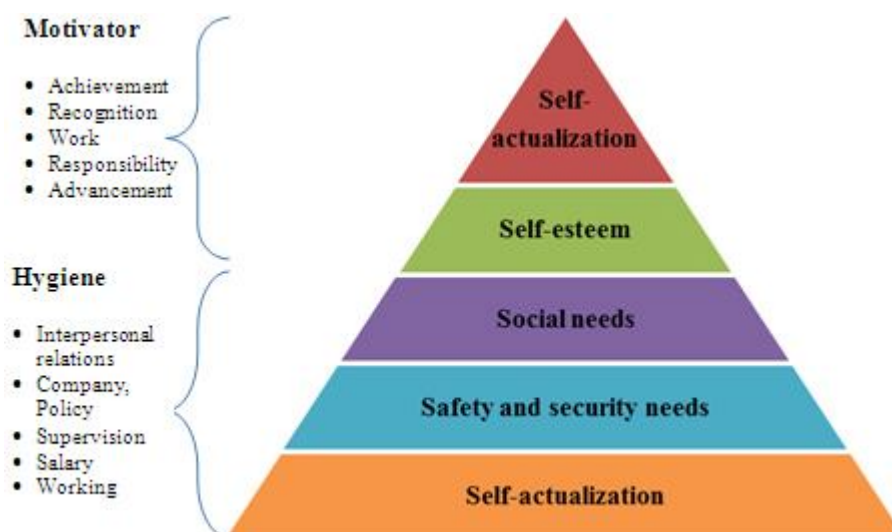
Source *Henzberg, Frederick, The motivation to work, 2011*
Figure 3 *Herzberg Theory and Maslow Hierarchy Model*

In this paper an attempt is made to cover all the hygiene factors (from Herzberg two-factor theory) effectively with all the hygiene needs identified under the Maslow's Hierarchy as physical, security and social needs (Figure 3). This enhances prevention of dissatisfaction. Hygiene factors are extrinsic and motivators are intrinsic in nature. Hygiene factors will not motivate an employee but its absence will make an employee unhappy. One of the ways to motivate employees is by providing them a challenging work which in-turn will make enrich their jobs. Also, to motivate an employee it's very important to fulfill their self-esteem and self-actualization and to meet and offer all hygiene factors. This states that management should not depend only on hygiene factors but combine hygiene as well as motivators to retain an employee.

3.   Critical Factors for Retention of Employees

Employers realize various variables that determine an employee's stay at an organization. Employees are not motivated by hygiene factors like salaries alone (Kulshreshtha and Kumar, 2005). This means that there are various other factors, other than the salary which can motivate the employee. Retention can be increased by motivating the employee towards work. Motivation can be done by increasing the likeliness of engagement, including work-life balance programs, flextime, telecommuting, compressed workweeks, reward programs and performance management systems. Organizations must strike the right balance between pampering their employees and extracting maximum work from them. Any one of these when overdone would lead to dissatisfaction and thereby, attrition. Corporate control has to be very carefully handled (Amaram, 2005). The rapid growth and entry of new players in the IT Industry have resulted in the poaching of employees in high numbers. To cope up with the high attrition these days Indian IT companies are planning promotions and hefty salary hikes to retain employees (Shruti Sabarwal and Pankaj Mishra, 2010).

Chin-Yao Tseng and Michlelle Wallace (2009) have identified ten factors for the retention of employees - financial compensation; training and development; promotion; recognition; challenging work; innovation and creativity; leadership style; autonomy; and job satisfaction.

A survey was conducted at one of the top five companies of the IT Indian industry to understand the challenges faced by the organization in order to retain their employees. This survey was based on primary as-well-as secondary data. The methodology adopted was a structured questionnaire seeking information on factors like increment, location preference, salary structure, band change, personnel bonds, ombudsman process, performance linked growth, team building, cultural events, professional membership, reward and recognition, promotion, role/ responsibility change and job rotation. All the 14 factors were pre-tested with a sample of 7 faculty and graduate students of Human Recourse Management to verify their categorical representation. When asked to sort cards (with one individual item per card) into categories that the items represent, 96 percent agreement on categories was reached across all the items among 7 individuals. This sorting process positively validates the items, as well as strongly demonstrates their reliability. While 14 specific factors in this questionnaire were, each measured by a seven-point Likert-type scale where one equals 'strongly agree' and seven equals 'strongly disagree' a widely accepted, generally agreed upon standard exists across much of the profession; and, the rest of the survey elicited demographics information. The data collected were analyzed using SPSS 10.0. The impact of independent variables was also invested using pair-wise t-test. The majority of sample size were males and of the age group of 20 to 35. The percentages of all the factors are mentioned in Figure 4.

Factors Affecting Retention	Percentage
Salary increment	8.6
Location Preference	7.5
Salary structure	8.6
Personnel bond	6.4
Safety & security	7.5
Ombud process	5.3
Performance based growth	3.2
Social needs	6.4
Peer relationship	5.3
Cultural events	5.3
Professional memberships	7.5
Reward & recognition	8.6
Promotion	10.7
Change of role & responsibilities	4.3
Job rotation	4.3

Figure 4 *Survey Results indication the Percentage*

The inference was that 54 percent of the employees are satisfied with their current job. To retain the employees it's very important to fulfill the needs of the employee. The top priority is a salary increase and accumulation the employee stock ownership program is their least priority. Respondents indicated that they are short term oriented towards their job as they more believe in getting more salary rather than having stocks. According to the survey, job promotion is the main factor which leads to the employee retention which is about 10.7 percent of the total 14 factors.

4. Conclusion

Proper management and development of intangible assets is the key to their optimal performance and retention. Knowledge workers like many others, are less likely to be loyal over the long-term with the new employment paradigm (Child and Rodrigues, 2005). This paper identifies that factors related to compensation issues have the highest effect on attrition. It means that employers should be careful regarding setting compensation related policies and non-financial benefits. While salaries of the employees should be good relative to industry to retain more employees; motivation and employees satisfaction also be an integral part of the organization. Ten years ago IT professionals typically changed jobs twice during their working life-span, but today they are changing jobs more than five times over their career span (Cieri and Kramar, (2005). The Retention Strategy is used in Human Resource Management since it aims to keep top talent within an organization.

According to the inference of this research, there are two strategies that are most useful. Firstly, to provide salary hikes in accordance with industrial standards. Secondly, to recruit those only who has long-term orientation towards the organization or those who will stay in company for longer time period. This paper identifies that factors related to compensation issues have the highest effect on attrition.

The authors are of the view that there is a scope for in-depth studies to be conducted on large sample size and on all top IT companies, but here it only covers one of the top companies. The authors thank the management and executives of the IT Company for discussions, data and surveys from January 2011 to July 2011. This research is still under progress to cover more employees to make this research more effective. We are also grateful to our reviewers for their valuable suggestions that have made the paper more systematic and instructive.

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QUESTIONNAIRE

1. Are you satisfied with your current job	
a) Extremely satisfied b) Satisfied c) Somewhat satisfy d) Dissatisfied	
2. If you are satisfied with your current job, then please give the reason.	
a) Satisfactorily Salary b) Congenial atmosphere c) Supportive and approachable management d) Career opportunity e) Job security	
3. If you are dissatisfied with your current job, then please give the reason.	
a) Unsatisfactorily Salary b) Adversarial atmosphere c) Inflexible working hours d) Location hindrance e) Unsupportive staff f) Lack of Opportunities	
4. Rank you priorities according to your needs.	
a) Salary increase ☐ b) Band / grade change ☐ c) Location preference acceptance ☐ d) E-sops (shares) ☐ e) Change in role/responsibilities ☐ f) Overseas opportunities ☐	
5. Does your organization make any retention efforts? a) Yes ☐ b) No ☐	
6. If yes, what are their efforts to increase retention of employees? (If required check more than one option)	
a) Training☐ b) Post-Graduation Programme☐ c)Motivational Programme☐ d)Salary increment☐	

	Strongly Agree	Agree	Somewhat Agree	Neither Agree nor Disagree	Somewhat Disagree	Disagree	Strongly Disagree
7. Salary increment relates with the employee retention.	☐	☐	☐	☐	☐	☐	☐
8. Location preference affects the employee retention.	☐	☐	☐	☐	☐	☐	☐
9. Salary structure of the company affects the employee retention	☐	☐	☐	☐	☐	☐	☐
10. Personnel bond affects the safety and security of an employee.	☐	☐	☐	☐	☐	☐	☐
11. Safety and security affects the employee retention.	☐	☐	☐	☐	☐	☐	☐
12. Ombud Process affects the employee safety and security.	☐	☐	☐	☐	☐	☐	☐
13. Performance based growth relates with employee retention.	☐	☐	☐	☐	☐	☐	☐
14. Social need affect the employee retention.	☐	☐	☐	☐	☐	☐	☐
15. Peer relationship affects the employee retention.	☐	☐	☐	☐	☐	☐	☐
16. Cultural events affect the employee retention.	☐	☐	☐	☐	☐	☐	☐
17. Professional membership like clubs/societies affects the employee retention.	☐	☐	☐	☐	☐	☐	☐
18. Reward and recognition led to employee retention.	☐	☐	☐	☐	☐	☐	☐
19. Promotion affects the employee retention.	☐	☐	☐	☐	☐	☐	☐
20. Change of role and responsibility affects the employee retention.	☐	☐	☐	☐	☐	☐	☐
21. Job rotation affects the employee retention	☐	☐	☐	☐	☐	☐	☐