Chapter 1

INTRODUCTION

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CHAPTER I
INTRODUCTION

This research is conducted to identify, understand and get deeper knowledge about the current situation of employee attrition in automobile industry in and around Pune. In this chapter, the researcher has given the introduction of the topic, meaning and definition of the terms attrition and large scale industry, factors responsible for the attrition, cost associated with attrition, significance of the study, potential application and implication and conceptual framework of the study along with the chapter scheme.

1.1. Introduction

Human resource is a very important and valuable asset of an organization. However most of the organizations consider it as a cost center. Employees play a pivotal role in an organization because all the resources are wasted if they are not properly and efficiently utilized by the employees. It is the employee who can create a history by making an organization or by breaking an organization.

Today in a highly competitive and dynamic business world the success of an organization depends on the ability and stability of competitive human resource. Maintaining and retaining existing employees is the most challenging issue for any organization. When employees at the managerial level leave an organization, it leads to serious problems in the organization. Attrition basically rises due to many factors like dissatisfaction with the company, insufficient salary, poor working environment, lack of motivation, poor relations with colleagues and boss, unhappiness of an employee and many other factors. The attrition level of employees indicates that something is wrong with the health and climate of an organization in terms of wages, working conditions, industrial relation, welfare facilities provided by the employer to the employees etc.

Employee attrition is a challenging issue in the business world. It has a significant impact on the competitive strength of a company. As per the Report on Absenteeism, Labour turnover, Employment and labour cost, prepared by the Ministry of Labour
and Employment; Labour Bureau, Employee attrition in the automobile sector in India is 40 percent\(^1\). Employee attrition creates chronic problems in an organization. The impact of employee attrition has been realized by industrialists during the past couple of years.

Higher rate of attrition indicates employee unrest and lack of stability in the labour force which is not good for competitiveness, growth and development of an organization. The organization faces uncertain cost, disturbance in production and work atmosphere, cost of recruitment, selection, training and development and so on. These uncertainties raise a question regarding the reasons for attrition in automobile industries.

1.2. Meaning and definitions

1.2.1. Attrition:

Turnover and attrition are business and Human resource terms, there are several types of turnover such as sales turnover, production turnover but attrition usually can be described as a reduction in the work force.

Employee turnover or employee attrition is defined as the rate of change in the working personnel of an organization during a specified period\(^2\). Labour turnover may be defined as “the rate of change in working staff of a concern during a definite period” Labour turnover may be expressed in the form of percentage of workers left during a specific period like one year out of the total labour force employed\(^3\).


\(\text{\textsuperscript{2}}\) Prasad L.M, Human Resource Management, Sultan Chand and Sons Educational Publications, New Delhi, 2011, p563)

‘Employee attrition generally refers to the loss of employee through a number of circumstances, such as resignation and retirement. The cause of attrition may be either voluntary or involuntary’-wise greek.com.

Labour turnover has been defined as “the rate of change in the working staff of a concern during a definite period”.4

The Webster Dictionary terms employee attrition as “reduction in number usually as a result of resignations, retirement or death”.

For this research work a study has been conducted to find out the reason behind resignation by managers in car manufacturing automobile industries in Pune district.

1.2.2. Large Scale industry:
According to the Government of India, manufacturing enterprises are defined as the enterprises engaged in the manufacturing or production of goods pertaining to any industry specified in the First schedule to the industries (development and regulation act 1951) the manufacturing enterprises are defined in terms of investment in plant and machinery.

Small enterprises include those manufacturing companies where the investment in plant and machinery is more than twenty five lakh rupees but does not exceed five crore rupees.

Medium enterprises include those manufacturing companies in which the investment in plant and machinery is more than five crore rupees but does not exceed ten crore rupees.

5. dcmsme.gov.in/faq/faq.htm
Large Scale enterprises are the manufacturing companies where the investment in plant and machinery is more than ten crore rupees

1.2.3. **Automobile Industry**
It includes manufacturing passenger cars; light, medium and heavy commercial vehicles such as jeeps, scooters, motor cycles, three wheelers, tractors etc.⁶

Encyclopedia meaning - Automotive Industry include all those companies and activities involved in the manufacture of motor vehicle ,including most components ,such as engine and bodies, but excluding batteries and fuel. The industry’s principle products are passenger automobiles and light trucks, including pickups, vans, and sport utility vehicles.

1.2.4. **Passenger cars :**
According to Organization of Motor Vehicle Manufacturers (OICA) Passenger Cars are motor vehicles with at least four wheels, used for transport of passengers, and comprising no more than eight seats in addition to the driver’s seat ⁷.

1.3. **Factors responsible for Attrition:**
There are various factors responsible for employee attrition. In order to control high rate of labour turnover, it is important to know and understand the causes that lead a person to leave an organization .The management should try to keep the employee turnover rate as low as possible because it involves huge costs and it’s a big loss for an organization.

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⁶. [BUSINESS.GOV.IN](http://business.gov.in/Industry_services/automobile_industry.php)
⁷. The international Organization for Motor Vehicle Manufacturers was founded in Paris in 1919. It is known as ‘Organisation International des Constructeurs d’Automobiles’ (OICA)
There are various factors responsible for attrition which may vary from person to person such as:

- **Misbehavior by supervisor**: According to a survey conducted by ASSOCHAM (The associated chambers of commerce and industry of India- a major industrial association) on two thousand five hundred employees to find out the reason for leaving the job, misbehavior by supervisor or boss was found the main reason for leaving the job. The respondents also said that a good industrial atmosphere is more important than salary.

- **Faulty human resource policies and practices**: Faulty human resource policies and practices particularly related to salary, benefits, transfer, promotion, lack of training and development, poor leadership and supervision, poor working conditions, unrealistic job targets, raising high expectation form employees are some of the faulty human resource policies which result in employee attrition.

- **Comparison and equity consideration about salary and other benefits**: Many a time employees compare their salary and other benefits with their friends, peers, and relatives, and when they find that others are getting better returns as compared to them they start searching for new jobs in other companies and it increases employee attrition. There are various situations which also cause attrition.

- **The mental Unrest**: The mental unrest not only hampers production but also has adverse impact on the health of an employee. When employees feel doubts and lack of job security it reduces their morale and they feel de motivated, depressed and discouraged. The adverse consequences of low morale, depression and demotivation are high rates of absenteeism and labour turnover.

- **Dissatisfaction with job**: employees who are not satisfied in their career in the present organization may try to search for a suitable job in other organizations. Unsatisfactory salary and benefits, poor organizational culture, interpersonal relationship, social, personal and situational reasons are some of the causes of employee attrition.
- **Lack of Career development and job satisfaction**: Sometimes lack of career development and job satisfaction are the main factors for attrition of employees. Career development by changing job from one company to another company is also a reason for employee attrition.

- **Job stress**: Job stress can cause many problems to employees of an organization. It may be due to internal problems, external problems or personal problems. It can be seen that alcoholism and drug abuse are the outcome of job stress. It also affects the health of an employee. Absenteeism and employee attrition increase due to high stress.

- **Harassment by seniors**: It is a common observation that harassment by seniors leads to mental disturbance, loss of sleep, depression and even suicide among juniors. All these factors demotivate the employees and can have a demoralizing effect of tension and high stress level which again is one of the reasons of employee attrition.

- **Lack of recognition**: In spite of getting handsome salary, when an employee achieves results beyond the expectation but it is not recognized by the management and he is not appreciated or rewarded for it, this may lead to disappointment and he may think of leaving the current organization and seek employment elsewhere.

Some causes of attrition are avoidable which can be controlled and some are unavoidable which are uncontrollable. The avoidable causes are due to the fault of management. Employees may leave because of the following avoidable causes:

**Avoidable causes.**
There are many avoidable causes of employee attrition such as lack of sufficient salary, poor relationship with fellow colleagues or boss, long working hours, continuous night shifts, lack of job security, poor working conditions etc. These causes can be controlled by the employer up to a certain extent.

**Unavoidable causes**
Some causes of labour turnover are unavoidable. The unavoidable causes are not due to the fault of the management but are due to other factors which are not under the
control of the management. Among the unavoidable causes marriage in case of young
employees, dislocation due to some family problems, pregnancy in case of female
employees, continuous poor health, disability due to accident, mismatch with job,
career development, starting own business, housing or transport problem etc. lead
to employee attrition.8

1.4. Cost associated with attrition
Globalization has converted the whole world into one market. Due to the
liberalization, privatization and globalization the scale of operation and production
has increased tremendously. Employees have gained a very important place in the
manufacturing sector. In developing countries like India the importance of employees
cannot be neglected. The cost associated with attrition is very high which includes:

- When an employee at the managerial level leaves an organization the recruitment
costs increases because it involves time and efforts for interviewing suitable
candidates for replacement.
- Training cost increases as it involves the time of the supervisor, personal
department and cost of the trainer.
- Loss of production in the interval between leaving of an existing employee and
replacement by the new.
- The pay of learner is in excess of his productivity.
- Accident rate of new employee is generally higher as the new employee may not
be as experienced as compared to the employee who has left an organization.
- Machineries and other equipments are not fully utilized during the recruitment
process and the training period.
- Wastage and accident rates are generally higher when a new employee is
appointed.

Publications (India) Pvt Ltd., July 2007, P16.2-16.3
Additional wages in the form of overtime pay have to be paid because of high attrition of employees. It also creates problems in supply of goods at predetermined delivery dates.

There may be low employee morale, dissatisfaction and team spirit due to labour instability.\textsuperscript{9}

Hence it is very important to study the factors responsible for the attrition rate in automobile industry in Pune district.

\textbf{1.5. Effects of Attrition:}

An organization has to bear the following losses due to high employee attrition:-

\textbullet \ Shortage of Talent: There is acute shortage of talent which is one of the important reasons for attrition among employees at the managerial level. Human resource professionals in automobile companies are expected to play a crucial role in lowering the attrition rate.

\textbullet \ Low Morale and motivation: Morale is an important factor of organizational climate. It is an important vital ingredient of organizational success because it reflects the attitudes and sentiments of employees towards the organizations, its objectives and its policies. Moral is the total satisfaction a person derives from his job, his work group, his boss, his organization and his environment. Employees with high morale will like his job and cooperate fully with the management in achieve the organizational objectives. At the same time low morale indicates the presence of mental unrest\textsuperscript{10}.

\textsuperscript{9} Seetharaman S., Venkateswara Prasad B ,Human Resource Management, Scitech Publications(India) Pvt Ltd, , July2007, P16

\textsuperscript{10} Parthasarthy P, Principles of Management, Vrinda Publication Pvt Ltd, N.Delhi, 2007, P443
- Prestige of an organization: Employee attrition has an adverse impact on the prestige of an organization in the human resource market because excess turnover may create a bad image of the organization and it may find difficulty in attracting candidates for job.

- Poor output in terms of quality and quantity: High attrition disturbs the production schedule, the quality and quantity of output because in most of the large scale industries the production is mass production and production operation continue one by one. Poor work environment due to any cause leads to poor output in terms of quality and quantity. There will be rise in leave, absenteeism, and turnover of employees will be high.¹¹

1.6. Significance of the study:
Pune has the seventh largest per capita income in the country. The automotive sector is prominent in Pune. Today, Pune has a diverse industrial population. It is India’s one of the most important automobile hub. It is also a preferred destination for international automobile manufacturing companies. Today some domestic and international auto manufacturing companies are located in this area. The Automobile industry in Pune and Pimpri Chinchwad area is a high generator of employment as well as contributes to the national income and Indian economy.¹²

Attrition is gaining a lot of importance in today’s competitive world. When an employee at the managerial level leaves an organization he carries along with him the tacit knowledge, skill and secrets of the company which is one of the sources of competitive advantage. It is also an expensive affair for a company. If a correct solution is not identified then a company may face a threat in the industry. Avoiding this issue can lead to serious problems for it.

Automobile companies are facing the problem of attrition which have high costs and at the same time create many problems. Reducing employee attrition is important for

¹². En.wikipedia.org/wiki/pune
creating a competitive advantage and success for an organization. Hence finding out the root causes of attrition is very important. This study would also provide information that will be useful to the organizations, psychologists, researchers and management practitioners.

1.7. Potential application and implication

I. The outcome of this research is definitely useful and productive.

1) It will give an idea about the various loopholes in the management of human resource as well as problems faced by the employees of an organization in relation to attrition.
2) It will also help to identify the various corrective methods that the company can use to reduce attrition in the automobile industry in Pune.
3) This study will also help to determine as to what kind of plans and policies should be prepared to reduce attrition.

II.

1) The findings of this research will help automobile companies to hold top performers and to have documented evidence of the reasons as to why employees switch from one company to another.
2) The finding will also help automobile companies to improve their retention process of managers. It will help them to stay for a longer period in one automobile company being a part of it.
3) Hopefully the suggestions could serve as a basic referral guide for the automobile industry in Pune to improve their retention rate at all levels.

Besides the above significance, it will contribute to the knowledge of the researcher in this field and also act as a guide for other researchers to conduct further research in this field.
1.8. Theoretical background and its relevance with attrition

I. Abraham Harold Maslow’s Need hierarchy Theory:
According to Maslow’s theory people work to satisfy their needs. According to him an individual is motivated by a series of needs. He explains that there is a hierarchy of five needs.

1. The first need is the basic need which includes food, clothing and shelter. These needs are very important for the survival of life and are universal and are applicable to everyone.

2. Safety and security need comes next in the hierarchy. We all are always concerned about the security as life is full of uncertainties.

3. The next motivator is social need i.e. need for love, concern and care. We all are social animals and cannot live in isolation, and always want to be loved by others.

4. The next is Esteem need and the fifth need is self-actualization.

5. The upper most is self-actualization. It represents the individual’s concern for feeling important and respected by others.

Hence according to Maslow, psychological needs, safety needs, social needs, esteem needs and self-actualizing needs are the hierarchy of needs. A satisfied need is no longer a motivator. A person is motivated for the next need after satisfying the previous one. Only the next level need will work as a motivator. It also explains when and how people’s needs and expectations are revised upward.

Relevance with attrition: For young employees the bottom two needs are important for employees but for middle and higher age employees the upper two needs motivate them and when these are not fulfilled the effect is attrition.

II. McClelland’s Achievement theory:
A psychologist of Harvard, McClelland is closely associated with achievement motive theory. According to his theory individuals are motivated by three needs:
1. Need for power: Employees with high need for power derive satisfaction from being in positions of influence and control and they try to secure high positions. It is a motivator for them.

2. Need for affiliation: According to him a person who is not getting affiliation or social contact may feel the pain of isolation and may indulge in destructive activities. Hence a sense of affiliation is essential for every individual to become a high performer.

3. Need for achievement: Employees with high need for achievement derive satisfaction from achieving their goals. They desire to do their best performance and achieve the targets beyond expectations so that they can be successful in a competitive situation.

Every employee possesses these needs in varying degrees. Management should gauge the proportion of these needs in the managers and then formulate motivational schemes effectively rather just formulating them randomly.13

Relevance with attrition: Employees are motivated by need for achievement, power and affiliation and if these are not fulfilled they shift to other organizations.

**III. Frederick Herzberg’s Hygiene theory:**

Herzberg suggests that two distinct sets of factors affect motivation. That is improving hygiene and provides motivators. According to him factors that motivate employees and the factors that increase dissatisfaction among employees are as follows:

1. Motivators: Achievement, recognition, responsibility, advancement and growth are the factors related to job satisfaction.

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2. Hygiene: On the other hand when employees are dissatisfied with factors, such as company policy, administration, supervision, salary, work condition security status and interpersonal relations these are the factors that lead to dissatisfaction among employees.

According to Herzberg, all these factors, both motivators and hygiene have close relation with human relations in an organization.

Relevance with attrition: When employees don’t get recognition for achievement, advancement or growth they are dissatisfied. It leads to employee attrition.

IV. Clay Alderfer’s ERG Theory:
According to Alderfer’s ERG Theory there are three primary categories of human needs
a. Existence: The basic psychological needs (hunger and thirst) and protection form physical danger.
b. Relatedness: Social and affiliation needs and the need for respect and positive regards from others.
c. Growth: The need to develop and realize ones potential.

According to ERG theory, employees work for existence, relatedness and growth. He argues that satisfied lower level needs make an individual search for higher level needs. when these needs are not satisfied employees get frustration. Frustration at one level will push an individual down to lower level needs. Hence these three needs are very important for motivation.

Relevance with attrition: As these needs are not satisfied the employee tends to leave the current organization and employee attrition increases.
V. Vroom’s Expectancy theory:
According to this theory motivation is the product of three variables they are as follows:

1. Valence (an individual’s preference for an outcome): Valence is an individual’s preference for an outcome. Positive valance include being respected by friends, co-workers, having job security, good salary and negative valence are things to be avoided, such as being laid off, being passed over for promotion and discharged for drunken behaviour at work.

2. Expectancy (his belief that his efforts will lead to task completion). Expectancy means a particular level of efforts will be followed by a particular level of performance

3. Instrumentality (his conviction that his performance will result in the desired outcome). This is a perception by an individual that first level outcomes are associated with second level outcomes.

Employee is motivated by valence (an individual’s preference for an outcome), expectancy (his belief that his efforts will lead to task completion) and instrumentality (his conviction that his performance will result in the desired outcome). When employees are demotivated to do work it results in attrition14.

Relevance of theories with attrition: In a nutshell, different people have different orientation based on their personalities, priorities towards life, their capabilities, ambitions etc. By and large it can be said that employees shift the job for more pay packet, more security, growth and opportunities etc. It would be interesting to explore the interrelation between these theories and the issues of attrition and the efforts as the area for further study.

1.9. Chapter scheme of the Thesis:

Chapter -1: Introduction: It includes introduction to the topic, meaning, concept and definition of attrition and large scale automobile industries, factors responsible for attrition, effects of attrition, cost associated with attrition, significance of study, potential application and implication, theoretical background and its relevance with attrition and conclusion.

Chapter-2: Development of Automobile Industry in India and in Pune: A description about the Automobile industry in India and in Pune, evolution of Indian automobile industry is explained in this chapter. An overview of Indian automobile sector, production, performance, exports and about the automobile industries selected for this study is also described.

Chapter-3: Review of Literature: The main idea of this chapter is to focus on the review of literature from books, research journals, thesis, internet, Government reports, news papers, speeches and websites of the selected companies.

Chapter-4: Research Methodology: The aim of this chapter is to provide information about research methodology which is used for this study. The aim, objectives of the study, statement of hypothesis, assumptions, scope, research design, research method, and selection of samples, collection of primary and secondary data, tools for analysis and limitations of the study are discussed in detail.

Chapter-5: Data Analysis and interpretation: This chapter gives an idea of data analysis and interpretation of collected data from pilot study, Main Survey, Interviews During Survey and post analysis. Various tables, charts, diagrams have been used to display the responses. It also focuses on testing of hypothesis and fulfilling of objectives.

Chapter-6: Findings and Recommendation: This chapter aims at giving details of data, discusses the key findings from research and highlights the main issues which are present in the automobile industry in Pune. It focuses on suggestions, provides suitable recommendations and suggests topics for further study.
1.10. Conclusion
This chapter dealt with the introduction, meaning, definition and significance of employee attrition. Employee attrition is a challenging issue in the business world and a matter of discussion. Hence it is very important to find out the causes or factors responsible for attrition. After knowing the significance of the study it becomes essential to know about the history and current position of the automobile industry in India as well as in Pune. Hence it is explained in the next chapter.