CHAPTER-1
INTRODUCTION

‘Skilled professionals are like frogs in a wheelbarrow, which can jump at any point of time when they sense opportunities’....

1.1 BACKGROUND

The new global economy of the 21st century has transformed the economic, social, educational and political landscape in a profound and indelible manner. It is composed of a trilogy of interactive forces that include globalization, trade liberalization with the information technology and communication revolution. Globalization has melted national borders, free trade has enhanced economic integration and the information and communication revolution has made geography and time irrelevant. Furthermore, the new economy is built on a culture of innovation. Indeed, the signature mark of the new global economy is new ideas, new technologies, and new initiatives (Passaris, 2006).

India, the world’s largest democracy and home to over one billion people, is a rapidly changing country, which is markedly different from what it was 20 years ago when it started on a new path to liberalisation. With a large number of companies in the other hemisphere outsourcing jobs to India, the country has virtually become the world’s back-office and has emerged as a leader in the field of software engineering and development. Over the past decade, the Indian information technology (IT) sector has quietly but quickly become the country’s premier growth engine, crossing significant milestones in terms of revenue growth, employment generation and value creation (Agrawal et al., 2012). The IT sector has increased its contribution to India's GDP from 1.2% in FY 1998 to 7.5% in FY2012. According to the National Association of Software and Services Companies (NASSCOM), the sector aggregated revenues of US$100 billion in FY2012, where export and domestic revenue stood at US$69.1 billion and US$31.7 billion respectively, growing by over 9% (NASSCOM. 2012).

1.2 INDUSTRY ANALYSIS OF THE IT SECTOR IN INDIA

There is a little truth in the proverb: what the Middle East is to oil, India is to software professionals. The Indian IT revolution having a phenomenal compounded growth has transformed nation's image from a slow moving bureaucratic economy to a land of pioneering entrepreneurs. The current scenario of the IT sector in India has the
largest pool of manpower, second only to the US. According to a study by NASSCOM, IT industry generates direct employment to about 2.8 million and indirectly employs about 8.9 million people. According to recent estimates, India has nearly 2.75 million software developers, and by 2018, this is expected to be over five million. Moreover, India is now a habitat of one of the largest numbers of quality certified software companies in the world. The outcome of this influx is that many technological skills that once were hard to find are now available in abundance. Also, advances in technology are happening at an accelerated rate, thus rapidly pushing existing these skills and capabilities into obsolescence. The Indian IT industry has nurtured diversity and inclusivity and has been instrumental in placing Indian industries on a global map. Indian IT companies have a presence in fifty two countries and currently employ more than 60,000 foreign nationals on their rolls (NASSCOM Strategic Review, 2012).

The IT industry has achieved an iconic status in the Indian economy, and is considered a highly significant economic growth engine in India's success. The industry being prominently export oriented has significantly contributed towards the Indian export and foreign exchange reserves. The IT industry has helped India to transform from a rural and agriculture-based economy to a knowledge based economy. The industry grew at a compound annual growth rate of 13.1% during financial year 2008-13. Through the years, India has dominated as one of the fastest-growing IT services markets in the world, accounting for more than 50% of the $147 billion market in 2015, where export revenue stood at US$99 billion and domestic at US$48 billion (https://en.wikipedia.org/wiki/Information_technology_in_India).

The IT industry provides competitive and performance-based benefits, world-class expertise, leading-edge work environment, career growth, outstanding training and continuing education with leadership opportunities. Because IT industry is dynamic in keeping up with market and customers trends, an employee gets exposed to a wide array of opportunities to grow with both global and local brands, like those in communications, technology, financial services, retail, entertainment, healthcare etc. Regardless of age, performance and leadership potential can enable an employee to go up the ladder, to lead teams anywhere from a few people up to thousands, and manage the company. Many also become knowledge experts, working with peers from around the world, such as companies who have a global footprint.
Most of the IT companies are concentrated in a few cities of western and southern part of India due to availability of manpower, infrastructure facilities and cost of space. In terms of business size, Mumbai, Pune, Hyderabad, Bangalore and Chennai have the highest concentration. Bangalore is considered to be the Silicon Valley of India because it is the leading IT exporter and constitute about 77% of the total industry revenue. Currently, 42 Indian companies have exports of more than Rs 1 billion. According to Gartner (2014), top 5 Indian IT services providers are Tata Consultancy Services, Infosys, Cognizant, Wipro and HCL Technologies. The IT organizations in India have following key competitive advantages which are allowing it to grow at a fast pace:

a) Availability of unlimited pool of cheap and talented software personnel.

b) Presence of the biggest English speaking population after the USA.

c) Availability of western educated management personnel.

d) Availability of wide gamut of services from clerical support/ data processing to sophisticated software systems.

e) Lack of regulation in the software industry.

f) Burgeoning middle class of nearly 150 million consumers.

g) Substantial experience in handling and executing large sized projects.

h) No baggage of outdated software technology.

i) A 12-hour time difference advantage with countries like USA. This enables USA companies to establish round the clock software factories by subcontracting to Indian companies.

1.3 EMPLOYEE ATTRITION AND ITS IMPACT ON THE ORGANIZATION

Attrition is the prime problem faced by Indian IT industry. Michael Armstrong (2006) defines employee attrition (also known as labour turnover or wastage or natural wastage) as a normal flow of people out of an organization for whatever reasons through retirement, career or job change, relocation, illness and so on. In addition, mergers and acquisitions pose a unique cultural challenge to the two organizations being integrated. The degree to which the companies are able to fuse together can create the difference between the success and failure of mergers and acquisitions. In other words, attrition refers to the ‘exit of the employees from company due to retirement, retrenchment and voluntary change’. Obviously, industry doesn’t worry about the loss of manpower due to retirement and retrenchment. Because ‘retirement’ in the IT industry so far is very much less due to its young nature and ‘retrenchment’ is a method through which it relieves its
excess, unproductive labour force. In one way, attrition is good for the health of the organization because it infuses fresh blood into the system and rejuvenates ideas. Conversely, attrition up to certain level is tolerable but beyond that, it simply adds to the cost and increases complexity. This proves to be bad for the organizational health in the long run. Because untimely exit of the productive, talented work force from the job is a problematic phenomenon. But it is always advisable to keep the attrition low - under a certain percentage so as to maintain equilibrium and stability in the organization (Mike, 2009; Philips and Connell, 2008; Chakraverty, 2007).

If we closely analyze varied reasons of attrition, we get two major contributors to this phenomenon. One reason is pertinent to individuals and the other organizational reasons. Usually, predominating factors drive the outcome of these situations. During recessionary periods, as it is happening in India and elsewhere in the world for last few years, a new trend is being seen as one of the major contributing factors over and above the aforesaid reasons. That is a growing concern amongst employees about security of the job. The basic difference between usual and recessionary attrition is that, this ‘insecurity factor’ is more predominant over regular factors and even though there is no such organizational pressure, sometimes employees take certain ‘pre-emptive’ decisions to quit because of the fear of certain impending doom. This ‘sense of pervasive panic’ is creating extra load on the attrition numbers. It aggravates when similar organizations in other sectors or same sector undergo turmoil because of these negative market forces. If the phenomenon is grossly analysed, it is found more to do with the psychology of the employees than anything else. This anxiety or stress reduction amongst the employees holds the key to resolving this issue. The problem cannot be contained totally but it can be reduced to a certain extent. The strategy to combat this situation depends on the extent of the problem and no solution could be taken for an *ad-hoc* basis but it has to be a sustainable solution (The Economimics Times, 2013; Philips and Connell, 2008).

Abundant supply of low cost manpower has been one of the major factors contributing to the growth of Indian software industry. However, the high rate of growth has also been the cause of increase in manpower cost, high attrition and disturbed work-life balance. It is a well-accepted fact that if employees don’t serve the company for a sizable period of time, the company incurs a loss on the manpower front. Majority among HR professionals of IT industry feel that it was all about retaining good people in company and creating such situations for non-performing employees that they quit on

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their own. It has been felt that employee retention is a collective responsibility of HR department, top management and individual departments in an ascending order with HR department having the maximum and individual department having minimum accountability (Chandrasekar, 2011; Philips and Connell, 2008).

Talent grows businesses and economies; harnessing talent has always been critical to corporate and national stakeholders in order to succeed. This becomes even more relevant in economically uncertain times. In India, as business and consumer confidence grow, retaining good talent is one of the biggest challenges that most corporations face here. Thirty five percent of our workforce has tenure of less than two years as compared to 15 percent in western markets as quoted in a recent study. Progressive companies are increasingly focusing strategically on talent retention and are putting in measures to forecast potential challenges, and address the core reasons behind them. This approach has resulted in lowering attrition rates significantly. By redefining how talent and HR departments function, companies are finding measures of success in balancing the needs of the employees (Philips and Connell, 2008; http://www.itsmyascent.com/hr-zone/Retention-A-challenge/152443).

1.4 CONFLICT MANAGEMENT AND ITS ROLE IN REDUCING EMPLOYEE ATTRITION

Conflict refers to some form of friction, dispute, disagreement, or discord arising among employees within an organization. As mentioned, the reason that satisfaction and commitment have received so much attention is that they have been found to predict turnover intentions. A Meta-analysis generally confirmed the findings of affirmative studies. Find out job factors i.e., routinization, autonomy, feedback, role conflict and role ambiguity had larger association though work overload has small association. The work environment factors, supervisory relationships, leadership, stress, advancement opportunity and participation had association of similar magnitude to those of the job factors. Job characteristics that were measured on multi-item scale included role conflict; role ambiguity, feedback received from others and quantitative work load.

Conflict management is the process of limiting the negative aspects of conflict while increasing positive aspects of conflict. The aim of conflict management is to enhance learning and group outcomes, including effectiveness or performance in organizational setting. In organizations, conflict is inevitable, and good conflict management tools are essential (Rahim, 2010). As revealed in 'Workforce 2020', an
independent, global study by Oxford Economics, most companies recognize the
importance of managing an increasingly international and diverse workforce (Workforce-
2020, 2014). But vast majority lacks the strategy, culture, and solutions to do so due to
lack of conflict management approaches that include but not limited to:

- A framework for thinking about conflict resolution for employee retention success.
- Examine and develop effective techniques for addressing a variety of conflict resolution for
  employee retention challenges.
- Put it all together and emerge well equipped to resolve employee attrition problems more
  skillfully, confidently, and effectively.

1.5 CURBING THE EMPLOYEE ATTRITION CHALLENGES

'Workforce 2020' report shows that in companies with more than 1000
employees, the HR department was strong whereas in mid-sized companies,
the individual department was responsible along with the top management (Workforce-
2020, 2014). Large companies with growth rate higher than 10% did not face serious
retention problems, but large companies with lower growth rates had acute problems in
retaining their employees. All said and done, HR increasingly should adapt to the volatile,
uncertain, complex and ambiguous market conditions and the business dynamics.
However, the employee attrition rates at the junior level were on the higher side
compared to that at the top management level. Studied over the last two years, retention
levels have either increased or remained same due to better compensation, healthy
competitive environment, higher profitability of the company, and good working
conditions. In this venture, technology does empower HR with the right insights to take
right business decisions, thus helping them in spotting, on-boarding, retaining and
engaging the younger, tech-savvy, millennial workforce (http://www.itsmyascent.com/hr-
zone/Reverse-employee-attrition/145673).

Some of the retention practices are requesting employees to 'pledge' their
educational certificates, signing bonds for a fixed period (usually for a period of 12 to 18
months) with financial penalty clause, 'pay for the training', and others are early practices,
that seem redundant but are still followed by some companies. Despite modern retention
techniques, attrition rate still high as IT industry is still not a favourite industry for many
young people and the society at large. While such perceptions are fast changing,
complete acceptance is still missing due to challenging working hours. Also, gender ratio
is an issue in this industry due to cultural preferences and perceived health risks. Above all, in India, we have a sizeable number of engineering graduates who take up jobs in IT industry but keep pursuing openings in their preferred industries and move on. Such issues result in higher attrition rates for IT companies. Of course, a ‘one size fits all’ approach does not work and cater to all categories of employees.

Retention initiatives provide respite only to a small percentage of the workforce. While an initiative is targeted for the entire workforce from a retention standpoint, only those employees who realise the benefits stay. Organizations do take cognizance of this fact and adopt a multi-pronged retention strategy to cater to the diverse workforce. 'Career ecosystem' is a practice that India Inc should strongly emulate as it will help increase retention rates. Overly high performance expectations and monotonous jobs create frustration among the workforce. Having said that, a well-defined career roadmap, along with skill-development opportunities provided by in-house learning and development teams, help reposition the employees’ career aspirations. An employee handling calls can move into back office/ knowledge-intensified domains with the appropriate up-skilling efforts. This practice is in the primitive stages as it is being practiced as a ‘job rotation’ model in India (http://www.itsmyascent.com/hr-zone/Retention-A-challenge/152443). Employee attrition is an area where the HR department is challenged to find ways to keep trained and enthusiastic professionals on the payroll. On the other hand, finding ways to reduce employee attrition is not as readily available. In fact, it often requires an overhaul of the organizational culture. With the correct strategies in place, an organization can not only retain its existing employees for the long haul, but also attract good talent to augment its human capital.

Hence, Indian software sector which is already experiencing shortage of talented man power faces problem in retaining the existing talent. This ‘flight’ of the talent leads to several problems for the sector. ‘New Hire’ cost increases as companies have to spend on new recruitment, induction and training programmes at one hand and at another they have to continuously hike salaries and spend more on other perks provided which in turn increases the HR maintenance expenditure. Employees in search of better growth prospects, better salary easily move from one company to another. The impact of employee attrition can be disruptive and costly and has been described through the factors by Philips and Connell (2008) which has been listed in Fig. 1.1.
1.6 PROBLEM STATEMENT

In today’s economy, intellectual capital and knowledge management are significant indicators of success (Bogdanowicz and Bailey, 2002). Unfortunately voluntary turnover not only causes a talent gap in organization, it also often results in employees moving to competing firms, and sharing their skills and knowledge with competitors. The biggest and most intractable hindrance to growth faced by IT companies in India is the double-digit rates of attrition among employees. Multinationals also experience the ultimate irony: Due to high cost of hiring and retraining, they may not be able to reap the cost savings that led them to India in the first place (Doh et al., 2008). As economies develop and there is more choice of employment, organizations will find it increasingly challenging to attract and retain talent. This increases the importance of employees becoming brand ambassadors thus, making employee engagement an essential tool in managing their human capital (Cook, 2008).

![Diagram of negative impacts of attrition on an organization]

**Fig. 1.1:** The negative impacts of employee attrition on any organization.

The issue of employee attrition has been found to be making huge economic impact on any organization (Godard and John, 2000). The average costs of replacing today’s defecting work force are gnawing away the profitability of even the healthiest organizations. Attracting and retaining the preeminent professionals is strenuous and difficult regardless of industry segment we mull over. Earlier, keeping the best talent was easy when few companies were hiring and employees felt stuck at their jobs. But at present, retaining the cream of the employee crop by resolving conflict is a struggle for
many managers. Conflict arises due to difference between what one wants to become and what he is being. When layoffs are frequent and retirement pensions are pretty much non-existent, employees feel less loyal to their companies than they did in previous decades, and are keen to leap the craft if they find superior compensate or better prospects in another place.

In a predominantly manpower intensive IT industry, issues of the manpower availability, its cost, turnover and productivity are of vital concern. A major proportion of the turnover issue is attributed to exodus of manpower to the ostensible and opportunities. The average stay of a software consultant in any given IT company is not more than two years which has further dropped down to one year.

One of the areas of business organization that is affected by the internationalization of business is the area of human resource management (HRM). Because business has become internationalized, the process and factors that make up the HRM concept have also become global. The issue of employee turnover has been found to be making huge economic impact on organizations. The average costs of replacing today's defecting work force are eating away the profitability of even the healthiest organizations. HR managers in India are realizing that employee retention is a Herculean task for the IT industry, even for big players. In such a setting, when companies are combating global business competition, and struggling to survive, employee turnover comes as a double blow. The scenario is becoming worse as companies are facing “double-edged sword—to recruit and to retain talent”.

The present skill-crisis has caused a panic in employment market, with skilled professionals being poached or choosing to change jobs. The attrition rate in industry is at an all-time high. This trend is likely to continue and even accelerate as more companies suffer erosion while business demands continue to escalate. Human resource department must therefore ensure that they do not fall fowl to the talent-war by ensuring, that their talent does not run out the door and go knocking on the next. Companies that can recruit best talent and retain them will have an edge in long run. An in-depth comparative and comprehensive study to identify critical factors causing high employee attrition in the Indian IT sector is the need of the hour. This study is an earnest attempt to make a detailed analysis of the above issue.
1.7 SCOPE AND SIGNIFICANCE OF THE STUDY

India is at the forefront among rapidly evolving global IT market and is well established as a ‘destination of choice’ (Chiamsiri et al., 2005). In order to implement a successful business strategy to face global challenges, IT organizations must ensure that they have the right people capable of delivering the strategy for a long run. This research is designed to study the nature, state and factors affecting high employee attrition in IT companies in India. The study also focuses on the role of conflict management in attrition; suggesting remedial measures to address this issue. This study will be helpful to the management of IT companies in India in tackling employee attrition problem. Also the study will enable the readers, researchers and practitioners (HR- managers/ leaders) to have a professional approach in addressing the critical issue of employee attrition.

1.8 HYPOTHESIS

There is significant difference among the IT organization’s areas in the average scores of lack of integration and goal setting, motivation and appreciation, work atmosphere, labour welfare and corporate governance, maximum number of hours worked, dissatisfaction with rewards and hikes as well as salary and perks, human resource management practices, food and relaxation, lack of transportation and talent scores, work and family conflict scores, work from home scores and lack of work ethics scores. All these differences lead to employee attrition in IT organizations in India. The following hypotheses have formulated for the present study:

- Employee attrition increases costs of recruitment and training replacement.
- Employee attrition reduces production, and profit.
- Working environment is positively correlated to employee’s retention.

1.9 AIM OF THE STUDY

The boom in the information technology revolution has been rising during the recent past and is expected to go on for many years to come. Attracting the best professionals is never easy, no matter what industry segment we consider. This is especially true in the case of the IT industry where the attrition rate has been the highest. Attracting and retaining talent has become a Herculean task in this sector. This study aims to find out the major causes of employee attrition in the IT companies. Further the study endeavours to offer several recommendations for maximizing retention of employees.
conjoining it with other aspects of conflict management interventions and surface with concrete recommendations, which will eventually be valuable to the organizations to retain their employees for a long term.

1.10 OBJECTIVES OF THE STUDY

The specific objectives of this study are:

- To study the variation in factors causing high employee attrition among different areas of IT organizations.
- To study the variation in factors causing high employee attrition among respondent’s age groups.
- To study the relationship between maximum number of hours worked and the employee attrition.
- To study the difference among the designation groups towards employee attrition.
- To study the nature and state of employee attrition in selected IT organizations.
- To identify the critical and non-critical factors causing employee attrition in selected IT organizations.
- To study the reasons for stress and rank them in the organization’s work environment.
- To explore and analyze the nexus of conflict management with employee’s retention and attrition in IT organizations based on data collected from survey.
- To identify the factors favouring retention.
- To explore innovative methods adopted by IT organizations to retain people.
- To study the constraints faced by IT organizations in implementation of retention strategies.
- To offer recommendations for escalating the stay of employees in IT organizations.
- To assess the existing level of employee’s conflict resolution strategies and offer recommendations on a small patch.
- To recommend innovative conflict resolution strategies and its effectiveness in reducing employee attrition in IT organizations.