CHAPTER-2

LITERATURE REVIEW

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2.1 INTRODUCTION
This chapter gives a glimpse of previous work done on the topic employee turnover, reasons of turnover and its implications. All the existing theories on employee turnover were studied in order to understand the causes, effects, rates and ways to control employee turnover. Researcher has referred both theoretical as well as empirical literature. Employee turnover though has been ignored but is a very serious problem causing heavy losses to the organization and needs proper attention of the top management. The pioneer of employee turnover study was Tavistock institute of human relations (Timperley, 1974). This study put forward behavioural reasons for the various survival distributions, identifying three major phases in the employee turnover process namely; the period of induction crisis, the period of differential transit, and the period of settled connection. Also, the work highlighted that it is necessary to understand the relationship between organizational policies, conditions, the orientations to work, and careers displayed by individuals to understand employee turnover.

According to Ryan (1996) the concept of employee turnover refers to the movement of employees in and out of business. High employee turnover causes problem in businesses as it affects both employee and firms because it is costly, lowers productivity and morale, and tends to get worse if not dealt on time and in proper manner. One must understand the other side of the coin i.e. employee turnover does not costs always since incoming workers may be more highly motivated and highly skilled. Employee turnover can enhance firm performance and help the organization to bring new ideas, skills and enthusiasm to the work force.

2.2 EMPLOYEE TURNOVER
Employee turnover is a situation faced by an organization when employees leave the organization to join another organization in search of better opportunity. It is observed that employee turnover is high when there is huge demand or job openings in a particular industry may be due to mass retirements or expansion of organization. IT industry has seen high employee turnover because of increase in demand of IT related product by other industries.

Employee turnover increases when expectations of the work force in terms of comfort level at the work place increases. Some of the factors are company’s goodwill in the
market, personal growth, relation with co-workers, good role in the organization, and job security and stability. It is observed that about 60-70 percent employees in India are not satisfied with one or more factors mentioned above. In straight words employee turnover is a situation which firm faces when employees quit the organization because of better option available, not happy with present organization, retirement and natural causes like death or illness. Earlier study of employee turnover rate wasn't important for the organization and also whether their employees are committed to the job or not, but scenario has changed. The firms cannot afford to lose good employee to competitor. Thus concept of exit interview was introduced to know the reasons of leaving job and the data can be used for further studies.

Employee turnover can be observed because of layoffs, retrenchment and promotions. Organizations must understand employee turnover and its effects before taking any decision as stated above which may lead to loss of skilled employee and ultimately loss of productivity. Such decisions may affect the loyalty of the employee. All the organizations try to keep minimum required skilled staff and thus voluntary but controllable employee turnover is observed.

Firings and layoffs are used to reduce wages and benefits payments that are diverted elsewhere in the organization (McConnell, 2004). Employee turnover can be broken down to external and internal types. External employee turnover means that employees are leaving for new jobs, raising families or retirement. Internal employee turnover means promoting employees, giving other responsibility or job title to the employee and recruiting fresh employees to fulfill need of expanding organization. Employee turnover can also be seen as positive and negative influence. Positive turnover means creation of new jobs when organization expands whereas negative turnover leads to retrenchment of employee in hard times (Mullins, 2005).

McConnell (2004) states that whether the turnover is positive or negative, organization has to face the consequence of employee shifting. Productivity will be hampered if organization will not understand the effects of high employee turnover and if the organization is planning promotions and layoffs. New employee needs training and requires time to handle new job responsibility with no productivity during this period. Mathis and Jackson (2007) state that employer may notice low morale if turnover problem is not handled on time and in a proper manner. According
to Cohen (2000), a business that earns a reputation for turning staff over frequently will find it difficult to recruit entry-level workers and executives alike.

According to Grobler, et al. (2002), employee turnover costs may be estimated to include separation, replacement, recruitment and training costs. Thus, if management were aware of the causes of employee turnover they could try to resolve them.

According to Dreamorbit (2013), employee turnover rate is a count of total employees leaving the organization over a specific time period. This turnover rate will help the organization to understand that employees are unsatisfied with the policies and needs analysis to understand the causes of it. The formula to calculate the employee turnover is as follows:

\[
\text{Number of attritions} = \frac{(\text{Number of actual employees})-(\text{number of employees newly joined})}{100}
\]

2.3 EMPLOYEE TURNOVER – AN INDIAN PERSPECTIVE

Developed countries observe higher employee turnover than underdeveloped countries which may be related to lower employment rates in underdeveloped countries. Job seekers would just have to accept job offers irrespective of the conditions in order to meet their family needs as there are no alternative employment opportunities available. The data for the 1970s to the 1990s show relatively high employee turnover rates in most advanced countries. Economic uncertainty has reduced the employee turnover in the year 2012-13. Among all industry, aviation and hospitality sectors have seen highest employee turnover, while the turnover is lowest among automobile and manufacturing areas. The aviation and hospitality industries saw the highest employee turnover of 16 per cent approximately in the first quarter of 2012-13, a fall from 22 percent approximately in the fourth quarter. The banking and financial services sector witnessed an employee turnover of 15 percent in first quarter against 20 per cent in the preceding quarter.

IT industry attrition level was 13 percent approximately in the first quarter for the year 2012-13, followed by FMCG which is 11 percent, real estate had 10 percent, telecom had 8 percent, automobiles and manufacturing had 6 percent.
It is interesting to know that employees’ experience does play a major role in rate of employee turnover. Employees with experience of 5 years had the highest employee turnover of 32 percent, while for those with 5 to 10 years’ experience it was 27 percent and for 10 to 15 years’ experience it was 22 percent. Senior-level employees with experience more than 15 years had an employee turnover rate of 19 percent. According to the survey conducted among over 8,500 employees and 325 employers between May and June 2012. (Economic times, 07/04/2012)

2.4 EMPLOYEE TURNOVER BENCHMARKING

A benchmark is a standard yardstick with which other similar things can be compared. Armstrong (2006) explained that benchmarking provides a valuable means for determining the effectiveness of human resource policies and practices in organizations. Hence, employee turnover rates prove very useful in benchmarking employee turnover. The turnover rate differs for different industry and is highest for private sectors in retail, BPO’s, media etc. whereas education, accounts, and public sector has low turnover.

If employee turnover is significantly higher than in comparable organizations, there is a need to take action to investigate the reasons for the same and take necessary actions. Organizations should exchange the data of employee turnover with each other to understand the trends of turnover for taking necessary actions. Booth and Hamer (2007) state that management in different organizations work hard to reduce the high rate of employee turnover. According to CompData 2013, voluntary and total turnover rates for service sector were 11.0% and 15.2% respectively which have been drawn from their annual Benchmark Pro Survey, submitted by 40,000 organizations.
They have given comparative graph of employee turnover from 2008 to 2013 which shows the downtrend in turnover rate may be because of recession.

Table-2.1 Employee turnover details Source- CompData 2013

<table>
<thead>
<tr>
<th>Industry</th>
<th>Voluntary Turnover</th>
<th>Total Turnover</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Industries</td>
<td>10.4%</td>
<td>15.1%</td>
</tr>
<tr>
<td>Banking &amp; Finance</td>
<td>12.8%</td>
<td>17.2%</td>
</tr>
<tr>
<td>Healthcare</td>
<td>12.5%</td>
<td>16.8%</td>
</tr>
<tr>
<td>Hospitality</td>
<td>18.2%</td>
<td>29.3%</td>
</tr>
<tr>
<td>Insurance</td>
<td>6.8%</td>
<td>10.4%</td>
</tr>
<tr>
<td>Manufacturing &amp; Distribution</td>
<td>8.4%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Not-For-Profit</td>
<td>11.0%</td>
<td>15.3%</td>
</tr>
<tr>
<td>Services</td>
<td>11.0%</td>
<td>16.2%</td>
</tr>
<tr>
<td>Utilities</td>
<td>5.2%</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

Figure-2.1 Employee turnover rate during 2008-2013 Source- CompData 2013

The employee turnover rates per annum given by for different organization are as follows:
According to Press Trust of India, New Delhi (May 1, 2012) in the second quarter of 2011-12, the average employee turnover rate was 27%. The reason for this is employees were not satisfied with performance appraisal and hikes. Double digits employee turnover is observed in all the sectors. HR consultants suggested that employers needs to take various steps to retain talent viz. like providing career growth and better work environment as high employee turnover increases the expenditure of the organization. “One of the most effective ways to ensure good working conditions for your employees is to provide them with advancement opportunities, "Raman (2012) said.

Bangalore city second only to Shanghai in employee turnover in IT industry, cited limited growth opportunities as major reason said Shaikh Z. S. (September 21, 2012). He highlighted issues like compensation issues, monotonous job and bad managers because of which employees quit the job. Further the absence of employee because of turnover increases cost and also leads to degradation in the quality of product along and also delay to deliver the product to the market. Most difficult for an organization is to find proper replacement for senior positions and it takes more time to fill these positions.

The overall employee turnover rate in India is 14%, marginally higher than global and Asia Pacific countries (11.20% and 13.81%, respectively)," global professional services firm Towers Watson said in the report after interviewing 1,605 companies worldwide, including 796 from Asia Pacific.

<table>
<thead>
<tr>
<th>NAME OF THE ORGANIZATION</th>
<th>ATTRITION RATES PER ANNUM (IN %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. DREAMORBIT</td>
<td>9.41</td>
</tr>
<tr>
<td>2. INFOSYS</td>
<td>16.3</td>
</tr>
<tr>
<td>3. WIPRO</td>
<td>14.6</td>
</tr>
<tr>
<td>4. TCS</td>
<td>11.4</td>
</tr>
<tr>
<td>5. CTS</td>
<td>10</td>
</tr>
<tr>
<td>6. GOOGLE</td>
<td>3</td>
</tr>
<tr>
<td>7. MICROSOFT</td>
<td>7</td>
</tr>
<tr>
<td>8. CAPGEMINI</td>
<td>18.8</td>
</tr>
<tr>
<td>9. ACCENTURE</td>
<td>12</td>
</tr>
<tr>
<td>10. IBM</td>
<td>16</td>
</tr>
</tbody>
</table>

Table-2.2 Employee turnover rates per annum for different organization  
Source-Dreamorbit, 2013
The report includes the difficulties faced by 92% firms in the country is to attract talent with critical skills while over 75% organizations face challenges in retaining high performing talent. Research states that for Indian employers, the top two priorities are 'career advancement opportunities' and 'challenging work environment', while for employees 'job security' and 'career advancement opportunities' are their main priorities. Moreover it is observed that employees are working long hours than normal for more than three years (Press Trust of India, New Delhi, June 3, 2013).

(DNA, Mumbai, 21 April 2014) In recent year the big four IT firms i.e. TCS, Infosys, HCL Technologies or Wipro were ahead of market expectations but still worried about high employee turnover rate. Infosys has seen its employee turnover increase to 18.7% from 18.1% since the first quarter of 2014, has the industry highest employee turnover rate. Whereas TCS posted industry lowest employee turnover rate last quarter at 10.1%, saw fourth quarter of 2014 employee turnover rate rise to 11.1%.

HCL Technologies, which claims its employee turnover rate is on a down trend, still has one of the highest turnover rates in the industry. In quarter fourth of 2014 employee turnover rate was at 16.9%, which has increased from 16.6% in second quarter and 16.1% in first. Wipro, too, reported a high employee turnover rate of 15.1% in fourth quarter, as compared to 14.3% in third, 13.5% in second and 13.2% in first quarter of 2014. Wage hikes can be one way of reducing employee turnover but Infosys’ gave two wage hikes in the last year which doesn’t help. This shows that these giants have not studied this problem properly and needs policy changes in a broader way.

2.5 CAUSES OF EMPLOYEE TURNOVER
Meyer and Allen (1997) suggest that the various variables include work experiences, socialization experiences, management practices, personal characteristics, and environmental conditions. These variables start with work experiences, role states and psychological contracts, followed by affect, norm and cost related judgments. Data suggest dissatisfaction with salary can be a key factor in turnovers. These results in the poor morale of employees who may be overworked, and can, in turn, affect the level of productivity efficiency.
Through literature review it can be understood that different authors have different ideas about reasons of employee turnover which is presented in following paragraphs. Employee turnover may be caused by low remuneration, dissatisfaction in job and unfair practices (Carrel, Elbert, Hatfield, Grobler, Marx and Van der Schyf 2000). There may be many reasons for employee turnover experienced by HR manager like insufficient remuneration, mismatch of work profile, stress at work, long working hours, new companies into the market, lack of autonomy provided to complete task, monotony of job, lack of proper facilities, lack of proper environment, poor concern by the employer and poor promotion policies or lack of promotion.

Employees who are placed in jobs that are too demanding or not challenging enough may lead to low morale and employee quit their organization. This usually happens when the job requirements are not clearly communicated to the applicants during the interviews. Therefore applicant will end up realizing that the job is not challenging enough and applicant is over-qualified. The individual may feel the pressure of handling the new job and end up leaving the organization.

According to De Vos, Strydom, Fouche and Delport, 2007, Employees have expectations and when such expectations are not met, they stay away from job by giving reasons like sick leave, family responsibility leave and all kinds of excuses. Expectations decide goals or levels of performance for the future. If employees see that hard work and good performance are rewarded, expect such relationship to continue in the future. At the same time if employees see little relationship between performance and rewards, then they may set minimum goals in order to retain their jobs but will not leave the job as stated by Birdi, Clegg, Patterson, Robinson, Stride, Wall and Wood (2008).

Every employee has a special skill set and when these skills match with one’s job it gives great deal of pleasure. If there is no match, the employees become bored by the job that provides no challenges or one that provides unrealistic job as stated by Erasmus, VanWyk and Schenk (2003) in their paper. High demand in any industry increases the opportunity for job shifting, leading to high employee turnover. Harrison and Kessels (2004) in their research on employee turnover in the retail industry found that environmental factors had a major influence on employee turnover.
Personal factors like increase in family members, improving skills for growth lead to employee turnover. Robbins (2003) states that individuals at all levels of the organization want recognition for the achievements on the job. To help employees, they should be placed in positions that use talents to optimal level and not set up for failure (Mathis and Jackson, 2007). Timely feedback on the performance will increase satisfaction level, reducing chances of leaving the job.

According to Park (2003), employees will be motivated to complete their tasks well if they are given ownership of their work. Ownership means giving employees enough freedom and power to complete tasks reducing turnover.

Robbins (2003) stated that supervision should be a democratic process during which employees are given required guidance by the supervisors. The supervisor should be such that it recognizes the value of each member of the team and each one plays a vital role in achieving quality. Supervisor willingness or unwillingness to delegate responsibility to the employee can lead to the employee’s dissatisfaction with his work and possible turnover (Falkenburg and Schyns, 2007).

Working environment plays important role in satisfaction of employees where the physical environment includes physical structures in which employees work, such as buildings, offices and the lighting, ventilation, noise vibration temperature, humidity and air quality (Hamermesh, 2001). To motivate the workforce, a hazard free and safe environment is required which will enhance efficiency and productivity (Del Val, and Fuentes, 2003).

Other reason that leads to employee turnover is inadequate training and ineffective management style. Many employees need training and directions to complete their tasks. Without training, employees feel lost in their positions leading to unproductive performance, which may affect the confidence, self-esteem of the individuals and definitely discourage employees from continuing to work for the same manager and the same company leading to their departure.

Orientation is the training of the employees so that they get acquainted with the requirements of the job. The orientation process aims at reducing anxiety, creating a positive attitude towards the employer and assist in increasing productivity. If the
orientation process is not properly conducted at the beginning of employment, it can lead to employee turnover.

Nel, et al. (2004) said, work content increases because of employee turnover refers to the amount of work which is performed by the employee at any given time. Too much work to do in the available time and has been associated with stress related ailments such as coronary heart disease and finally turnover. Work content at the organization is divided among the team and team leaders where team leaders give each team member a task to work on (Habeck, et al., 2000).

According to Heizer and Render (2006), four job characteristics model for the motivation of employees through the design of work are shown in figure-2.2. *Skill variety* requires the employee to use a variety of skills and talents, *Job identity* allowing the employee to perceive the job as a whole from start to finish, *Autonomy* offering freedom, independence and direction and *Feedback* providing clear, timely information about performance. These core job dimensions helps the employee experiences meaningfulness of the work performed and responsibility for the outcomes of the work and knowledge of the actual results of the work activities. If these psychological states are fulfilled, the employee will experience motivation, job satisfaction, improved productivity and work effectiveness.
According to Harrison and Kessels (2004), physical strain and exertion makes employees leave the organization.

Society plays an important role in the work performance of any employee. Thus social contacts are highly important elements of working conditions. Social contacts refers to the supporting functions that an employee gets from colleagues, managers or subordinates which is a buffer between stress and health (Ichniowski 2004). According to Mullins (2001), unhealthy social relationship between employees in the organization will lead to employee absenteeism and eventually to employee turnover.

2.6 FACTORS INCREASING EMPLOYEE TURNOVER

Employee turnover is an important issue in all the industries and HR’s are working hard to understand the reasons for higher turnover. Various factors affects the efforts of HR’s and is studies by many authors.

Employees are in the particular organization because of their family support and it is important that employees should balance between work and family. This balance is only possible if employer supports them, like flexi time schedule and work from
home. The establishment of an onsite sick child bay could also enhance work attendance. According to Jones (2006), there is evidence that the introduction of flexible staffing schedules has reduced employee turnover, because employees can more easily arrange time for family commitment.

We observe heavy road blocks and accidents which make employees reach late in the organization and ultimately quit the job. Arranging transport facility by the organization should reduce employee turnover (Neves, 2009).

Stress is one of the top reasons for higher employee turnover and it is important to reduce stress (Parish, Cadwallader and Bush, 2008). The workplace is the location where employee spends maximum time of life, which calls for healthy environment in the organization. Free health care for employee may be another method to improve employee retention.

Rewards for good work improve performance of the employees and develops a long term relationship with organization. Organizations should reward employee for long term service (Parish, et al., 2008). Rewards may be in the form of displaying names on the notice boards or bulletin boards, giving monetary reward. If organization gives a relevant work to the spouse of the employees, this will help in lowering employee turnover. This will also improve commitment level and loyalty of the employee. (Ivancevich and Matteson, 2004).

Employers must balance company goal with personal goals. A happy employee has an equal mix of successful professional and personal lives. Studies have determined that employee who are experiencing problems with illness or lack of focus and generally underperform in their jobs (Manning, 2002).

2.7 EFFECTS OF EMPLOYEE TURNOVER ON ORGANIZATION
High employee turnover rates can have adverse effects on organization, other employees and customers expecting quality services, but when positions are vacated and then filled by inexperienced personnel thing go wrong (Powell and York, 1992). It in turns increases mistrust and low morale of the remaining employees and also has bad effect on prospectus employees. Moreover employee turnover is costly, time-consuming and unproductive and increases recruitment work of the organization.
Employee turnover affects organizations in many ways which is studied in detail by many researchers.

If employee turnover is on higher side, other employee commitment level decreases because of low sign of job security. Employee turnover sends a negative wave about organization that it does not value the employee. Obviously, where job insecurity is the order of the day, employees tend not to give their best at the workplace in fear of losing their jobs.

Employees spend their maximum time in discussing on rumors about job loss and instability. Such tendency decreases the overall productivity of the organization.

An extra cost is incurred depending on the frequency of training and orientation on a new comer. All the firms facing high employee turnover faces higher cost and reduced profits, which can be reduced by proper study and implementing small steps to take care of high turnover. It also results in loss of senior and experienced work force adversely affecting the organization.

When employee turnover rates are alarming shareholders and trustees lose confidence in the operations of the organization and the survival of the organization is in doubt.

2.8 METHODS TO REDUCE EMPLOYEE TURNOVER

Various methods are implemented by organizations to lower the rate of employee turnover. Training gives a sense of value to employees and help employees achieve goals and ensure better understanding of their job requirements (Van Tiem, Moseley and Dessinger, 2003).

According to Ziel and Antoinette (2003) a mentoring program helps to develop strong relationship with other employees, with a goal to improve efficiency will provide an individualized career development plan.

Feedback is prominent tool available with the employer to improve performance of the new employee. The feedback is formal and informal and may have sense of criticism with a support to employees for achieving and attaining success (Johns and Saks 2007).
Culture of organization plays an important role in its success and culture may include respect, attitude, honesty, teamwork and excellence. Organization that gives good culture to the employees will have an advantage of controlling employee turnover (Martin, 2003).

Recent trend in recruitment is referrals which avoids confusion of job description. Here the employee of the organization is in position to describe the job expectation to the person they are referring (Del Val and Fuentes, 2003).

Responsibility make an employee perform much better than he could because it makes them believe that organization make good use of their skills and recognize their efforts for work.

Employees should be rewarded to motivate even higher performance which may be use of monetary benefits or something as simple as a lunch making them feel valued. Hopkins (2005) says most the employees will work with higher efficiency to carry out a decision that had helped to influence management.

Organization should be capable of inspiring employees and must follow the policies decided by its management (Brief, 2008).

2.9 MOTIVATION AND EMPLOYEE TURNOVER

Motivation is defined as the force that makes somebody do the thing with positivity and is expected by everybody so that one has inspiration to complete the task (Nel, et al. 2004). Bittel and Newstrom (2002), state that these motivational needs vary from person to person.

A motivated person is always aware of the fact that a specific goal must be achieved and continuously directs their efforts at achieving that goal, even in the face of adversity Harrison and Kessels (2004). According to Herzberg, et al. (2002), the quality of work and the output of a motivated person are very good. Swanepoel, et al. (2003), state that motivation is also affected by the quality of leadership in an organization; therefore the selection, training and market development of effective leaders should be part of the strategy.

2.10 REFERENCES


*Benchmarking attrition rates, July 1, 2013 available from*
http://dreamorbit.com/benchmarking-attrition-rates/, assessed on 12 august 2013


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