Chapter 1

INTRODUCTION
Introduction

“Do not hire a man who does your work for money, but hire him who does it for love of it”

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1.1 The Indian Software Industry

India’s liberalization policy of 1991 showed the way for a glimmer of hope for the information technology (IT) industry. IT industry has brought India in the global arena and has given it a distinct identity as a software superpower. Growth of this sector has reflected in many indicators of growth such as increase in per capita income. Foreign exchange reserves have more than doubled within few years, employment rate has boosted, and more important is that the share market growth has increased at sky rocketing speed. Indian Software Company’s presence in the overseas project and sector has been recognized as one of the largest job providing sectors in the country.

As the software industry increasingly becomes a major driver of the nation’s economy, policy makers are planning strategies to fuel its growth. The Indian software industry is one of the most high profile and widely tracked industries of the economy. Despite the slowdown that had engulfed technology spending worldwide, the Indian industry has grown at a robust rate, showcasing Indian technical and managerial talent to the world. The internet boom in the year 2000 contributed to a positive trend in the US stock market where major Indian software companies like WIPRO, Infosys, TCS, Satyam and Cognizant are listed.

IT has exploded in India, showing exponential growth thus becoming one of the largest sectors of the Indian economy. Industry’s output which was once estimated at $50 million in 1990-91, is projected to reach US$ 120 billion by 2010, according to annual revenue projections report for India’s IT industry by NASSCOM-Mckinsey Annual Report [95]. Market openings have emerged across four broad sectors. These are: IT services, software products, IT enabled services and e-businesses, thus creating a number of opportunities for Indian companies. India is an important player on the IT map of the world on account of it being an important source of technically qualified and English speaking manpower.
The IT industry has a multiplier effect on growth and development. Apart from developing human capital, this industry earns precious foreign exchange, which helps in bridging the negatively skewed trade balance. With the formation of a ministry for IT, the government of India took major steps towards promoting the domestic industry to tap its full potential. Constraints were identified and adequate steps taken to overcome them. The annual growth rate of India’s software exports has been consistently over 50% since 1991. No other Indian industry has performed so well against the global competition.

The United States is gaining extensively due to association with Indian companies as they get a chance to work with a highly disciplined workforce and cost effective software. India has been the destination of choice of global corporations looking to cut costs and become more competitive with the help of highly skilled manpower available by creating competitive advantage which is sustainable. Language is not a barrier since English is the language of business in India.

1.2 High rate of Employee Turnover in the IT Industry

Employee turnover is a common phenomenon in all industries. Turnover is the opposite of retention. It refers to employees leaving the organization for whatever reasons. In spite of offering varied and more attractive incentive schemes, the IT industry experiences a high rate of employee turnover. The various schemes designed and administered have not been effective in the matter of improving retention rate. It seems that no single technique to improve the retention rate works in isolation and as such, a synergic approach is more desirable. The challenge is to release and unlock the people’s potential with the right environment, healthy organizational culture and empowerment.

IT and ITES sector boom has given ample job opportunities in the market. Attrition and job hopping can be counted as the side effects of high growth of IT and ITES industry. Increased salary base and attractive working environment are some of the
prominent reasons of attrition. It is difficult for HR managers to fight with the problem of attrition and wage inflation. Sector growth is concentrated in the tier-1 cities of the country leading to more complications of cost hike and competition in the business. The rate of attrition in these cities is nearly 25%-35% which compelled the companies to rethink on the strategies of retention. Growth and attrition go hand in hand for most of the software services companies. However, this astronomical growth rate in the software industry is only comparable to the rising attrition rates among employees.

There are different reasons responsible for the rising attrition in IT industry which adds burden to the company because of different types of costs associated with it. Different strategies are used by HR managers to fight the attrition. In today’s prevailing scenario, management philosophies, theories, methods and practices are undergoing massive changes. In this process, organizations have been compelled to focus on newly emerging challenges arising from the knowledge-based economy.

1.3 Attrition: Concept and Costs
Attrition can be defined as a gradual, natural reduction in membership or personnel, as through retirement; resignation or death. Attrition can be stated as “the rate of shrinkage in size or number of employees”.

Attrition is emerging as a key business concern for organizations, one even bigger than attracting talent. Annual attrition rates are about 20% to 30% across IT industries. Attrition is a serious trend, especially in today’s knowledge driven market place where people are the most important assets. Attrition is a burning issue which affects all the industries but its impact is extremely significant in the IT industry. The IT industry, being a knowledge based sector, requires a workforce that is highly competent. The demanding nature of work in this industry requires effective strategies to retain its workforce therefore the growing attrition rate has become the toughest concern for HR managers.
Managing attrition in the Industry is extremely important because skilled professionals form the crux of this knowledge intensive industry. According to a study [103], all the top four IT companies -TCS, Infosys, WIPRO and Satyam- collectively hired more than 25,000 employees in the April- June 08 period, even then the net addition was just about 16,300 taking their total headcount to 2,85,357 employees. Thus there is a need to continuously think of ways by which one can enhance employee satisfaction and decrease the attrition rate so that companies can progress in the direction of growth and prosperity. Charting career paths for continuous learning, growth and development can also motivate the employees to stay with the companies.

Negative Impact of Turnover

It is necessary to review the major consequences of turnover in the proper perspective.

- **High Financial Cost**: Turnover has huge economic impact directly and indirectly on the organization. It often turns out to be a critical strategic issue.

- **Survival is an Issue**: Recruiting and maintaining the appropriate talent will determine the success or failure of the organization.

- **Loss of Productivity and also workflow**: Turnover creates a productivity gap, causes problems for other employees within the flow of work.

- **Service Quality**: High turnover has negative impact on the quality of customer service. This is true especially of front line employees’ high turnover, as it creates serious threats in service to external customers.

- **Image of the Organization**: High turnover has negative impact on the image of the organization with a revolving door. It is very difficult to rebuild the image in the market especially in the recruiting channels.

- **Loss of Business Opportunities**: With the high turnover, the existing staff may be unprepared to take advantage of the new opportunities, Also, the
projects or contracts in hand may be lost or delayed. It harms the existing business as well.

- **Administrative Problems:** Paper work and other issues related to turnover take up valuable time and energy and affect productive responsibilities.

- **Disruption of social and communication network:** Turnover disrupts the pattern of socialization and communication developed over a period of time which, in turn, weakens the teamwork and productive work environment.

- **Job satisfaction of the remaining employees:** The remaining employees are required / forced to assume the workload of the departed employees. The extra burden swaps their interest, energy and satisfaction. The remaining employees are distracted by the concern/curiosity about the massive exodus of their colleagues.

- **Exit Problems or Issues:** Attrition costs the organization time and money.

- **Loss of Expertise:** In the knowledge economy, critical skills are absolutely essential to organize various specialized operations. Very often, the entire product line suffers because of lack of expertise. It is also difficult to replace talents/expertise in any event within a short duration of time.

**Costs of Attrition**

While organizations cope with attrition by devising retention strategies, it is imperative for organizations to predict attrition early in the recruitment process to curtail loss of time, cost and effort. The cost of attrition is not just the loss of that employee but includes an array of other hidden costs such as recruitment costs, selection costs, training costs etc. Some costs of attrition maybe short term but have longer term benefits, and in other cases, the costs may be significant and longer lasting. The cost of turnover includes:-

- Leaving costs-payroll costs and personnel administration of the employee leaving;
- Direct cost of recruiting replacements (advertising, interviewing, testing etc);
- Opportunity cost of time spent by HR and managers in recruitment;
• Direct cost of introducing replacements (induction, cost of induction manuals);
• Opportunity of time spent by HR and managers in introducing new starters;
• Direct cost of training replacements in the necessary skills;
• Opportunity cost of time spent by line managers/other staff in providing training;
• Loss of the input from those leaving before they are replaced in terms of contribution, output, sales, customer satisfaction and support etc;
• Loss arising from reduced input from new starters until they are fully trained.

Although steps in this direction have already been initiated, there is a need to gear up the efforts with quick implementation. Companies are trying to fight this problem by increasing the number of ‘freshers’ it hires. They now hire candidates from institutes in the 2nd and 3rd semesters and provide training sessions to them so that their skills set can be modified according to the requirements of the company. Companies are thinking of the ways to stop their employee from departing. Employees are increasingly jumping ships and hopping jobs for better opportunities. Naturally, employers are desperate in their bid to find out ways and means to minimize the attrition rate and manage to maintain the retention rate at a satisfactory level.

1.4 Corporate response

It is a saying in the corporate world that when an employee walks out of the door each evening, the management has to make sure that he/she comes back the next morning. This means that one’s employees are one’s assets and with an aim of providing overall satisfaction one should ascertain that they are motivated to come back the next day. Rising attrition rates in Indian software companies over the past few years is indicative of a brewing key challenge which is acting as a hurdle for the growth of the Indian IT companies, as a result of which attrition is handled as a
spate HR function in many IT companies. Some of the strategies are based on the result derived from exit interviews and employee satisfaction surveys.

To manage turnover effectively, organizations must regularly monitor not only the extent of their turnover but also their cost. Otherwise, they lose time, lose productivity and lose efficiency. The IT companies have been using innovative practices in managing the issue. Companies are stepping up their attention to employee quality of life issues, which includes flexi hours, appropriate compensation and rewards, part time assignments, home offices, conflict management sessions etc. Companies are even creating opportunities to work abroad and are providing stock option plans to employees to enhance satisfaction.

The IT companies are trying to charm the woman work force by adopting woman friendly policies. Women now constitute almost a third of the work force at many companies. Companies are trying to woo the women workers by opting for strategies like breaks to meet family demands, satellite office for pregnant women and young mothers, long leave, child centric events etc., to motivate and curb the growing attrition rate.

1.5 Attrition: A Problem and an Opportunity

Attrition can be viewed as a problem as well as an opportunity. For employers, it is a problem because different costs are incurred when an employee leaves the organization. However, it can be seen as an opportunity, because as a result of attrition, the company is required to recruit new employees and there is an infusion of new blood with fresh ideas. Rising attrition helps companies to identify their deficient areas which are responsible for generating dissatisfaction among the employees and make them leave the job. For employees, it is always an opportunity as it gives them a chance to leave and join other companies voluntarily on their terms and conditions. There is a sincere and urgent need for modification of professional education, to make it more compatible and in tune with the needs of the industry. Moreover, the time and expenditure incurred in training fresh recruits may be saved if they become more employable. Talent accounts for over 60% of
the total operational cost. So, no one wants to become the ‘last in first out’. It is easy to fire new recruits and people on probation. Employees have also become extremely cautious about making any move to get out of existing jobs. On the other hand, companies are introducing additional processes and systems to make hiring more stringent and need based.

1.6 Role of Human Resource Management

Develop the people, People will develop the business.

HR managers need to develop new strategies to retain and motivate staff. They also have to device the strategies or keep inventing new approaches to attract the best talent and making the company a better place to work in. Companies can further reduce the turnover rate by taking timely performance review and openly telling the employees about their appraisal. Competitive advantage lies in its people, distinct from technological contribution.

In the new emerging challenges, HRM as a strategic partner of the business has assumed greater responsibility in generating knowledge, productive workforce and also in developing organizational capabilities. It has to recruit, nurture, maintain and retain best talents in the organization. In the face of low employment rate, weak organizational loyalty, commitment and overhead cost reduction through measures like down-sizing, flatter organizations, voluntary retirement schemes, employee retention has become one of the formidable challenges for all the organizations.

1.7 Retention is a serious problem

Employee turnover is a major organizational phenomenon. It is equally important to organizations, individuals and society. From the organizational perspective, employee turnover can be seen as a crucial, decisive and significant factor in relation to recruitment, training and development, socialization and disruption. The Gallup Business World Compensation Survey [86] aimed at benchmarking current
practices in the area of compensation and benefits and understanding how organizations are using compensation and benefits as a vehicle for enhancing productivity and organizational excellence.

1.8 Why do employees leave the organization?

According to Gallup-Business World Compensation Study [86], critical reasons for attrition (Employee perspectives) were as given below:

Table 1: Critical reasons for employee attrition [86]

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Reasons</th>
<th>Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Career growth</td>
<td>55%</td>
</tr>
<tr>
<td>2</td>
<td>Compensation</td>
<td>21%</td>
</tr>
<tr>
<td>3</td>
<td>Job content</td>
<td>8%</td>
</tr>
<tr>
<td>4</td>
<td>Learning opportunities</td>
<td>6%</td>
</tr>
<tr>
<td>5</td>
<td>Relocation</td>
<td>5%</td>
</tr>
<tr>
<td>6</td>
<td>Back to school</td>
<td>4%</td>
</tr>
<tr>
<td>7</td>
<td>Work life balance</td>
<td>4%</td>
</tr>
<tr>
<td>8</td>
<td>Talent fit</td>
<td>2%</td>
</tr>
</tbody>
</table>

(Employee base – 886)

It is evident that career growth opportunities are the primary reason for attrition followed by the allurement of better compensation. The same study found the reasons for attrition across various sectors in India as given below:

Table 2: Main reasons for employee attrition across the sectors [86]

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Sectors</th>
<th>Reasons</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Manufacturing</td>
<td>Compensation</td>
</tr>
<tr>
<td>2</td>
<td>Telecom</td>
<td>Career Growth</td>
</tr>
<tr>
<td>3</td>
<td>Information Technology (IT)</td>
<td>Work life balance, Job content, Employment Opportunities</td>
</tr>
<tr>
<td>4</td>
<td>Marketing</td>
<td>Job Content/Compensation</td>
</tr>
<tr>
<td>5</td>
<td>BPO / ITES</td>
<td>Job Content, Compensation</td>
</tr>
<tr>
<td>6</td>
<td>Services</td>
<td>Career Growth, Job Content</td>
</tr>
<tr>
<td>7</td>
<td>Insurance</td>
<td>Career Growth, Work Profile</td>
</tr>
<tr>
<td>8</td>
<td>Banking</td>
<td>Compensation</td>
</tr>
<tr>
<td>9</td>
<td>Consulting</td>
<td>Challenging work, Salary</td>
</tr>
</tbody>
</table>
In the same study, the HR managers/employee’s perspectives regarding the reasons for employees’ attrition were found to be as given below:

Table 3: Perspectives of HR managers/employees towards employee attrition [86]

<table>
<thead>
<tr>
<th>Sr No</th>
<th>Reasons for Attrition</th>
<th>Perspectives (Entry level)</th>
<th>Perspective (Junior Management)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>HR base (28)</td>
<td>Employees base (174)</td>
</tr>
<tr>
<td>1</td>
<td>Compensation</td>
<td>68%</td>
<td>16%</td>
</tr>
<tr>
<td>2</td>
<td>Career growth and learning opportunities</td>
<td>46%</td>
<td>57%</td>
</tr>
<tr>
<td>3</td>
<td>Job content</td>
<td>7%</td>
<td>8%</td>
</tr>
<tr>
<td>4</td>
<td>Work life balance</td>
<td>4%</td>
<td>5%</td>
</tr>
</tbody>
</table>

HR managers seem to think that entry level employees are easily lured by money. However, employees see career growth and learning opportunities as the key factors. Compensation is a second parameter. At the junior management level also, the same picture emerges. It is the career growth and not compensation, which prompts employees to jump ships.

1.9 Contribution of Pune to the IT boom

The IT industry, constantly on the hunt for a fresh reservoir of talent, found home in the Queen of the Deccan, Pune. The most distinctive aspect of Pune is its rich and vibrant culture. Pune has been at the centre of IT activity for the past few years. According to the report by Dun & Bradstreet [48], while 57% of the IT companies in Pune are involved in export, 23% earn more than 50% of their revenue from the international market. Companies providing software products have a turnover bracket of up to Rs. 50 million, whereas those providing IT services fall under the bracket of up to Rs. 25 million.

Pune has a rapidly growing software industry with multinational companies having large offices here. Some global organizations have set up their technology
development centers in Pune. The growing software industry has led to the construction of IT parks to encourage new IT companies. This includes the Rajiv Gandhi IT Park at Hinjewadi, Magarpatta city, Cybercity, the MIDC Software Technology park at Talawade, the Marisoft IT Park and Kumar Cerebrum IT Park at Kalyani Nagar, International Convention Centre (ICC), Weikfield IT park etc.

So why Pune, one might ask? The city offers advantages of both, a small and big city. Smaller distances ensure that logistics can be managed easily. Commuting timings are shorter. Pune is also close to Mumbai, the financial capital of the country. The express highway has ensured reduced travelling time between the two cities. The clearance of an international airport in Pune will allow direct connections with the world. Pune has undergone a metamorphosis from a city of decrepit wadas (ancient houses from the Peshwa era) to a city of suave IT parks and stellar business achievements. It boasts of a high standard of living. And yet the cost of living here is nearly 40 per cent lower than in a city like Mumbai. There's a new cosmopolitan culture in Pune. A mall-and-multiplex culture with a lifestyle to celebrate - there's the Kentucky Fried Chicken, McDonalds, Shoppers Stop, Pantaloons and Gold Adlabs etc. All emblematic of a sumptuousness in a city that had earlier earned itself the sobriquet, "Pensioner's Paradise" for its sedate pace of life and simple lifestyle. It is slowly emerging as a city of dreams- a city where the bourgeois is given the prospect of a very good life, that too at an affordable price.

Another factor that seems to be working in favor of the city is the unique industry-university participation. It started with automobile companies back in 1980’s and the tradition is still carried on by the IT industry. India’s first Prime Minister, Pandit Jawaharlal Nehru dubbed Pune, the “Oxford of the East” due to the many academic and research institutions being in the city. There are many universities in India but there are 450 colleges in Pune. The city churns out 80,000 engineering graduates each year providing fresh talent. While Chennai, Bangalore and Hyderabad suffer from the regional accent factor, the IT industry looks up to Pune,
for the large English speaking public. IT companies in Pune have a young talent pool because more than 50% of the city is below 30 years of age.

Pune has the highest PC penetration among households, even more than Bangalore [104]. The Maharashtra government, in its bid to woo the hi-tech industries also threw in liberal incentives in its IT and ITES policy in 2003. The main issue was land, so it waived stamp duties for owned and leased properties built on MIDC land. It has also been extremely co-operative and progressive in its IT initiatives. The electricity and octroi duties have been exempted and sales tax reduced on locally procured capital goods. Inevitably, rapid growth is taking its toll in Pune. Until two years ago, employees seldom left a job and attrition rates were in single digits. Now, they are on the rise. Competition on the job market has eroded some level of commitment from the employee side and now attrition is a keenly discussed topic.

While there might be an abundant supply of talent from innumerable colleges and institutes in and around Pune, retaining them is still a tough task. The cultural ethos of the city might come in handy for companies, but they need to do a lot more to hold onto their prized assets. Retention involves a clear approach and clear programs to curb issues that cause attrition. This necessarily calls for developing a holistic view at all levels in relation to organizational vision, mission, strategies, systems and practices. There should be effective mechanisms to listen to the voice of employees. If organizations want to retain talents, they need to ensure that their high potential employees do not feel stagnated or frustrated.

Hence, the researcher has appropriately selected and carried out his research study on the topic titled “A Comparative Analysis of Approaches for Reducing Attrition in IT Companies in Pune”.

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