INTRODUCTION
Chapter 1

Introduction

The escalating technological changes in the twenty first century have been associated with ever shifting life styles and livelihood of the people throughout the world. These spectacular technological changes are the outcome of human intellectual capability, often termed as human capital. Hence, intellectual capital has become the obvious concern of this century which in turn diffused to develop hypercompetitive market rivalries in the present world markets. Pfeffer (1994) argued that the success in the present dynamic, competitive markets depends more on innovation, speed and adaptability which are largely derived from a firm’s own employees and the way they are managed. With similar kind of arguments various scholars (Wernerfelt, 1984; Levine, 1995; Lawler, 1996; Grant, 1996; O’Reilly and Pfeffer, 2000; Becker, 1975) advocated that in order to gain competitive advantage, the firms need to adopt management practices with high involvement of human resources. These arguments are the genesis for the development of today’s Strategic Human Resource Management (SHRM).

Human resources are considered as intangible capital (Leslie, 2003) with distinctive functional capabilities that control and augment both physical capital and other resources. The strategic literature has focused heavily on the role of firm-level resources as a source of rent (Barney, 1986; Amit & Schoemaker, 1993; Peteraf, 1993). According to Porter (1980, 1996), firm may acquire and or develop capabilities for their
advantages over rivals and these capabilities must be embedded in a unique strategic position. He argued that capabilities are valuable because they give the firm a lower cost structure or a basis of differentiation. The structural contingency theory and transaction cost economics posit that organisational form follow specific attributes of the technology or production system. If a firm is able to identify and adopt an efficient form, it might enjoy a cost advantage and the differentiation advantage arises accordingly. Nevertheless, the knowledge management plays important part in organisation’s rent generation, i.e. if a firm can deploy knowledge resources more efficiently and effectively than its rivals, it may achieve a substantial advantage (Coff, 2003). The presumption of bounded rationality (i.e. there is a limit on managerial cognitive ability) is at the core of the knowledge management literature. The portion of economics that intersects with strategic management (e.g. transaction cost economics, agency theory and human capital theory) has also assumed bounded rationality. Even game theoretic analyses explore issues of imperfect and asymmetric information. Therefore, from an economic point of view, competitive advantages arise from management’s ability to: (i) make competitive moves that rivals cannot respond to effectively, (ii) acquire and manage human capital in imperfect markets, (iii) design the most efficient production process and (iv) develop technologies that position the firm well in the competitive market environment.

In practice, firms generally set up their respective Human Resource (HR) division to promote, protect and utilise their human resources. But, the major constraint facing the firms is the frequent, unplanned and uncertain departure of these human resources, i.e. the problem of employee turnover or employee attrition (though these two terminologies
are synonymously used but conceptually they are different, see conceptual framework in chapter-5). Employee turnover may be defined as any permanent departure beyond organisational boundaries (Macy and Mirvis, 1983). This employee turnover is regarded as cost to the organisation and this cost becomes higher when efficient and skilled employees leave the organisation.

However, one should bear in mind that every rational employee will always try to optimise his/ her professional career subject to their capability and functional domain. As a result, pursuit of professional advancement can be considered as employees' chief or sole aim. An employee’s success in career is primarily judged in terms of salary, professional position and the brand name of the organisation where the employee works. Therefore, managing human resources posits two types of challenges – retaining efficient and skilled employees, i.e. to minimize employees’ departures at the cost of organisation’s competitive strength and at the same time proper utilisation of the existing human resources. Organisational effectiveness to a large extent depends on the capabilities of its employees, especially of its top executives. In the field of strategic management (or competitive strategy) top managers have traditionally been viewed as making positive contribution to the firm (Andrews, 1987; Katz, 1974). Here, economics can also be integrated with the more traditional and favourable strategic management approach to top executives. This is because, the managerial rents model of Castanias and Helfet (1991, 1992) draws on human capital theory (Becker, 1964), and analyses top management as a critical resource that may create positive value for the firm.
Academically, different schools have discussed employee turnover from various perspectives and have identified various causes thereof. There are two types of employee turnover - voluntary (Mowday et al., 1982; Gupta & Jenkins, 1991; Saiyadain & Ahmad, 1997) and involuntary (Shaw et al., 1998). Employees’ voluntary turnover depends on the demand for their intellectual capital in the market and the availability of alternative job opportunities in the market. So, the rate of employees’ voluntary turnover varies significantly across different sectors of an economy. On the other hand, involuntary turnover occurs due to employees’ retirement, termination, business diversification of an organisation etc. However, most of the researchers’ attention is focused on voluntary employee turnover since much of the turnover is voluntary and subject to control by managers (Morrell et al., 2001; Price, 2001). Organisations are increasingly concerned about retaining their key employees, for example, high performer employees as well as employees who make an important contribution to stimulate organisation’s innovative behaviour. High employee turnover would always be harmful to an organisation’s productivity if these skilled employees leave organisations frequently (Long et al., 2012).

During the last few decades, scholars from different disciplines have been trying to identify the causal factors behind employees’ voluntary turnover and bring forth various models, theories and vast empirical case studies on employee turnover. These researches have provided great academic excellence and enriched the turnover literature. Most of the turnover models established that job satisfaction plays a key role in the turnover process. Organisational psychologists developed various approaches such as job characteristics approach, social information processing approach and dispositional
approach to establish theoretically the influence of employees’ level of job satisfaction on other important outcomes (such as job performance, absenteeism and employee turnover). In this regard, Lee and Mitchell (1994) argued that the employee turnover process models are useful but they have ignored some basic properties of human decision making processes. They developed an *Unfolding Model* of the turnover process and argued that some kind of ‘shocks’ in the system are responsible for making employees to evaluate their job or job situation. Job offered by other organisations may even be considered as a ‘shock’ to the system and it forces the employee to think consciously about his or her job situation and compare it to the outside job offer. In such a situation it is also possible that the employee may be reasonably happy in his or her job but ultimately leave organisation simply because the offered job is a better one. It is argued that once an employee is dissatisfied, a sequence of events may occur such as reduced organisational commitment, more job search, stronger intention to quit and a higher probability of employee turnover (Lee and Mitchell, 1994; Mobley, 1977). Later Mitchell *et al.* (2001) developed *Job Embeddedness* employee turnover model combining forces that keep a person from changing his or her employer. From individual level decision making point of view, various studies tried to explain employees’ turnover intent. In fact, constructs have been developed, like, *optimal turnover* (when poorly performing employees decide to leave an organisation) and *dysfunctional turnover* (can be viewed in various ways like extremely high rates of turnover translate into increased costs associated with constantly having to recruit and train new employees and also may tarnish the image of the organisation). In addition to psychological theories, there are economic theories (e.g. *human capital theory*, *search theory*, *matching theory*) and social
theories (social exchange theory) which appeared to be very much pertinent to explain the employee turnover phenomenon.

Innumerable studies have examined the causal factors determining employee turnover. Various empirical results suggested that job satisfaction and organisational commitment have consistent and negative relationships with turnover (Jaros, 1997). In this regard, Irving et al. (1997) introduced a new attitude constructs to provide a new measure of occupational commitment whereas Shore and Tetrick (1991) developed a different measure of perceived organisational support. It is argued that justice perception (Aquino et al., 1997) and burnout (Wright and Cropanzano, 1998) influence attitudes and that in turn affect employee turnover. In fact, the traditional attitude measure suggested that negative attitudes combined with job search predict employees’ leaving an organisation (Blau, 1993). Whether a job search is successful or not depends partly on the job market situation. It is also argued (Gerhart, 1990) that perception of job market (in terms of job opportunities) predicted turnover but that search is not of much importance. It is worthy to be mentioned here that a number of researches have attempted to break traditional attitudes and develop alternative models [namely, Hulin’s (1991) work on general withdrawal construct, Mitchell et al.’s (2001) job embeddedness model, Lee and Mitchell’s (1994) unfolding model]. Studies also reported evidences like work overload, role ambiguity, role conflict and job stress in determining turnover decisions (Bostrom, 1981; Goldstein and Rockart, 1984; Ivancevich et al., 1983; Li and Shani, 1991; Sethi et al., 1999; Weiss, 1983).
other scholars have observed the demographic constitution of an individual that
influences several important behavioural pattern (job tenure, communication with the
firm, job transfer, promotion and turnover) of the employees. Both ‘age’ and ‘job tenure’
of employees are appeared to be important influential factors in determining voluntary
employee turnover (Bluedorn, 1982; Price and Mueller, 1986) and are found to be
negatively related with turnover (Cotton and Tuttle, 1986; Griffeth et al., 2000). In fact,
employee turnover is more prevalent among younger employees with lesser tenure. One
of the explanations of younger employees’ frequent change of organisations is that they
are in a transitional phase in their career path and the vast majority of them try to explore
the various career options available. Studies have also carried out to establish relationship
between gender and turnover and it has appeared that Mangione’s (1973) study found no
significant relationship; Stumpf and Dawley’s (1981) study found that men were more
likely to quit job but Hom & Griffeth’s (1995) and Cotton & Tuttle’s (1986) studies
found that women are more likely to leave the organisation than men.

Most of the employee turnover studies are typically focused on employees,
leaving from rather than entering in to the organisation. A wide range of causes behind
employee turnover have been identified which interpret that a high amount of voluntary
turnover adversely effects organisational effectiveness. However, employee turnover may
not always adversely effects organisational effectiveness because it allows infiltration of
new skills, ideas and new technological knowhow into the organisation and all of these
have positive effects on organisational efficiency. Dalton et al., (1981) have shown that
employee turnover can also be beneficial for an organisation because functional employee turnover would be the replacement of unproductive employees with productive ones, whereas organisation’s dysfunctional employee turnover would be interpreted as loosing productive employees.

It is not surprising that the cost of employee turnover in terms of hiring, training, and productivity loss and can add up to more than five per cent of an organisation’s operating expenses (Waldman et al., 2004). Holtom et al., (2006) argued that employee turnover results in multiple direct and indirect costs, tangible and intangible costs, and a loss of social capital which may be critical to organisational success. Considering the broader employee turnover literature, there have been many research articles exploring the various aspects of turnover and several models of employee turnover have been disseminated. In addition, several meta-analyses have been conducted focusing on the predictors or antecedents of turnover (Cotton and Tuttle, 1986; Griffeth and Hom, 2001). Researchers have modeled numerous situational and individual determinants of the process of turnover (Lee & Mitchell, 1994; Niederman et al., 2007). Despite enormous research interest many models and empirical studies have tended to focus on a narrow range of predictors, traceable to March and Simon’s (1958) ‘factors-desirability’ and ‘ease of movement’. The scope of antecedents to employees voluntary leaving an organisation has recently been expanded (Maertz and Griffeth, 2004; Mitchell et al., 2001) in the mode of studying antecedents as reason rather than as attitudinal predictors (Westaby, 2005).
The present study is focused on turnover of IT/ITeS (Information Technology/Information Technology enabled Services) employees since voluntary employee turnover has long been an important issue for the workforce of information technology firms. In fact, technology based firms are facing a series of problems with employee retention (Aylin and Webber, 2000) such that many technical employees plan to leave their job after 12 months, when the time is up, they often quit, confident that they can find something else whenever they want (Mitchell et al., 2001). Boyar et al. (2012) reported that the competition for highly trained IT employees will likely impact employee mobility and increase the opportunity to change jobs within India and globally. It has been observed by Mohandas (2010) that about 80 percent of Indian employees are open to switching jobs in the six months. Therefore, it becomes essential for the organisation to understand the reasons why employees leave their organisations. Keeping all these things in mind, the present study deals with the aspect of voluntary employee turnover with specific reference to India’s IT sector.

India witnessed a dramatic change in its IT / ITeS industry since 1984. Though some IT firms like TCS was established way back in late 1960’s. During 1970’s the IT industry in India did not develop properly and effectively due to the then government’s import restrictions and strict foreign exchange and regulation act which actually put limits on import of computer peripherals and its allocation. In the mid of 1990’s major policy reforms were made to recognize software as an industry to invest and the announcement of CSDT (Computer Software Data Tapes) policy which liberalised
exposure to the latest technologies to compete globally and to capture a global software exports and that was the notable turning point in the Indian software and IT industries. The liberalization policy in 1991 gave a further boost to the IT industry in India. In recent decades the Indian IT industry has attracted substantial attention from the international media and business interests for its high potential, high quality and cost effective manpower resources (Zachariah and Roopa, 2012). Competition among organisations to attract and retain potential workforce prevail as there is acute shortage of skilled IT professionals in response to demand and as a result job-hopping becomes common phenomenon among IT professionals, which is a costly affair for the organisation (Fitz- enz, 1997). Therefore, it becomes necessary to design effective employee retention strategies in the IT industry, to control its employee turnover. For designing effective employee retention strategies companies need to know the reasons behind the employees’ turnover intention and this is the rationale of the present study.

Although employee turnover involves costs to an organisation but the cost aspect is beyond the scope of this study. The present study is solely confined to identify the nature and extent of some plausible causal factors of employee turnover and is an endeavour to ascertain the underlying reasons for the Indian Information Technology (IT) employees to leave a firm voluntarily. According to Fred (1957), human behaviour is controlled by an interlocking system of nonlinear feedback loops and it is far beyond present day resources to take full and accurate account of all the feedback effects that occur in human society. However, the present study envisages that employees’ attitudes towards life and work are guided by their
surrounding socio-cultural and economic environments and making an endeavour to study under Indian environment. In this regard the study mainly concentrated on six plausible factors [e.g. for ‘Higher Salary’, ‘Higher Portfolio’, ‘Scope of Foreign Assignment’, ‘Higher Company-Brand-Name’, ‘Breach of Commitment’ and ‘Others’ (which includes employee’s job dissatisfaction, familial compulsion and the other similar factors)] which may have influenced the Indian IT professionals to leave their jobs voluntarily. The study is based on primary survey which examines relative factors dominance across gender and age-groups which may drive them to leave the firm.

We have tried to present the entire study in the following next nine chapters. Since the study is on employee turnover in the IT sector, we start with the overview of global and Indian Information Technology (IT) Industry scenario in chapter-2. Following this, chapter-3 deals with existing background theories related to employee turnover. The survey of literature is presented in chapter-4. In chapter-5, a conceptual framework is developed; chapter-6 contains the objective of the study and chapter-7 deals with data and methodology. Chapter-8 contains empirical findings and discussion and that follows to our theoretical framework and employee turnover model which is presented in chapter-9 and that leads to the concluding remarks and policy recommendations, which is presented in chapter-10.