CHAPTER I
INTRODUCTION

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CHAPTER I
INTRODUCTION

1.1 Chapter Overview

This chapter introduced need for the study, context of the study. It provides information on research problem studied. The delimitations of the study are also explained in this chapter. The chapter is closed with significance of the study.

1.2 Introduction to Problem

The Indian financial system has changed considerably since the 1990s (Herd, R. et al., 2011). Two decades of economic and financial sector reforms have strengthened the Indian economy and transformed the banks and financial institutions in the country. Insurance sector is blessed with Foreign Direct Investment (FDI) in post liberalization era. This has generated enormous employment opportunities for Indian youths. This has further led to talent crunch in the sector and poaching thereafter. Here comes a need for attention on recruitment and retention practices by insurance companies. In banking business, interest rates have been deregulated and new entrants have been allowed in the sector. New private banks have emerged that are more customer-oriented than the older state-owned banks (Herd, R. et al., 2011). Now the Human Resource Development (HRD) departments of the banks need to be strengthened in terms of Human Resource (HR) practices, recruitment practices, training needs, and compensation package. The HR practices prevalent among banks should be reoriented to meet the emerging challenges in the banking sector (Satpathy et al., 2011).

India has been repeatedly cited to have an abundant and educated workforce. Indian organizations have technically superior workforces with a competitive
approach to problem-solving and who are keen to establish themselves as capable of handling all organizational tasks. However, it is observed that the labour market is tightening. Not only organizations are facing acute problem of talent shortages, but also struggling to find ‘right talent’ for organizational success. As it is a buyer’s market, job seekers acquire more of a decisional role in the recruiting process. Therefore, recruitment these days is taken lot more seriously and given lot more thought than it used to be.

Employee retention is a complex issue facing numerous organizations today (Rice, 2005). Hiring right is a powerful first step in reducing unwanted turnover (Harvard Business Essentials, 2002). Therefore, the focus of organizations now has shifted from ‘numbers’ to ‘quality’ and from ‘recruitment’ to ‘retention.’ Thus, finding and retaining the best employees is a major investment (Evan & Kaye, 2003; Vault, 2006). The study of ranking non-financial variables affecting managerial decisions was conducted by Low & Siesfield (1998). In this study ability to attract and retain talented people is ranked fifth. The report of Society for Human Resource Management (2001) highlight on the fact that firms devote more funds to staffing activities than any other human resource activity. This shows that effective recruitment practices are very much essential.

Attracting and retaining quality employees is the goal of most organizational recruitment efforts (Kecia and Wise, 1999). Therefore organizations that are able to attract good number of quality applicants and remains more careful in the process of their hiring decisions will increase the effectiveness of their overall recruitment system (Boudreau & Rynes, 1985; Murphy, 1986). With increasing competition for human resources, the ability to attract, develop, and retain high-quality employees is becoming the main concern for the industry.

A lot less recruiting will be required if better employee retention is done (Leder Sam, 1999). The retention process commences before an employee
joins an organization. It begins when a representative of the company explains the position to be filled, continues during various stages of recruitment, and is reinforced via new employee orientation. Thus, job description, recruitment, selection and employee orientation stands as the foundation of retention (Dibble, 1999). The outcome of research study by Kass et al., (2001) show that in any given group of hires, two-thirds to three-fourths of the quits occur within first three years of employment. Of these, more than fifty percent occur before the end of the first year alone. Effective human resource management can reduce employee turnover and increase employee commitment and productivity within an organization (Kaliprasad, 2006). Haggerty Deb (2002) in his article spells out five steps to fire proof hiring process in order to successfully locate, hire and retain good employees. He calls this as Positivism which he defines as: People, Organization and Strategy Integrated Together in Vital Enterprise. Hacher (1997) in her article provides advice on the personnel screening and selection. By improving these techniques, she contends, it is possible for the mangers to make quality decisions which will result in employees staying in the organization for longer periods of time.

Out of the plentiful practices, the recruitment practice facilitates the entry of an employee in an organization. Hence considering the significance of this function, the researcher has ventured to investigate the relationship between recruitment practices and employees’ retention intentions in the Indian banking and insurance sector. Hypothesis validity would help banks and insurance companies, and similar organizations, through the use of more favourable recruitment practices. It will help to reduce or eliminate the employment of individuals who may intend to leave, or who may turn into burnout mode, or encourage employment of individuals who may turn out to be loyal to the organization.
1.3 Need for Research

In the facet of changing world recruitment needs to be evolved. Corporate Recruiting Report (2011) by staffing.org states that globalization, demographic shifts and technological trends continue to roil the job market. Mueller (1982) contends that human capital theory’s assumption is that some employees are more productive than others simply because more resources have been invested into those employees in the very same manner as a machine that has had more resources invested into it is appropriate to be more productive.

Previous research literature in the area of recruitment lacked solid theoretical grounding, leading to misrepresentation of complexity in the recruitment process (Breaugh & Starke, 2000; Rynes, 1991). Therefore, first aim of this research is to get overview of theoretical foundations of recruitment and retention studies.

The level of retention among employees partly depends on the people who are hired, the purpose for which they are hired, and partly on how they are managed (Dibble, 1999, Herman, 1999; Kaye and Jordan-Evans, 1999). Therefore, hiring right people for the right jobs is very crucial. As per Smith (2001) 60 percent of total undesirable turnover is due to bad hiring decisions on part of the employer. The aim of majority of the recruitment research studies is estimating the predictive value of recruitment tools; a similar issue is to understand how applicants perceive and react to the recruitment process. In looking for the potential candidates, companies must goad for the traditional employee search. With the wrong choice, morale with other employees can go down. With the right choice it is just as likely to go up (Gage, 2005). It is not possible to rectify the poor decision just by removing the candidate, living with the consequences can have long term repercussions that cannot easily be costed. Thus, it becomes essential to ensure that the best candidate is attracted
and selected which is equivalent to an investment decision. Rynes et al. (1997) contend that the greater success will be associated with the use of high validity selection devices (Schmidt, Hunter, Mckenzie, & Muldrow, 1979; Schmidt, Hunter, Outerbridge, & Trattner, 1986), the use of more effective recruitment sources (Schwab, 1982; Rynes, 1991), formal evaluation of recruitment process and outcomes (Breaugh, 1992; Cascio, 1989), and taking a longer term strategic perspective on staffing decisions (Breaugh, 1992; Snow & Snell, 1993). Adamsky (2005) summarizes 6 ways the recruiter can help in developing a better organization i.e. hiring good recruiters, branding the organization, rigorously searching talented employees and attracting them to the organization, developing good employee referral programmes, considering talent as opposed to workforce planning, and investing in talented employees. Even if organizations use several recruitment practices at the same time, the effects of such practices have often been studied separately instead of considering all practices together (Rynes, 1991). Thus, not much information or literature is available on how different recruitment practices are related to each other. Hence, second aim is to study various recruitment strategies applied together by the organizations in the context.

A study conducted on information systems employees by Mak & Sockel (2001) states that retention has three indicators viz. employee turnover intention, burnout, and commitment. An employee may develop commitment to the company before joining it (O’Reilly & Caldwell, 1981; Schein, 1968) or at least seen during initial stages of employment (Porter, Crampon, & Smith, 1976). Turnover of an employee does not happen all of a sudden; but this is a process of detachment that can take long time like, several days, weeks, months or even years until the decision to leave actually occurs (Branham, 2005, p.2). Thus, it also becomes essential to understand the employee reactions to recruitment process long after the recruitment process. Perceptions and reactions of applicant recruitment experience have been studied and
connected theoretically with results like organizational commitment, job satisfaction, turnover, and organizational climate (Gilliland, 1993). However, dearth of research studies is available in hand that assesses those propositions. Once organizations come to know which results are poor then it would allow organization to suggest improvements in the areas with the greatest chances for overall effectiveness. Thus, this study further intends to understand the applicant reactions to recruitment strategy in terms of the retention indicators.

Recruitment researchers tend to ignore that various companies implement recruitment strategies differently and there are chances that its effectiveness may vary with the organizational context (Rynes & Barber, 1990; Taylor & Collins, 2000). Here, researcher aims to study the effectiveness of recruitment strategy in the context of Indian banking and insurance sector.

It is expected that the continuing changes in the composition of the labour force will have a considerable effect on management in general (Drucker, 1988). By and large economy gives opportunities for variety of employment opportunities. In a rigid economy, employees are unwilling to leave their existing jobs, as generally there are less alternative opportunities available in the market (PSI, 2001). Inflation may also influence recruitment and retention but that relationship is beyond the scope of this research.

The direct implication of this study is that as the competition for recruiting scarce talent has become cut-throat, organizations tend to invest increasingly in lesser expensive retention programs than expensive recruitment efforts to acquire and retain the best and valuable talent.

1.4 Context of the study

Significant growth is witnessed in the Indian service sector which has been consistently high in India in the last two decades. Banking and insurance sector contributes to about 7% of the country’s GDP (Pathak, 2010). Most
important of the developments in the financial services, is the surge in the retail banking segment encompassing, multi channel products, multi channel distribution system and multi channel customer and client groups. The government of India liberalized the insurance sector in March 2000, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership (Pathak, 2010). Insurance industry has witnessed manifold growth with emergence of a number of players from India and abroad offering a wide range of products and several types of insurance policies. At the end of September 2013, there are fifty-two insurance companies operating in India; of which twenty four are in the life insurance business and twenty-seven are in non-life insurance business. In addition, General Insurance Corporation (GIC) is the sole national insurer (IRDA Annual Report, 2012-13). New banking licenses are been cleared by Reserve Bank of India. Significant surge in recruitment activity can be witnessed and one can expect to see rise in poaching within the industry.

Employee attrition rate in Insurance sector is 14%. The rate of attrition is about 35% in the first year of recruitment. This goes down to about 18% by the fourth year (Pathak, 2010). "I would put the churn at the bottom at 100 per cent," says Rajendra Ghag, Senior Executive Vice-President and Chief Human Resource Officer, HDFC Life (Business Line, Jan 2014). In 2012-13 the total number of agents appointed was 5.65 lakhs. The number of agents terminated was as high as 8.01 lakhs (IRDA Annual Report 2012-13).

According to Kelly Services, as stated in Financial Express (Feb, 2014) the attrition rate in banking and financial services industry is expected to be around 18%. It was same i.e. 18 per cent in the year 2010-11. The number of bank employees in Indian private sector banks rose to 2,18,679 in 2010-11 from 1,82,520 according to the 'Statistical Tables Relating to Banks of India released by the Reserve Bank of India in 2012. But the same was reduced in foreign banks from 28,012 in 2009-10 to 27,968 in 2010-11. Banking and
insurance is mainly people-oriented business and human resources play very important role in differentiating the business.

Most of the insurance companies have tied up with foreign insurance companies. Insurance business is growing rapidly in India. This has created a pressure on recruitment managers of these insurance companies to recruit rigorously in the business. Therefore, the basic aim of the recruitment manager is to fill up the positions. This has led to insufficient attention to strategy designing for hiring employees who could stay with the organization for longer time. Initially, these private sector insurance companies hired employees by poaching in public sector insurance companies. But the growth was very high and number of insurance companies started emerging in the Indian market. Again these organizations started poaching in other private sector insurance companies to fill in their positions. Few insurance companies hired people for sales positions from BPOs. This has created a ‘war of talent’ in Indian insurance sector. Therefore, it becomes necessary to study recruitment strategy of such insurance companies to understand retention in the same. It has also been revealed through different studies that the need of growing employee requirement is not fulfilled merely by adopting some retention strategies rather it is equally important to identify the right candidates at the time of recruitment, so that they identify with the organization and stay on proving to be assets for the company. This study attempts to identify the way recruitment strategy is implemented in banking and insurance organizations and then find if the same is related to kind of employees retained in the organization.

As the rate of attrition is high in private sector banks and insurance companies, this study is conducted considering the same. Indian public sector organizations have more structured and transparent recruitment policy which makes recruitment systematic and attrition rate in these organizations is low so these organizations are excluded from the study.
1.5 Research Problem

Research problem is stated as ‘Study of recruitment strategy applied by Indian private sector banks and insurance companies with reference to the type of employees retained in the same organizations’.

1.6 Objectives of Study

The research objectives are stated as follows:

1. To study recruitment strategies adopted by the organizations in Indian Banking and Insurance Sector.

2. To study employee retention in the Indian Banking and Insurance Sector.

3. To study the relationship between each element of recruitment strategy and each of the categories of employee retention in the Indian Banking and Insurance Sector.

1.7 Scope and Delimitations of the Study

The study is cross-sectional in design, thus restricting causal inferences or attributions. Attention should also be drawn to the fact that the data is collected from employees of their up to 5 years of tenure in the current organization. This might limit the capacity of respondents, who have spent more than 1 year, to recollect their recruitment experience and answer accurately.

Further, Rynes et al. (1997) have viewed that when data are gathered from applicants alone, there is no opportunity to link applicant perceptions of recruiters to organizational recruitment practices, or to nonsuperficial recruiter characteristics such as attitudes and beliefs (Connerley, 1997). Instead, usual ‘applicant impression’ studies have merely linked respondents’ overall
impressions of recruiter effectiveness with their impressions of effectiveness on specific dimensions.

The scope of the study is recruitment strategy and employee retention in Indian banking and insurance sector. Thus, factors other than recruitment strategy influencing employee retention are not considered for the study.

Study investigated private, co-operative and foreign banks and private and foreign insurance companies operating in India, thus prohibiting meaningful assessment of how recruitment strategy and employee retention, and their linkages vary among other sectors.

1.8 Significance of study

The study will be useful to academics as well as industry in several manners. The study is important from the point of view of understanding theoretical foundations of recruitment strategy and employee retention. This study helps to understand recruitment strategy in a holistic manner with empirical support.

Understanding the nature of employee retention with reference to recruitment experience is possible at the end of this research study. The nature of recruitment and retention in Indian banking and insurance sector is studied with the help of this study.

In order to conduct this research the review of earlier work is essential. Hence review of literature is done and presented in the next chapter.