CHAPTER 2

LITERATURE REVIEW

2.1 Introduction

With the boat of success steaming ahead in the global markets, India has already become the most privileged destination for Business Process Outsourcing. The word which one would simply lisp in the beginning of this century has become the most pronounced and sought after term. Generating revenues, fostering employments, elevating the living standards, an eternal inventory of opportunities simply showcase a phenomenon which is no less than the renaissance for our Indian markets. Many researchers have talked about BPOs in their works, highlighted its capability as money making sector, showcased its doom of high employee turnover, sketched out its strengths, weaknesses, opportunities and threats, and also chalked out its dynamics of HR. Other researchers have extensively worked on various perceived attitudes of employees like their satisfaction, motivation, its influence on their tenure, their loyalty, commitment etc. This chapter unfolds all the relevant literature about the BPO industry in India, theories and research works of employee motivation and satisfaction, and collaborates the findings to tackle the problem of attrition in this sector.

2.2 BPO: An overview

“We live in an age of outsourcing,” clearly designates that outsourcing has now become an acknowledged, accepted and established business strategy [38]. One of the most familiar forms of outsourcing is business process outsourcing (BPO), i.e., transferring the operational ownership of one or more of the firm’s business processes to an external supplier that, in turn, administers the processes according to some predefined metrics [39] [40]. BPO or Business Process Outsourcing thus refers to the rearrangement of entire business functions to some other service providers, primarily in low cost locations. The service provider may be either self-owned or a third party.
This relocation or transferring of business processes to an external provider is essentially to accomplish increased shareholder value.

Some of the general services provided by the BPOs are Receivables and Payables, Inventory Management, Order Processing, Cash flow Analysis, Reconciliation, Data Entry, Payroll Processing, QuickBooks Accounting, Financial Statement Preparation and Accounting Services. Some of the web based services include live online sales and order entry, E-commerce transaction support, Live online enquiry handling, Web Design/Development. Here it is vital to note that BPO may comprise both IT management and business operations. Business operations include relocating or transferring functions such as payroll, accounting, billing or even real estate management to a third party. Invariably all these business processes depend on IT but they are unlike hard-core IT operations such as data center activities or network administration. An imperative facet of business process outsourcing is its capacity to free corporate executives from some of their day-to-day process management responsibilities and duties. BPO involves business process management and outsourcing. Business process management utilizes technology aimed at revamping the process, trimming down unnecessary steps, and eliminating redundancies. On the other hand outsourcing uses proficiency and resources of dedicated external service providers to execute many of these fundamental yet non-core activities. BPO carries out both the functions at the same time, thereby speeding implementation and ascertaining that the intended benefits really hit the bottom line.

### 2.2.1 Benefits derived from BPO

BPO benefits i.e. benefits accrued as an end result of outsourcing are numerous. BPO or outsourcing is profitable as it relates to shareholder value and optimizes business performance to accomplish value creation. There has been a marvelous surge in BPO and outsourcing industry in many developing countries like India because of their (BPO) expert know-how in lessening costs while amplifying service quality. Organizations are progressively relying more on offshore BPO partners for myriad operations. In some cases, organizations are outsourcing their complete global back-office functions, including human resources, to leverage the cost and time advantages [41]. The growing number of global contracts and alliances focusing on BPO service delivery
clearly demonstrate the organizations’ beliefs in the BPO value-propositions. BPO suppliers not only help reduce clients’ costs, but also provide expertise, help improve clients’ services, and increase clients’ profits. Client and vendor organizations seeking to exploit the benefits of a BPO relationship need to mutually understand their goals, values, and capabilities before entering into an outsourcing partnership [41].

The increasing trend of outsourcing has generated considerable debate as to why firms outsource and various explanations have been offered by scholars. Firms may be driven by the need to reduce costs [42], improve responsiveness to changing market conditions [43], concentrate on core activities, or to achieve a combination of these benefits [44]. Traditionally, outsourcing was a means to lower the costs of production and processes, and even today, economies of scale are cited as a major motivation to outsource [45]. For example, cost-effective access to specialized skills [46] and saving on overhead through short-term cost savings [47] have been mentioned as critical reasons for outsourcing. From another perspective, the emergence of globalization has forced firms to concentrate on their core activities to remain competitive, which has led to the notion that firms should identify and outsource their non-core processes [48] [49]. A third perspective is that long-term relationships between clients and BPO vendors can help clients enhance their existing competencies and create new ones [50]. Few of the benefits of a BPO are diagrammatically represented below and discussed thereafter.

![Benefits of a BPO](image)

**Figure 2.1: Benefits of a BPO**
2.2.1.1 Productivity Enhancement

Of all the benefits accrued by a BPO, productivity enhancement is quite significant. A successful and lucrative outsourced business process saves the executives plenty of time, which otherwise they would have expended in mundane managerial activities rather than strategy formulation. The time thus saved is invested in exploring new areas, accelerating other projects, and focusing on their core areas. This, undoubtedly, leads to productivity enhancement. Companies that outsource their business processes are often able to capture new efficiencies and in the process improve upon their productivity. They are in a better position to reallocate their resources to other important projects. This also helps their employees to increase their efficiency and productivity. In most cases, high-caliber subject-matter experts are brought in to design and manage these processes. They bring with them increased productivity and years of experience that most companies don't have access to or can't afford on their own. Availability of highly qualified skill pool and faster adoption of well-defined business processes leads to productivity improvements without compromising on quality.

2.2.1.2 Focus on Core Competency

Another benefit of outsourcing one’s business process is to have the span of focus on the core areas. A firm’s competitive advantage is derived from those capabilities that are unique, inimitable, and non-substitutable [51]. These capabilities constitute the core competencies of the firm [52]. According to the competence approach, a firm may outsource activities other than its core competencies [53]. For example, a firm should outsource its IT activities if IT is not part of its core competencies [54] [55]. Business Process Outsourcing gives tremendous help to the companies to concentrate more on the core areas of their business. The most important factor behind the growth in the BPO market world wide today is an increase in the number of enterprises that are reviewing their internal operations in an attempt to fully understand their true core competencies. In the process they are able to focus more on their core competencies. Companies generally outsource processes to reallocate accountability and control costs. Thus the management is in an improved position to concentrate on core areas, and not keep itself engrossed in other non-core areas. BPO gives more freedom to the management to focus more
time, energy, and resources on building the company's core businesses. It is because the BPOs assume full responsibility for managing the day-to-day back-office operations. Once outsourcing of certain processes takes place it becomes easier for the company to compare and evaluate the efficiency and effectiveness of services that are being delivered from outside and inside. This decision-making process often includes an evaluation of the cost of owning technology - with its associated support costs, that are not core to the enterprise (HR is one such example). This trend is leading to an increased keenness to outsource processes that are considered non-core, yet critical activities. These critical activities include claims administration, HR services and payment services.

2.2.1.3 Cost Savings

One very important benefit and advantage of outsourcing the business processes is in terms of cost savings. BPO provides quantifiable benefits through improved efficiencies, lower overhead, reduced payroll and benefit expenses, and fewer capital investments. The companies that outsource their work have access to the best of talent and expertise in the BPO field and that too at very low wages. According to Dyer and Singh [56], “relational rents” are created when partners share, combine, or invest their assets, knowledge, or capabilities, or employ effective governance to lower their transaction costs or improve synergies. Various studies have indicated that for every one dollar invested in BPOs across India, the value derived by the US economy is between $12-14. This is what makes the outsourcing to India an irreversible process. It is a reality that the companies which have shifted their BPO work to India have garnered savings of around 40-50% till now. American BFSI (Banking & Financial Services Industry) companies have saved more than $6 billion in the last four years by outsourcing their business to India. It is a simple fact that if a bank shifts work of 1000 people from US to India it can save about $18 million a year due to lower costs in India. Similarly, in the field of pharmaceutical research and development, firms can reduce the cost of developing a new drug, currently estimated at between $600 million and $900 million by as much as $200 million if development work is outsourced to India. In the US/UK 67-72% of costs incurred by call centers are directly linked to man power costs whereas call centers in India spend only 33-40% of costs on man power. This includes spending on training, benefits and other incentives for labor.
2.2.1.4 Improved HR

Improved HR is another great advantage of outsourcing business processes. Several market studies have shown that HR outsourcing can lead to cost savings in the range of 20-40 percent for customers. It also leads to improved HR. HR Business Process Outsourcing (HR BPO) is a market that has experienced extensive growth over the past few years and is now set for even more rapid expansion. This is based on the fact that gradually more companies are looking at outsourcing transactions and processes to create a more strategically focused HR function. Clearly, companies all over the world are getting motivated to outsource their HR processes and transactions to run their HR functions more efficiently, free the HR function to focus on strategic people practices that drive growth and add to the organization's long term success and facilitate their professionals to add value to their business. Companies today, require complete domestic and global HR delivery through systems and processes that can generate economies of scale to reduce or eliminate their need to make future investments in quickly outdated technology. Companies can save between 20-40 percent of their HR costs, depending on their business priorities and the pace at which they want to move.

2.2.2 Indian BPO Segments

Business Process Outsourcing in India is organized in many segments. Back-office processing and customer interaction services are among the fastest and largest growing segments that contribute significantly to the Indian BPO market. The main activities or areas covered by the BPOs include customer care, such as remote maintenance, help desk, and sales support; finance and administration, examples of which are data analysis, medical transcription, insurance claims, and inventory management; and HR and payment services including payroll, credit-card services, check processing, and employee leasing. In addition, the BPO industry has expanded into engineering and design, animation, market research, network consultancy and management, remote education, and content development (i.e., digital content, LAN networks, and application maintenance). BPO activities wherever knowledge processing is required are all on the increase. Examples of KPO include intellectual property research, legal and medical research, R&D, analytical services like equity research, information security services such as risk assessment and
management, bioinformatics (for example, genome sequencing, protein modelling, and toxicology studies), and procurement and global trade [57] [58] [59] [60].

Broadly speaking the Indian BPO industry can be divided into six categories.

1. **Captive Units** set up by global companies that outsource their back-office operations from India.

2. **Indian Third-Party Vendors** that execute transactions and processes for international clients.

3. **Joint Ventures** between international BPO companies and Indian partners.

4. **Indian IT Software Companies** that have added BPO to their service portfolio.

5. **Global BPO Players** who set up call centers in India (for example, Convergys).

6. **Global Consultancies** (such as Accenture) who have been advising their clients on outsourcing and are now leveraging this experience into providing actual BPO service (Economist Intelligence Unit, 2002).

The most prevalent form of BPOs operating in India is that of either Captive Units or the Third-Party Vendors.

The BPO industry is heterogeneous, differentiated by horizontal process domains such as HR, logistics, or finance, and vertical specializations such as medical transcription in the health sector and check processing and imaging in banking. Other categorizations also exist. A distinction can be made between onshore and offshore BPO: Onshore BPO refers to outsourcing to a domestic or nearby vendor whereas offshore refers to the vendor from a different country. For example, for U.S. clients, Canada is considered an onshore location, and India is offshore. Another classification is discrete-process BPO, comprehensive BPO, and a multi-domain BPO [40]. Discrete-process BPO refers to a unmarried-process BPO where the vendor is responsible for only
one process, for example accounts payable in banking. In a comprehensive BPO, the vendor undertakes multiple business processes within a unmarried support area, such as HR. Multi-domain BPO is more complex: The vendor supports various clients’ functions across multiple support groups. For example, a vendor may be responsible for HR, finance, and accounting, as well as customer relations. The third classification divides BPO on the basis of type of service. It includes: (1) front-office processing, (2) middle-office processing, and (3) back-office processing. Front-office BPO includes customer service and technical support services; middle-office processing includes services such as banking, insurance, telecom, transportation, and utilities; back-office BPO supports functions such as HR and finance and accounting. Here is a brief description about the various BPO segments that primarily prevail in India:

### 2.2.2.1 Back-Office Operations / Revenue Accounting / Data Entry And Conversion / HR Services

This segment is by far the largest, accounting for 42% of the market share in FY 2002. Industries such as banks and aviation require large-scale data processing and data based decision-making capabilities. Indian companies provide data entry (paper to digital) and rule-set processing (applying present rules and criteria for processing) and are fast graduating to problem solving and decision-making.

### 2.2.2.2 Content Development / Animation / Engineering And Design / GIS

The content development segment ranks second occupying 26% of the pie. The Roncarelli report on computer animation estimates that labor costs in India for computer animators is roughly one-tenth that in the US. While a computer animator in India earns about US$7,000 - 9,000 per year, an equivalent animator in the US earns US$45,000 - 90,000.

### 2.2.2.3 Customer Interaction Services

The customer care segment ranks third occupying 28% of the pie. A customer care center is a service center with adequate telecom facilities, trained consultants, access to requisite databases, Internet and other online information support infrastructure to provide information and support to customers. Such centers are used for a number of customer-related functions like marketing, selling, information dispensing, advice, technical support etc.
Other services include online education or web based training, market research analysis using statistical packages, remote network maintenance and monitoring.

2.2.3 Market Size of BPO in India

Speedy transformation is taking place in the global BPO market. It is escorted by increased investments in BPO services. Most of the principal business companies of the world are adopting BPO as a strategic business solution. The BPO industry is quite assorted, with several sub-segments, each exhibiting its own unique and exclusive characteristics. The size of the global BPO market was projected to be $173bn by 2007, of which $24.23bn would be outsourced to offshore contractors [36]. Of this, India has the potential to generate $13.8bn in revenue. The projection includes revenues of pure play Indian BPO service providers, captives operations of MNCs operating in India, third party service providers and BPO subsidiaries of IT services firms.

2.2.4 Growth of Indian BPO Industry

BPO is a varied and speedily growing offshore market with an estimated annual growth rate of 60 percent [61]. Brown and Stone [36] reported that BPO accounted for 34 percent of the global outsourcing contract value in 2004 and estimated that BPO services would grow from $1.3 billion in 2002 to $4.3 billion in 2007. The Indian BPO sector has emerged rapidly, and its exports have grown from $565 million in 2000 to about $7.3 billion in 2005. These exports were projected to increase to $20 billion by 2007 and employment in the sector was expected to rise from its current level of 300,000 to over 1.1 million by 2008 [62] [63]. The first NASSCOM-McKinsey study (Indian IT Strategy, 1999) had set an ambition of USD 50 million in exports by 2008, and as a matter of fact, the industry has been on track to achieve this figure. The aspiration for 2010 however, is expected to witness a delay of three to four quarters on account of the global meltdown. The IT-BPO industry has traveled from a USD 4 billion sector in 1998 to a breathtaking USD 52 billion in 2008 employing over 2 million people [9]. Looking at the hit side of the fabulous growth of the BPO industry, a number of leading software service companies also made a foray into the BPO domain, either directly, or through the mergers and acquisitions route. Most Indian IT leaders today such as Wipro, Patni, Satyam, HCL, among others, have presence in this
market. The segments like customer care and administration showed a promising growth of over 75% which was the highest among all.

The radical changes in the Indian economy over the last two decades have acted as catalyst in the growth of the information technology sector, following the BPO sector. The liberal reforms implemented by the government set the stage for India to emerge as a superpower in the BPO industry in the early twenty-first century [64]. The growth of the BPO sector was made possible by the already established information technology sector and the availability of a large number of technically literate English speaking people in India. An analysis of the available information from secondary sources indicates that BPO is now the swiftest growing industry in India, and India is considered the “electronic housekeeper” of the world. BPO services are typically provided by Information Technology enabled Services (ITeS). According to NASSCOM (National Association of Software and Service Companies), there are more than 450 Indian ITeS-BPO companies [65]. This has accounted for a meritorious growth of the sector in providing employment, generating revenues, expanding exports, and boosting the overall economy. The BPO sector has been a star performer for the Indian IT industry and has steadily increased its share in the total revenue of India’s IT software and services industry. From a low of 6.5% in 1998-99 to almost 25% in 2002-03. In 2002-03, the Indian BPO industry registered a growth of 59% to reach US$2.3 billion (Rs 11,300 crores) [66].

2008 was a year of transformation for the Indian IT – BPO sector as it began to re-engineer challenges posed by macro-economic environment, with the worldwide spending aggregate estimated to reach nearly USD 1.6 trillion, a growth of 5.6 per cent over the previous year. In the global market, software and services touched USD 967 billion, an above average growth of 6.3 per cent over past year and the worldwide BPO grew by 12 per cent, the highest among all technology related segments. Hardware spend is estimated to have grown by 4 per cent from USD 570 billion nearly USD 594 billion in 2008. In the domestic market, though the demand side challenges have emerged in terms of reduction in discretionary IT spending, the upside is that outsourcing can help organizations to work through financial and competitive challenges. 2008 was a strong year as number of contracts, total contract value and annualized; and contract values
exceeded as compared to 2007. Among all users above average growth was witnessed in the Government, Healthcare and manufacturing segments [9].

Indian IT-BPO grew by 12 per cent in FY2009 to reach USD 71.7 billion in aggregate revenue. Software and services exports (includes exports of IT services, BPO, Engineering Services and R&D and Software products) reached USD 47 billion, contributing nearly 66 per cent to the overall IT-BPO revenue aggregate. IT-BPO exports (including hardware exports) reached USD 47.3 billion in FY2009 as against USD 40.9 billion in FY2008, a growth of 16 per cent. Direct employment in Indian IT-BPO crossed the 2.2 million mark, an increase of about 226,000 professionals over FY2008; indirect job creation is estimated at about 8 million. BPO services exports, up 18 per cent, was the fastest growing segment across software and services exports driven by scale as well as scope. BPO service portfolio was strengthened by vertical specialization and global delivery capabilities. In FY2009, domestic market (including hardware) grew at nearly 19 per cent in INR terms to reach INR 1,113 billion (USD 24.3 billion); domestic software and services market reached INR 572 billion (USD 12.5 billion) (NASSCOM 2009). Table 2.1 shows the revenue of the BPO industry from the year 2000 to 2009.

Table 2.1: Revenue from the BPO industry (Source: NASSCOM 2009)

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic Revenue (in US$ Billion)</th>
<th>Exports Revenue (in US$ Billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>1.9</td>
<td>4</td>
</tr>
<tr>
<td>2001</td>
<td>2</td>
<td>5</td>
</tr>
<tr>
<td>2002</td>
<td>2.5</td>
<td>7</td>
</tr>
<tr>
<td>2003</td>
<td>2.8</td>
<td>9</td>
</tr>
<tr>
<td>2004</td>
<td>3.9</td>
<td>13</td>
</tr>
<tr>
<td>2005</td>
<td>5.7</td>
<td>19</td>
</tr>
<tr>
<td>2006</td>
<td>7</td>
<td>24</td>
</tr>
<tr>
<td>2007</td>
<td>8.2</td>
<td>31.1</td>
</tr>
<tr>
<td>2008</td>
<td>11.2</td>
<td>40.4</td>
</tr>
<tr>
<td>2009</td>
<td>12.5</td>
<td>47</td>
</tr>
</tbody>
</table>
However, everything said and done, the growth is likely to continue. In 1999 NASSCOM-McKinsey had estimated by 2008 it will be $17 billion but it was revised to $21-24 billion by 2008. 2008 saw a growth of more than 35%. India can capture 25% of global BPO offshore market and 12% of the market for other services such as animation, content development and design services. Gartner projects India’s revenue from ITES to US$ 47 billion in 2009, estimating India’s share of supply to be 57 percent of the global market. Gartner does not incorporate animation, medical or other (legal) transcription services, market research, data search, research and development, network consultancy and other non-business processes in its estimates on the ITES market size and potential. And hence, companies in India that zealously focus on quality and innovation, even at the cost of short-term profit, are likely to be major beneficiaries in the long run of the growth in outsourcing [67].

2.2.5 Attrition in BPO

In a utopia, since everything is perfectly set in its place, we may find employees loving their jobs, liking their co-workers, working hard for their companies, getting paid well for their work, having adequate opportunities for career growth; and thus employees never leaving their jobs. However, the reality is a bit harsh; employees often leave their organizations for more money, better career growth, improved working conditions, and enhanced opportunities and so on. This leaving of jobs by employees is termed as employee turnover or attrition. Attrition is defined as a reduction in the number of employees through retirement, resignation or death and attrition rate is defined as the rate of shrinkage in size or number [67].

Attrition of employees in a limited measure is desirable for influx of new ideas in any type of organization. It helps organizations to maintain their agility in fast changing environment. It brings in new blood, opens up new vistas for change, development and improvement, shows avenues to expand operations and add to the creative lines of the organizations. Attrition in a limited measure can thus bring gains to the organization. However if attrition increases beyond a certain level, the gains are transformed into pains. Recruiters explain that high attrition rates significantly increase the investment made on employees [21]. Significant investments in time
and money need to be made for acquiring employees in any organization. These can never be translated into profit when attrition is high.

Despite the mounting success of Indian BPO industry, analysts and media reports have started focusing on problems and challenges faced by this sector. According to the global management consulting firm, DiamondKluster International’s 2005 “Global IT Outsourcing Study,” the number of clients prematurely terminating an outsourcing relationship has gone twofold to 51 percent, while the number of clients satisfied with their offshoring providers has decreased from 79 percent to 62 percent. The issues related to poor infrastructure of reckless start-ups as a source of dissatisfaction in India have also been discussed [68] [69]. Although outsourcing continues to help western firms save significant sums of money despite such concerns [70] [71], the problems related to HRM issues are real and growing and have the potential to make India less attractive for BPO. Hence, there is a grave need to address such issues effectively. Many troubles facing the Indian BPO industry relate directly to the management of human capital. For example, the 2005 “global offshoring outsourcing summit” of the Indo-American Chamber of Commerce noted several trends which would form the future of Indian BPO industry. Some of the challenges consist of annual employee turnover rates ranging from 20 to 80 percent and an imbalance in the demand and supply of a skilled and talented workforce. There is also an up-and-coming shortage of manpower at the mid-management level. The basic “cost-effective” model of Indian BPOs appears to be declining as the wages continue to increase annually by 10–20 percent, and in some cases, revenues are decreasing.

<table>
<thead>
<tr>
<th>Year</th>
<th>Attrition Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>18%</td>
</tr>
<tr>
<td>2004</td>
<td>33%</td>
</tr>
<tr>
<td>2005</td>
<td>50%</td>
</tr>
<tr>
<td>2006</td>
<td>52%</td>
</tr>
<tr>
<td>2007</td>
<td>58%</td>
</tr>
<tr>
<td>2008</td>
<td>55%</td>
</tr>
<tr>
<td>2009</td>
<td>57%</td>
</tr>
</tbody>
</table>

Table 2.2: Attrition rate of BPO industry (Source NASSCOM 2009)
Chapter 2

There is an escalating paucity of the appropriate skills gained through the education system, which is short on quality and relevance. Because of dearth, hiring new talent has become more expensive. In 1999, the average pay packet of an entry-level agent was $160–$180; now it is $300–$350. Due to high attrition rates, every employee who leaves costs the company another $900–$1100 to recruit and train a replacement. Finding the right candidate and sustaining it is now becoming a problem. Years ago, the success rate was of choosing the right candidate was 20 percent [72] [73] [74]. Besides this, BPO employees are experiencing problems related to stress, sexual and racial abuse, and dissatisfaction at work [75] [76] [77] [78] [79] [80]. Inside a BPO organization, HR related issues arising at all levels have become significantly alarming and need to be addressed soon. Major HR-related issues standing as problems in the various levels of management include attrition, HR policies, absenteeism, performance appraisal, and manpower allocation [7]. In organizing, the major concerns at the lower management level are related to job design and job requirements, like night shifts, monotony, and long hours. At the middle-management level, critical issues were related to HR, organizing, and motivation. Middle-level managers have difficulty retaining good employees, motivating them to put in their best effort, and keeping them happy. Often managers are not trained to work with teams and directing and motivating numerous teams simultaneously is challenging [7]. Literature also identifies that outsourcing work environment leads to emotional exhaustion, less affective commitment, more resigned attitude towards the job, and higher intention to quit [81] [82] [83] [84] [85] [86] [87] [88].

Issues related to recruiting, training, and sustaining employees in the BPO industry needs attention. In BPO industry, agent level recruitment costs the company approximately five thousand rupees for each employee recruited. This is just the direct cost paid to recruitment agencies. Over and above the direct recruitment cost, an allied cost of training and managerial service is also involved. Each agent’s job is non-productive or partly productive in the organization for nearly the first 2-3 months. He does not contribute anything substantial to the company in that period. Hence an employee leaving the organization within the first 6 months is a bad investment for the company. Cost of attrition in the BPO industry is 1.5 times the annual salary [21].
However, there is another perspective for attrition which is specific to the BPO industry in India. India at the moment is working on low end business processes which do not require quite high skills. The reason for India's success has primarily been providing low cost high quality labor. Compared to competitors such as Philippines, South Africa, Ireland; India is the only country where we have a balance between the cost involved and the quality provided. For Indian companies to remain successful in future they would have to keep the cost low. Tasks performed by an agent are routine and simple and do not need a sophisticated skill-set. Hence, there is not much advantage in retaining a highly experienced employee. At the floor level operation, an amateur after a nominal training could work with the same efficiency as a 2-3 year experienced employee. The industry players therefore consider the present attrition as positive because it helps them to operate at a lower cost level.

BPO is the biggest employment generating industry in India. The young people get lured to big bucks and fast money. There is a lot of demand as well as supply for this job. The rate of quitting, however, is far more than the rate of joining. It is a Herculean task to bridge the widening gap between demand and supply of workers in BPO industry. The average attrition rate in the Indian BPO sector varies between 30 and 35 percent [89]. Although, it is far less than the prevailing attrition rate in the US, which is around 70% [89], the challenge is equally alarming. Keeping the attrition levels near to the ground is a major challenge as the demand surpasses the supply of good agents by a big margin. The employees are disillusioned as their salary structures are not well defined. This encourages poaching by other companies who can offer a higher salary.

Work for fun is normally associated with the BPO industry, often claimed to be its unique selling point. But it has already backfired. The young people are now taking BPO jobs just as a stop-gap arrangement to pass time. Initially they are blinded by fast money, fast life and fast growth. However, the realities of BPO jobs are just the opposite. The bizarre working hours and monotonous nature of job wear them out very fast. Their hyped up fun transforms into a dull droning job. This exactly is one of the main reasons behind high attrition in BPO industry. High percentage of females working in the BPO industry further aggravates the situation. Most women quit after marriage or because of the social strain caused by asymmetrical working hours. The industry is spending huge amounts on training its employees but most of the training is either
induction training or process training. Motivational training, though most important, is grossly neglected in BPO. Enormous amounts of money spent on training are simply wasted due to high levels of attrition. According to Sharma [89], there are massive costs associated with attrition. The following example makes the point clear and demonstrates how alarming can be attrition in the BPO sector.

- 100 employees at 10% attrition means 10 employees leave and are replaced each year.
- A replacement cost of 80% of a salary of 25,000 means the cost of each replacement is 20,000.
- The cost of turnover is therefore 10 x 20,000 or 200,000 a year.

In India, the average attrition rate in the BPO sector was approximately 30-35 percent until 2007. It is true that this is far less than the prevalent attrition rate in the US market (around 70 percent), but the challenge continues to be greater considering the recent growth of the industry in the country. The US BPO sector is estimated to be somewhere around three decades old. Keeping low attrition levels is a major challenge as the demand outstrips the supply of good agents by a big margin. Further, the salary growth plan for each employee is not well defined. All this only encourages poaching by other companies who can offer a higher salary. However, with the global financial meltdown it appears employees prefer to stick to their current jobs as much as possible. In November 2008 BPO attrition fell to 30%. The attrition rate in few leading companies is, Infosys BPO 28%, Wipro BPO 18%, TCS BPO 21-22%. Tesco HSC saw a 6% drop in attrition. In 2007 the overall attrition rate was about 50-55% [67].

An attrition rate particularly in call (or contact) centers has become legendary. Indeed, the attrition rates in some Indian call centers now reach 80%. This is an extreme figure but the average attrition rates in Indian call centers are up around 30-40%. However, it is interesting to note that the attrition rates in India - and the costs associated - are so high that they can override the benefits of lower wage costs. While wages in call centers in Indian are less than one-eighth of those in Northern Europe, it has been reported that Hewlett-Packard have found the cost per 'ticket' (the cost of processing a query) has doubled "due to the inability of the staff to resolve
customer queries efficiently because of language barriers and inexperience." It is said that this increased cost has made HP's move from Ireland to India "completely pointless," and that it can never recover the (substantial) costs of the move. It is further reported that GE Capital has moved a call center back to Australia "after staff attrition rates of 70% wiped away any potential cost savings."

Staff attrition (or turnover) and absenteeism characterize significant costs to most organizations. It is odd, therefore, that many organizations neither measure such costs nor have targets or plans to reduce them. Many organizations appear to accept them as part of the cost of doing business - a sign of increasing job mobility and decreasing staff loyalty perhaps, a matter to be regretted but just 'one of those things.' However, it seems to be one of the areas in which HR can make a difference - and one that can be measured in quantifiable, financial terms against targets.

Attrition in the BPO industry is two fold. One part of the attrition is where the employee leaves the industry entirely. The other section of attrition is where the employee joins another firm in the industry. Both the sections have separate reasons which need to be identified. The primary reason for people leaving the industry is due to the cause that the industry is viewed as a gap filler occupation. There seems to be a flaw in the way the industry is structured. The industry has been mainly dependent on youth who take out time to work, make money in the process while thinking of career alternatives. Hence for this group BPO is never a long term career but only as a part time job. The easy availability of BPO jobs is only a source of easy money till the time there is no other source of funding. Also the unfriendly working conditions, late night work shifts, high tension jobs acts as a deterrent for people to stick to this industry for long time. In addition, the BPO jobs are not being taken with a positive spirit by the society on a large. Research says that nearly 50 per cent of those who quit leave the industry [21].

Regarding the attrition between firms, the principal reason is the unavailability of resources in the job market causing a great demand compared to the supply available [21]. Presently there is no certified institute providing BPO specific training and education. The scarce resource in the market leads to wide scale poaching and head hunting amongst the competitors for the common pool. Due to the immaturity prevailing in the industry, the industry also has not witnessed mature
HR processes such as Work force planning being implemented by the firms. Usually new projects in the BPO industry, requires a transition stage to be implemented within a short time. The lack of preplanned recruitment leaves the firms with no option but to fulfill their immediate requirement by poaching resources working on similar projects in other firms [21]. To add to it, the industry is characterized by unusual work hours (BPO mostly caters to customers in the West and the time difference could vary from 8 to 12 hours on an average); never-ending night shifts; high work targets; repetitive nature of work; pressure to work on metrics; non-negotiable metrics; irate customers and insufficient holidays. Furthermore, BPO executives are faced with the quality versus quantity conflict. Each factors by itself standalone, contributes to different levels of stress; when combined, they could even be traumatic. Employee motivation soon gets depleted. This ultimately leads to very high levels of dissatisfaction with work and results in employee turnover [24]. According to research conducted by Mercer India [8], high rate of attrition is due to factors like higher salary expectation, work timings and other career options; adding that there is always a danger of costs increasing while billing rates are declining. Even factors like unsatisfactory monetary rewards, discomfited working hours, dull and monotonous jobs add to the high employee turnover rate [22]. Many see this space to be an Internet sweatshop where all that the employees are required to do is just mechanically input numbers into excel sheets or, worse still, answer phone calls in the same tone and repeat the same lines at least 100 times a day/night. Talent in this space is generally overlooked, which leaves the deserving few disgruntled with top management and hence fosters attrition.

The issue is not with the quality or education of the staff - and still less with the investment in technology. It is simply attrition - people do not stay long enough to be taught or to learn the job. The staff may be cheaper but if they cannot do the job, what's the point? Managing attrition is not just a 'nice thing to do' in Indian call centres. It is the route to their survival. Far from accepting attrition rates as part of the cost of doing business, it is surely something that all organizations should address, and equally surely it is an area in which HR can take a lead - measure attrition, seek its causes, set out solutions and target performance.

An employee’s perceived desire to remain with and continue working for the organization the worker is employed by has been defined as organizational commitment. It implies a willingness
to remain with the organization, and to continue helping the organization provide the best possible products and/or services to its consumers for the betterment of the organization and each of its workers [90]. In short organizational commitment “reflects loyalty and willingness to work toward organizational objectives” that have been identified by the employer [91]. Organizational commitment is defined as an employee’s level of identification and involvement in the organization [92]. Meyer and Allen [91] defined organizational commitment as a psychological state that characterizes the employee’s relationship with the organization with its implications for the decision to continue membership in the organization. According to Meyer and Allen’s three-component model of commitment, there are three “mind sets” which each characterizes an employee’s commitment to the organization: affective, continuance and normative commitment [91]. Affective commitment refers to employees’ perception of the emotional attachment or identification with the organization. Continuance commitment refers to employees’ perception of the cost of leaving the organization to another place. Normative commitment is the employees’ perception of their normal obligation to the organization.

2.3 Employee Motivation

Employee motivation has been extensively reviewed for this research. Literature on the established well known motivation theories has been reviewed as one of the final results of our study shows intrinsic motivation factors as a significant dimension of employee retention in the BPO industry. Theories of motivation were intricately studied to understand the concept of motivation as an important predictor of employee turnover. Motivation theories have been broadly classified into need based theories and process based theories. These theories form the pedestal of all work on motivation. Here these theories have been discussed to understand the philosophy of motivation so as to incorporate the same in the study of employee retention. Johnson and Gill [93] describe motivation in work organizations as “the processes by which people are enabled to and induced to choose to behave in particular ways”. Motivation is therefore coupled with a search for the ways by which members’ job performance and productivity may be enhanced or maintain.
2.3.1 Need Based Theories

The most primitive outlooks on human motivation were based on the concept of hedonism: the idea that people seek pleasure and comfort and try to avoid pain and discomfort. This supposition, whilst seeming perfectly reasonable, cannot elucidate many kinds of human behavior. For example, why do volunteer charity workers give their time and effort for no personal rewards? Why do amateur athletes exert such high levels of effort, whereas a hedonist would prefer to relax? Researchers began to realize that people had other needs and desires that could not be explained under such a limited view of human behavior as hedonism. The basic foundation of need theories is that human motivation is caused primarily by deficiencies in one or more important needs or need categories.

2.3.1.1 Maslow’s Hierarchy of Needs

According to Maslow [94], view of individual needs, an individual is motivated on a series of human needs, which are arranged in such a way that lower, more basic needs must be satisfied before higher-level needs become activated and these needs motivate an individual when satisfied sequentially. He saw motivation as a constantly changing desire to fulfill changing needs and believed that human needs occurred in a hierarchy of importance, which he called ‘prepotency’.
The hierarchy of needs focuses on five categories of needs arranged in ascending order of importance. Physiological, safety, and social are the lower-level needs in the hierarchy. The higher-level needs are esteem and self-actualization. When one need is satisfied, another higher-level need emerges and motivates the person to do something to satisfy it. A satisfied need is no longer a motivator. Only the next level of needs in the hierarchy will act as motivators. Once a level of needs has been satisfied they no longer act as motivators and the individual then directs attention towards the next level of needs in the hierarchy. Whaba and Bridwell [95] did a broad review of the research findings on the need hierarchy concept. The results of their review show that there was no clear evidence showing that human needs are classified into five categories, or that these categories are structured in a special hierarchy. Even though hardly any research evidence was discovered in support of the theory, it enjoys wide acceptance.

2.3.1.2 Motivation Hygiene Theory

The Herzberg, Mausner and Snyderman [96] research examined the relationship between job satisfaction and productivity among 200 engineers and accountants. The result of the research was Herzberg’s motivation-hygiene theory of motivation, which suggests that certain factors (motivator factors) lead to job satisfaction, whereas others (hygiene factors) prevent dissatisfaction but cannot engender satisfaction. Motivator factors are factors that are intrinsic to the job, such as the content of the work itself and the availability of opportunities for responsibility, advancement and recognition for achievement. Hygiene factors are extrinsic to the job and relate to the environment in which the job is performed. Such factors include the organization’s policy and administration, working conditions, salary, supervision and interpersonal relations. Herzberg argued that the extrinsic aspects of work (the hygiene factors) could not provide a source of motivation for people but could, if ‘bad’, provide a source of dissatisfaction and thus demotivate people. Hygiene factors should be seen as the necessary precondition to allow the motivator factors to influence people’s motivation. In a situation in which there were ‘good’ hygiene factors, the employee would be in a state of ‘no dissatisfaction’. The motivator factors, which Herzberg [96] described as “complex factors leading to this sense of personal growth and self-actualization”, would then be able to act on that employee and increase job satisfaction and productivity. Thus, in order to motivate workers towards higher productivity,
“while it is important to ensure that the hygiene factors are correct, the manager must manipulate the motivators by attending to job-content issues (e.g. job-enrichment)” [93]. Job-enrichment entails redesigning jobs to make them more interesting and challenging by allowing provisions to be made for increased responsibility, creativity and autonomy. Herzberg’s motivator and hygiene factors can be mapped onto Maslow’s hierarchy of needs with the motivator factors corresponding to the higher order needs of ego and self-actualization.

The research conducted by Herzberg has, however, been the subject of considerable criticism in terms of the form of the research itself and the biased selection of the sample [97]. Holloway [97] claims that since the clerical and production workers ‘did not produce the accounts he was seeking, he didn’t sample them’. Goldthorpe [98] suggests that other types of employee (such as assembly-line workers) may indeed view work in the way expressed by scientific management and be primarily motivated by financial incentives. A case of workers being primarily motivated by what Herzberg regards as a hygiene factor. The important point to be made from the criticism of Herzberg and from the work of Goldthorpe et al. is that no one theory, be it human relations or scientific management, is likely to apply universally [98]. Different socio-economic groups appear to attach different meanings to, or have different orientations towards, work. While different groups of people may have different attitudes towards work, they are also likely to react differently towards management policies. A model of worker motivation should therefore be able to differentiate between different types of worker and treat the wants, expectations and attitudes towards work as ‘culturally determined variables, not psychological constants’ [98].

2.3.1.3 ERG Theory

ERG theory, developed by Alderfer [99] is a re-working of Maslow’s need hierarchy to align it more closely with the empirical research. In ERG theory there are three groups of core needs – Existence, Relatedness and Growth. The existence group is concerned with providing basic material existence requirements and includes the items that Maslow termed physiological and safety needs. Relatedness needs are the needs for maintaining important interpersonal relationships and align with Maslow’s social need and the external part of the esteem need. Finally, growth needs involve the intrinsic desire for personal development and include the
intrinsic element of Maslow’s esteem category as well as self-actualization needs. The principal difference between Maslow’s need hierarchy and ERG theory is that ERG theory does not assume that a lower need must be satisfied before an individual develops the desire for a higher level need. ERG theory therefore allows individuals to seek satisfaction of various needs from different levels of the hierarchy simultaneously. ERG theory also postulates that when a higher order need is frustrated, an individual will increase their level of desire for a lower level need. For example, where an individual is unable to satisfy their growth needs, due perhaps to a restrictive work environment, their desire for rewards such as money is likely to increase.

2.3.1.4 McClelland’s Theory of Needs

McClelland’s theory of needs focuses on just three needs: achievement, power and affiliation [100]. They are defined as a) need for achievement – the drive to excel, to achieve in relation to a set of standards, to strive to succeed; b) need for power – the need to make others behave in a way they would not have behaved otherwise; and c) need for affiliation – The desire for friendly and close interpersonal relationships. McClelland suggests that people with a high achievement need have a compelling drive to succeed [100]. They strive for personal achievement rather than rewards and have a desire to do something better or more efficiently than it has been done before. They seek situations where they can attain personal responsibility for finding solutions to problems, where they can receive rapid feedback on their performance so they can tell easily whether they are improving or not, and where they can set moderately challenging goals. They receive feelings of achievement and satisfaction from overcoming difficulties and obstacles, but they need to feel that their success (or failure) is due to their own actions. McClelland postulates that high achievers will perform best when they perceive there to be an approximately equal chance of success or failure [100]. The need for power is the desire to have impact, to be influential, and to control others. Individuals who have a high power need enjoy being in charge, strive for influence over others, prefer to be placed into competitive and status-oriented situations, and tend to be more concerned with prestige and gaining influence over others than with effective performance. The need for affiliation is the desire to be liked and accepted by others. Individuals with high affiliation motive strive for friendship, prefer co-operative situations rather than competitive ones, and desire relationships involving a high degree of mutual understanding.
**Summarizing the Need Based theories**

Despite the obvious differences between the need theories discussed in this Section, there are several points at which the theories intersect. Figure 2.3 illustrates the similarities among the four theories examined. All need-based theories, however, share an inherent weakness in that “they do an adequate job of describing the factors that motivate behavior, but they tell us very little about the actual processes of motivation” [100]. Process based motivation theories provide a better understanding of the ways in which motivation occurs.

![Figure 2.3: Summarizing the need-based theories](image_url)

- **Herzberg’s Motivation-Hygiene Theory**
  - **Motivation Factors**
    - Achievement
    - Work Itself
    - Responsibility
    - Advancement & Growth
  - Recognition

- **Maslow’s Hierarchy Needs**
  - Self-Actualization Needs
  - Self Esteem
  - Ego/Esteem Needs
  - Respect of others

- **Alderfer’s ERG Theory**
  - Growth Needs
  - Social Needs
  - Existence Needs

- **McClelland’s Theory of Needs**
  - Need for Achievement
  - Need for Power
  - Need for Affiliation

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2.3.2 Process Based Theories

Process theorists assume that job satisfaction can be explained by investigating the interaction of variables such as expectancies, values, and needs. Vroom’s expectancy theory and Adams’ equity theory are representative of the second framework [101] [102].

The general distinction between the need-based theories and the more advanced theories rests on the difference between content and process. The need-based perspectives reflect a content perspective in that they attempt to describe what factors motivate behavior; that is; they try to list specific things that motivate behavior. The more sophisticated process based perspectives focus on the ways in which motivated behavior occurs. They attempt to explain how people go about satisfying their needs and choose between behavioral alternatives.

2.3.2.1 Vroom’s Expectancy Theory

Vroom’s expectancy theory suggests that people not only are driven by needs but also make choices about what they will or will not do [101]. The theory proposes that individuals make work-related decisions on the basis of their perceived abilities to perform tasks and receive rewards. Vroom established an equation with three variables to explain this decision process. The three variables are expectancy, instrumentality, and valence. Expectancy is the degree of confidence a person has in his or her ability to perform a task successfully. Instrumentality is the degree of confidence a person has that if the task is performed successfully, he or she will be rewarded appropriately. Valence is the value a person places on expected rewards. Expectancy, instrumentality, and valence are given probability values. Because the model is multiplicative, all three variables must have high positive values to imply motivated performance choices. If any of the variables approaches zero, the probability of motivated performance also approaches zero. When all three values are high, motivation to perform is also high. Vroom’s expectancy theory suggests that both situational and personality variables produce job satisfaction [101].
2.3.2.2 Adams’ Equity Theory

The primary research on equity theory was done by Adams [102]. Equity theory proposes that workers compare their own outcome/input ratio (the ratio of the outcomes they receive from their jobs and from the organization to the inputs they contribute) to the outcome/input ratio of another person. Adams called this other person “referent.” The referent is simply another worker or group of workers perceived to be similar to oneself. Unequal ratios create job dissatisfaction and motivate the worker to restore equity. When ratios are equal, workers experience job satisfaction and are motivated to maintain their current ratio of outcomes and inputs or raise their inputs if they want their outcomes to increase. Outcomes include pay, fringe benefits, status, opportunities for advancement, job security, and anything else that workers desire and receive from an organization. Inputs include special skills, training, education, work experience, effort on the job, time, and anything else that workers perceive that they contribute to an organization.

2.3.2.3 Goal Setting Theory

Goal setting theory, which is largely attributed to Locke, proposes that intentions to work towards a goal are a major source of work motivation [103]. Specifically, it suggests that specific goals increase performance, difficult goals, when accepted, result in higher performance than do easy goals and that feedback leads to higher performance than does nonfeedback. It is assumed that, holding other variables constant, the more difficult the goal, the higher the level of performance. However, it is also true that the goal must be accepted by the individual and that easier goals are more likely to be accepted. The task difficulty must therefore be easy enough to ensure acceptance from the employee but difficult enough to encourage a high level of effort.

Feedback helps identify discrepancies between what an individual has done and what they want to do, and therefore guides them as to how well they are progressing toward their goals. Evidence has also shown that self-generated feedback, where the employee is able to monitor his or her own progress, is a more powerful motivator than feedback from external sources, such as supervisors. It has been suggested that where employees have the opportunity to participate in setting their own goals, their effort exerted in achieving those goals will be greater than where the
goals have been assigned to them [101]. Three other factors have been found to influence the goals – performance relationship. Firstly, goal commitment occurs where the individual is determined not to lower or abandon the goal. This is most likely to happen when goals are made public, when the individual has an internal locus of control and when the individual participates in the goal setting. Secondly, the individual’s level of self-efficacy, their level of belief that they have the ability to perform the task, has been found to influence the amount of effort an individual is willing to exert to achieve a difficult goal. Additionally, individuals high in self-efficacy seem to respond to negative feedback with increased effort and motivation while those low in self-efficacy are likely to lessen their effort when given negative feedback. Lastly, goal setting theory suggests that it will be most appropriate in cultures where workers expect and seek a certain level of independence and challenging goals and where the level of performance is considered to be important.

In a study examining the effects of task challenge upon motivation, Taylor found considerable support for the validity of a direct, causal relationship between task challenge and subsequent performance [104]. Taylor concluded that “the experience of working on a high challenge vs. a low-challenge assignment was found to increase subjects’ performance standards on a subsequent assignment, to result in a higher level of satisfaction with their performance, and to yield greater performance attributions made to skill” [104]. The results, say Taylor, “suggest a developmental process occurring over time whereby individuals are assigned challenging tasks; stretch themselves to perform well; receive positive feedback which increases their perceptions of skill competence and positive job attitudes, and set higher standards for their performance on subsequent assignments” [104].

Taylor’s study also found support for the suggestion by Katz that in the early months on the job, new employees are either insensitive or react negatively to challenging job characteristics such as autonomy and skill variety [105]. Taylor found that poorer performance resulted from high rather than low-challenge initial assignments, suggesting that the negative psychological effects of performing poorly on an initial assignment may have long lasting negative effects on their confidence and self-efficacy.
There is a wealth of empirical evidence supporting the positive effect of feedback on intrinsic motivation [106] [107] [108], motivation to perform well [109], effort [110] and behavioral change [111] [[112]]. Many researchers have argued that the source of feedback is an important influence on how the individual relates the feedback to motivation. It has been postulated that individuals actively seek feedback from external sources such as formal performance appraisals, supervisors, coworkers and the task itself [113]. Ilgen, Fisher and Taylor argued that subordinates respond more to feedback from sources that possess power over them [114]. Ilgen et al. also postulated that the nature of the feedback message itself is also of importance [114]. Perhaps contrary to Ilgen et al.’s findings, Grellar and Herold found that individuals are more sensitive to feedback from sources closer to them in a psychological sense [113]. This contention was supported in studies by DeNisi et al. and Pavett, who found that peer feedback had a greater effect on perceptions of group performance and motivation than did supervisory feedback [109] [115].

2.4 Employee Involvement

Literature on employee involvement was also extensively reviewed as one of the significant determinants of employee retention came out as involvement factors. Many researchers have worked on employee involvement and participation at various levels and in various domains. Employee involvement is an important attribute of job satisfaction, employee motivation and even employee retention. Employee involvement has a direct correlation with productivity, quality, efficiency, absenteeism, and even motivation. Employee involvement has received much attention in the area of work organization in recent decades. Although changes in the work organization during the last decades are diverse and difficult to summarize by a few key concepts, there has emerged an agreement that employee involvement and monetary incentive systems are important measures in modern personnel management [116] [117] [118]. Addison et al. shows that establishments of different sizes might be affected differently by employee involvement [119]. Adoption of and experimentation with structures such as self-managed work teams, quality circles, and other mechanisms for employee participation in the organization of work has glimmered a large body of academic research on the effects of this employee involvement on outcomes for both organizations and employees [120]. Higher employee involvement also results
in a trust more willing to resolve disputes. Employee involvement produces improved enterprise performance through diverse channels including enhanced discretionary effort by employees [121]. There is also a high association between peer review and employee involvement in work organization and better the peer review, better is the efficiency towards work. Employee involvement also affects the important dimensions of individual performance, organizational citizenship behavior, defined as individual discretionary behavior that promotes the organization and is not explicitly rewarded. The main principle behind all initiatives for increasing the involvement of workers is to get the lower-level staff more involved in the decision making and work processes, and to grant these employees greater autonomy and control over job tasks and methods of work [122]. Typical measures are teamwork, lean management, and reduced hierarchic levels [118].

It has also been reviewed that employee involvement produces improved enterprise performance by making using of diverse channels including enhanced discretionary effort by employees. There is also an agreement that there has been a dramatic increase in the use of employee involvement through mechanisms including teams in US industry. The pros and cons of employee involvement in teams for organizational effectiveness are mixed. However, it can be said for sure that employee involvement is mainly a pure motivation (direct) effect on employees. The beneficial effects of measures introduced for employee involvement re sustained over a period of time and also enhances business performance [121].

Research on employee involvement suggests that the effects of involvement vary depending on the type of participation. Programs that involve employees directly in how work is done, give them decision making authority, focus on job issues, and link compensation to worker efforts significantly increase productivity [123] [124]. Moreover, the more channels of communication and the broader the issues subject to participation, the greater the effect of employee participation [125]. On the other hand, programs that give employees only informational and consultative roles, like quality circles, have few effects [123] and tend to be short lived [126] [127]. Additionally, Benner and Jones have suggested that different types of participation and control may interact in a non-linear way to influence motivation and performance [128]. They identify two types of employee participative control, control rights and return rights. Control rights entail
the determination of the ‘objectives of the organization, the positions that individuals occupy, what are the functions of these positions, who occupies them and how their occupants are induced to carry out their functions’ [128]. Return rights include the ‘financial and physical payoffs generated from the operation of the organization; these can be distributed as profits, wages, working conditions, or through output quality and price’ [128]. The conclusion of the research by Benner and Jones is that employee participation in decision making by itself increases productivity only when it is fairly restricted. At higher levels of employee control, productivity was also found to depend crucially on the level of return rights the employees’ control.

Other works on employee involvement show that the empirical assessment of employee involvement and financial incentives is an important topic in organizational studies and the industrial relations literature [129] [130]. Thus, based on the diverse work on employee involvement, it can be said employee involvement increases the expertise used. Second, high level of employee involvement means that management can expect individual workers to achieve a higher identification with their enterprise and the decisions taken, to feel more committed, and to do a better job [131] [132] [133]. Third, employees participating in decisions can balance productivity more effectively to eliminate bottlenecks or interruptions [117]. Fourth, higher employee involvement may reduce redundancies if the functions are taken over by lower-level staff effectively with full commitment. Finally, the cost autonomy of teams might diminish waste, inventories, inefficiencies and also employee turnover [117].

2.5 Variables affecting employee motivation

Employee motivation is an important factor in employee retention. It is also an important predictor of job satisfaction. Job satisfaction leads to motivation and together they make the employee sustain in a given job. Highly self-motivated, committed, ambitious employees give the most to their company and get the most from their work. But if one is lacking employee motivation in the workplace the effects can be dramatic. Low team morale, lack of initiative, lack of energy, mistakes and high staff turnover are just some of the clues that motivation is an issue.
Positive or negative attitudes held by individuals toward their jobs are known as job satisfaction. In so far as job satisfaction plays an important role in organizations, it makes sense to know what factors contribute to job satisfaction. A great deal of research, theory and practice bears upon this question. Although there are many different approaches to understanding job satisfaction, four particular ones stand out as providing best insight into his very important attitude –the two-factor theory of job satisfaction, the dispositional model, value theory and the social information processing model.

For an individual to succeed at his job or an organization to reap the optimum level of performance out of the individual, it is paramount for the individual as well as the organization to incorporate motivation techniques that will encourage the worker to be of maximum utility and minimum cost. To instill that motivation within the mindset of the individual worker, there are certain factors that help in instigating that certain level of motivation that an individual needs to bring out the best of his potential. These factors are further divided into two categories, namely job-content factors and job-context factors.

### 2.5.1 Job Content Factors

Job-content factors are those factors for which the individual is responsible. In other words, those factors that are internally controlled such as achievement, responsibility and the quality of work itself are termed job-content factors.

### 2.5.2 Job Context factors

As for job-context factors, they are those factors, which are externally controlled – that is the organization is responsible for controlling those factors. Such factors include job security, salary, benefits, promotions etc.
2.6 Personal characteristics and Job characteristics

The perceived attitudes of the employees are their approach towards a given job on the context of their satisfaction, motivation, involvement etc. These are perceived attitudes because it is merely a perception and is highly personal to an individual. Our research studies employee’s perception towards work, their probability of quitting, their willingness to continue a given job etc. in order to comprehend the dimensions of attrition and retention completely, a set of personal characteristics were considered. These characteristics included gender, age, education, marital status and tenure. These characteristics have different impact on job satisfaction, motivation etc. The following points describes the personal characteristics and literature with reference to job satisfaction, motivation etc. The ensuing sub section describes about few work related characteristics that are quite instrumental in assessing an individual’s opinion towards job. These work related characteristics were then further translated in the questionnaire to assess the retention factors important for employees’ sustenance.

2.6.1 Personal characteristics

Personal characteristics such as age, gender, marital status, education and tenure are often included in job satisfaction studies to describe the respondents and to establish relationships among the variables. Research evidence often illustrates the presence of relationships between the personal characteristics and job satisfaction, but the evidence tends to be assorted. Sometimes positive relationships are identified and sometimes negative ones for the same variables. It also depends on the kind of job chosen, sector, geographical location etc.

Age

Varied evidence exists in the literature with reference to the relationship between age and job satisfaction. Herzberg et al., after an extensive review of job satisfaction literature, concluded that the association is best described by a U-shaped function [97]. Initially satisfaction is high, and then it decreases with the increase in age, and eventually, after hitting a low point, increases again with age. Hulin and Smith [134] indicated that job satisfaction increases in a positive linear fashion with respect to age. As workers grow older, they tend to be more satisfied with their jobs.
Older workers have lower expectations than younger workers, and they tend to be better adjusted to the work situation. Quinn, Staines, and McCullough claimed that older workers are more satisfied with their work because they move into better work or more desirable positions across their careers [135].

Saleh and Otis proposed a positive and linear function between age and job satisfaction until the pre-retirement period during which job satisfaction significantly declines [136]. They credited the growing level of job satisfaction to the general adjustment to life, and the declining level of job satisfaction to a decline in health and an obstruction of channels for self-actualization and psychological growth. Zeitz adopted a situational perspective of employee attitudes to examine the relationship between age and work satisfaction among 434 employees of a Federal Government agency [137]. The employees were classified into three groups: nonprofessionals (mostly clerical personnel), non-elite professionals (not promoted to highest rank), and elite professionals (attainment of grade 13 or above). The results of the study show that the age-satisfaction curves were different for nonprofessionals, non-elite professionals, and elite professionals. Iiacqua et al. did a study to investigate factors that have an effect on job satisfaction and dissatisfaction of faculty in higher educational institutions [138]. Age was among the factors found to affect job dissatisfaction. Younger, less experienced faculty expressed more job dissatisfaction than experienced tenured faculty. Spector suggested two reasons why job satisfaction might increase with age [139]. One, better benefits such as pension, for example, and rewards, pay, for example, could increase satisfaction. Two, Spector stated that, “…people adapt to the job by adjusting their expectations to be more realistic, so that they are happier with less as they get older”.

**Gender**

Research examining the relationship between gender and job satisfaction revealed three possibilities. First, females are more satisfied than males [140]. Second, males are more satisfied than females [141] [142]. Third, no difference exists between males and females with respect to job satisfaction [138] [143] [144]. Gruneberg presented several reasons for the inconsistent results of the investigations concerning the relationship between gender and job satisfaction [145]. Males and females might be engaged at different job levels in the same organization. Their
promotion prospects might differ, as might pay and the level of need satisfaction in the same job. Women might identify stronger social satisfaction in a position that requires few skills and offers limited promotion opportunities than men do and thus might experience greater job satisfaction than men.

Smith, Smits, and Hoy also considered the issue of gender-related differences in job satisfaction for employees in small businesses [146]. When the research team initially did not find differences in job satisfaction of men and women, they continued their investigation of the gender-related differences in job satisfaction considering the gender of the small business owner. The results then indicated a significant difference. The most satisfied females were employed in female owned and managed companies, with up to 25 employees. The most satisfied men were employed in male owned and managed companies, with 50 or more employees.

**Education**

A review of job satisfaction studies that included education as a variable indicates that the relationship between education and job satisfaction can be either positive or negative. Carrell and Elbert, for example, reported negative direct effects of education on job satisfaction [147]. They concluded that younger workers, who have a higher level of formal education, may be dissatisfied with performing the routine tasks required in most jobs. DeSantis and Durst compared job satisfaction among public and private-sector employees [148]. They identified many similarities between the two groups, but one of the clear differences concerned the education variable. The expected negative relationship between education and overall job satisfaction was much stronger for the private-sector employees than the public sector. DeSantis and Durst offered as a possible explanation that the private-sector individuals might be employed in unchallenging positions and might be experiencing larger gaps between expectations and realities. Quinn and Baldi de Mandilovitch analyzed data from 11 studies of American workers [149]. Based on this analysis, they recognized a positive relationship between the workers’ educational level and overall job satisfaction. The achievement of a college degree resulted in the largest increase in overall job satisfaction.
Tenure

Gruneberg already pointed out that the relationships between tenure, defined as length of service, and job satisfaction was unclear [145]. It is possible that an increase in job tenure can be associated with a decrease in job satisfaction [148]. It is also possible, as evidence provided by Bedeian, Ferris, and Kacmar has shown, that tenure and job satisfaction are positively related [150].

2.6.2 Work-Related Characteristics

Job satisfaction can be influenced by the work situation. Any aspect of the job and employing organization is part of the work situation. Based on an extensive review of the literature, Bruce and Blackburn, Locke, and Vroom identified challenging work, equitable rewards, supportive working conditions, and supportive colleagues as main determinants of job satisfaction [101] [142] [151] [152].

Nature of work

The work itself is the factor that correlates most highly with overall job satisfaction [153]. Employees’ preference tends to be jobs that let them apply their abilities and skills and represent a diversity of tasks, freedom, and performance feedback. This preference makes work mentally challenging. Challenge has to be balanced. Not enough challenge can lead to boredom, but too much challenge and employees experience frustration and feelings of failure. An appropriate level of challenge will cause feelings of pleasure and satisfaction [101] [151] [154].

Equitable rewards

Pay and promotion are rewards employees tend to expect for their efforts. Pay and promotion lead to satisfaction when they are perceived as being fair. For pay to be fair, decisions on the amount to pay should reflect job requirements, people’s abilities, and community pay standards. By the same token, employees encounter satisfaction when they perceive that promotion decisions are the result of fair policies and processes [101] [142] [151] [154].
Supportive working conditions

People want to be comfortable and safe while they work. Appropriate lighting, temperature, and noise level are several aspects that keep people from being uncomfortable, and, therefore, from experiencing dissatisfaction. People want the tangible items that they need to work to perform their job well. In an office environment examples for tangibles are computers, copiers, fax machines, and phones. Furthermore, people prefer cleanliness to dirt and living close to their jobs over living far away [101] [142] [151] [154].

Relationship with peers and boss

Many individuals’ social need can be satisfied through their favorable interaction with both coworkers and managers at work. Sympathetic and helpful coworkers can increase employee job satisfaction. Managers who interact favorably with employees assist in solving problems are aware of employees’ challenges and are able to communicate effectively and provide constructive feedback periodically. These managerial behaviors can lead to increased job satisfaction for employees [101] [142] [151] [154].

2.7 Hackman and Oldham’s Job Characteristics Model

Hackman and Oldham’s Job characteristics model has been used to develop the conceptual model for the research [37]. The Job Characteristics Model by Hackman and Oldham focuses on the interaction between the psychological states of employees, the job characteristics that are believed to determine these states and the attributes of individuals that determine how positively a person will respond to a complex and challenging job. Few of the aspects of the model have been amended with reasons. This amended model then generates a base for the theoretical skeleton of the research model. Figure 2.4 is a diagrammatic representation of the original Hackman and Oldham’s Job Characteristics Model.

The core job dimensions are seen as propelling three psychological states that, in turn, lead to a number of advantageous personal and work outcomes. The vital psychological states are defined as follows:
1. *Experienced meaningfulness of the work.* The degree to which the individual experiences the job as generally meaningful, valuable and meaningful.

2. *Experienced responsibility for the work outcomes.* The degree to which individuals feel personally accountable and responsible for the results of their work.

3. *Knowledge of results.* The degree to which individuals continuously understand how effectively they are performing.

The theory proposes that employees who experience these states at adequately high levels are likely to feel good about themselves and respond positively to their jobs. The model suggests that...
five core job dimensions can be seen as influential the extent to which employees experience the three critical psychological states:

1. **Skill variety.** The degree to which the job requires a diversity of activities that involve different dexterity and talents

2. **Task identity.** The degree to which the job requires completion of a ‘whole’ and identifiable piece of work, that is, a job that has a beginning and an end with a tangible outcome

3. **Task significance.** The degree to which the job affects the lives or work of other people, both in the immediate organization and in the external environment.

4. **Autonomy.** The degree to which the job allows the individual substantial freedom, independence and judgment to plan the work and decide the procedures for carrying it out

5. **Feedback.** The degree to which the job activities give the individual direct and lucid information about the efficacy of his or her performance

Specifically, skill variety, task identity and task significance are seen coalescing to form the experienced meaningfulness of the work. It is proposed, therefore, that jobs that require the use of several different skills, allow employees to complete a substantial piece of work (as opposed to the continuous repetition of a simple task) and are seen as having an impact on other people will be thought of as worthwhile and meaningful by the workers in those jobs.

Job autonomy is seen as determining experienced responsibility for the outcomes of the work and feedback is seen as determining knowledge of the actual results of the work activities. The three psychological states are then seen as combining to determine various personal and work outcomes such as high internal work motivation (i.e. intrinsic motivation), high-quality work performance, high satisfaction with the work, and low absenteeism and turnover. To summarize, the model postulates that an individual experiences positive affect to the extent that he/she learns (knowledge of results) that he/she personally (experienced responsibility) has performed well on a task that he/she cares about (experienced meaningfulness).

There is extensive evidence that divergences among people moderate how they react to their work. The Hackman and Oldham model incorporates this effect by including a variable termed
‘growth need strength’ (GNS), which may be taken as the characteristic features of individuals that establish how optimistically a person will react to a multifaceted and challenging job. Hackman and Oldham propose that an individual with a high GNS will react more positively to a job high in the five core job dimensions than an individual with a low GNS. Furthermore, GNS may influence the link between the objective job dimensions and the psychological states or at the link between the psychological states and the outcome variables. The first link suggests that people with a high GNS are more likely (or better able) to experience the psychological states while that latter suggests that individuals with a high GNS react more positively to the psychological states. Hackman and Oldham used a multiplicative model to determine the overall motivating potential of a job. The Motivating Potential Score (MPS) was calculated using the formula:

\[
\text{MPS} = \left[ \frac{\text{Skill Variety} + \text{Task Significance} + \text{Task Identity}}{3} \right] \times \text{Autonomy} \times \text{Feedback}
\]

In order to test the Job Characteristics Theory, Hackman and Oldham developed the Job Diagnostic Survey (JDS), which measures employee perceptions of job characteristics, various psychological states, personal and work outcomes, and strength of growth needs. Figure 2.5 illustrates the use of the data obtained from the JDS. The graph on the left summarizes the level of each of the five job characteristics for two hypothetical jobs while the graph on the right shows each job’s MPS calculated using the formula shown above.

![Job Characteristics](image)

![MPS](image)

Figure 2.5: Job Diagnostic Survey of ‘Good’ (Job B) and ‘Bad’ (Job A) jobs
Although it may be argued that the addition of the psychological states in the Job Characteristics Model is an effort to integrate the cognitive processes involved in motivation, the model is primarily social-cognitive, wherein it relates job dimensions to motivation and other personal outcomes. The model also clearly follows an integrative approach wherein it includes elements of more than one motivational theory as discussed earlier in this chapter. Firstly, the structure of the model specifies influences from the need-based theories. By listing five core job dimensions that determine three psychological states the model implies that evocative and meaningful work; responsibility for the work results and knowledge of the outcomes are the relevant needs for workers and that skill variety, task identity, task significance, autonomy and feedback are the job attributes that satisfy these needs. Moreover, the needs for meaningful work, responsibility and knowledge of outcomes all relate to higher order needs (i.e. ego and self-actualization needs in Maslow’s hierarchy or growth needs in Alderfer’s ERG theory). The model also draws from need theories in that it acknowledges that people will desire these higher order needs to differing degrees.

The ‘Growth need strength’ variable essentially places workers at different levels of their need hierarchy and the model proposition is that workers’ responses to the job dimensions will change accordingly. Although the model does not specifically mention task difficulty as a job characteristic, it is reasonable to assume that Skill Variety could fit in its influences. Jobs that involve the repetition of one activity, requiring few skills or talents may be assumed to be low in task difficulty while jobs that involve a wide variety of activities and skills may be thought of as being high in task difficulty. Given that the model also includes Feedback as one of the five measured job characteristics, it may be argued that the model incorporates some of the principles of Goal Setting Theory.

2.8 Conceptual Model of the research

The Hackman and Oldham’s Job Characteristics Model was taken as the foundation to generate a conceptual model for the research. The three psychological states applied in the model are experienced meaningfulness of the work; experienced responsibility for the outcomes of the work and knowledge of the actual results of the work activities. All these can be purely classed as
intrinsic to the job itself. Consequently, the model predicts only intrinsic (internal) motivation. The effects of extrinsic rewards, such as pay and other benefits, self-esteem, job security, hours of work and working conditions, etc. and the resulting extrinsic motivation are ignored. Moreover, there are several job dimensions that have been found to have an effect on worker satisfaction and motivation that are not included in Hackman and Oldham’s formulation of the model. For example, social relationships (ERG Theory or McCellend’s Theory of Needs in Section 2.3.1); participation in the setting of goals and work load (see Goal Setting Theory in Section 2.3.2) as well as the extrinsic elements has been found to play an imperative function in determining employee motivation. This section discusses the alterations required to embrace the additional job characteristics.

It may also be argued that personal and work outcomes need to be amended. The outcomes limit to high internal work motivation, high quality of work performances, high satisfaction with work, and low absenteeism and turnover. It may be noted here that along with personal outcomes as mentioned here, involvement with work may also breed as a result of the critical psychological states. Moreover, when viewed intricately, it may be seen ideally speaking the personal and work outcomes talk of motivation, satisfaction and involvement of an employee. Thus, the personal and work outcomes may be redefined as high work motivation, high work satisfaction and high work involvement. If this be the case, it may result in organizational outcomes too. Organization outcome will be a chain of events, wherein the organization cultivates satisfied employees; who feel motivated; show high involvement and hence retains employees. The modified model is shown in Figure 2.6.

The research aims to find out whether satisfaction, motivation and involvement enhance the stay of an employee in the organization. Thus, based on our literature review, we assume that personal characteristics and job characteristics together lead to the level of satisfaction, motivation and involvement in an employee, which further leads to their sustenance in the organization for a long term.
Figure 2.6: Modified Version of Hackman and Oldham’s Job Characteristics Model
Before developing the conceptual model for the two-fold study i.e. employee attrition, employee retention, a pilot study was done to understand the reasons for attrition. It was found out that minimizing attrition did not really maximize retention. The reasons as stated by BPO employees for their probability of quitting and their willingness to continue in the organization were quite different. A pilot study was done on 100 respondents to extract factors that cause attrition and factors that result in retention. The study has been discussed in detail in Chapter 3. Based on the above findings of the pilot study and the theoretical framework from the Hackman and Oldham’s Job Characteristics Model, a clearer and more lucid framework for the research was developed. It was decided to do a two fold study i.e. exploring attrition and exploring retention individually. For both the studies personal characteristics were kept the same. The personal characteristics chosen for the study comprised of gender, education, marital status, age and tenure. The job characteristics chosen for studying attrition were adopted from the pilot study. These characteristics were actually negative characteristics specific to a typical BPO job, which lead to attrition. Thus, after much thoughtful analysis, and some discussion with the respondents again, the set of characteristics considered for attrition included monotonous nature of job, lack of motivation, poor mentoring, power and politics, dissatisfaction with colleagues, low career growth, irregular working hours, achievement not recognized. The set of characteristics chosen for retention were intrinsic characteristics of the job and it included self-esteem, participation, accountability, growth prospects, feeling of accomplishment, prestige inside and outside, interpersonal relationships, working conditions, involvement, job security, amenities, authority etc.

Figures 2.7 and 2.8 give a pictorial representation of the model developed for the two-fold study. Figure 2.7 is the model for attrition and figure 2.8 is the model for retention. Both the models are on the same lines with personal characteristics and job related characteristics as the independent variables and attrition and retention as the dependent variables respectively.
Figure 2.7: Basic model for attrition

Figure 2.7 gives a pictorial presentation of the model chosen for the first study. It shows two independent variables personal characteristics and the job characteristics affecting employee attrition in the BPO. The study aims to find out the impact of these two variables and the degree to which they contribute to employee attrition.
Figure 2.8: Basic model for retention

Figure 2.8 illustrates constructs of retention model i.e. personal characteristics, intrinsic job dimensions and the resulting level of satisfaction, motivation and involvement (work outcomes) and the final result i.e. retained employees (organizational outcomes). It describes the personal characteristics as age, gender, education, marital status, and tenure and core job dimensions which are intrinsic in nature like self-esteem, participation, accountability, growth prospects, feeling of accomplishment, prestige inside and outside, interpersonal relationships, working conditions, involvement, job security, amenities, authority etc and how do they contribute to retention of employees.

Thus, the research will be carried out based on this model. It clearly delineates the structure of the research. The ensuing chapters discuss the research methodology and the findings.