CHAPTER 1

INTRODUCTION

1.1 BACKGROUND

Globalisation as a concept has been around for few decades now and synonymous to the phenomenon of acceleration. However, what makes the discussion current is the shift in the epicenter of globalization activity from US and European organisations to Indian organisation and their Asian counterparts. Over the past few decades, the Indian industry and economy have witnessed sweeping changes, thanks to globalization and technology boom. Increased globalization, substantial advancement in technology and the falling trade barriers has resulted in considerable change in the way business organizes and competes in the global market.

Information Technology (IT) is a driving factor in the process of globalization and IT has been the catalyst for global integration and India has become the centre of the global IT industry. The globalization of the information economy started as a result of the lack of manpower in the western companies and Indian diaspora played a significant role with its abundant, high quality and cost effective services and its vast resource of skilled human power resulting to an attractive destination for global software clients, because of which India has gained a brand identity as a knowledge economy.

1.2 OVERVIEW OF INDIAN INFORMATION TECHNOLOGY (IT) INDUSTRY

India stands tall today amid the global contemporaries in the IT market. Over the past decade, the Indian IT & ITeS sector has become the country's premier growth engine and its name having become tantamount with expertise in this discipline. The Indian IT industry is making great strides internationally and crossing significant milestones in terms of revenue growth, employment generation and value creation, in addition to becoming the global brand ambassador for India and putting India on the global map

The key factor for IT & ITeS success is because India's enhanced reputation and credibility in software sector. From a base of 6,800 software professionals in 1985-86, the number is expected to reach nearly 10 million for FY 2020 according to NASSCOM Report (2013), the prime reason for the burgeoning growth of the IT & ITeS sector. With 52 per cent market share, India continues to be a leader in the global sourcing industry and remains a very attractive destination for IT & ITeS in the world since it enjoys competitive advantage in terms of cost savings of 60-70 per cent over source countries and knowledge expertise in different domains.

Indian software companies are increasingly providing sophisticated solutions and attracting new markets for export of software services and IT enables services. A World Bank funded study has confirmed that foreign vendors rated India as their top choice for software outsourcing. The list of these vendor companies includes the likes of Siemens, Suzuki, Coke, HSBC, Citibank, Airbus and many more illustrious companies, catering in areas like cloud computing, telecom software, mobile internet, embedded software and software engineering among others.

The Indian IT-ITeS sector including the domestic and exports segments continue to gain strength, experiencing high levels of activity both onshore as well as offshore. The year 2010 has been a comeback year for the Indian IT/ITeS sectors which saw the industry move beyond the economic slowdown and shift its focus on building revenues, creating innovative service models, broadening geographical reach and optimizing cost. The financial year 2012 was a landmark year for IT & ITeS sector with aggregate revenue crossing US$100 billion and as a proportion of national GDP, the sector revenues have grown from 1.2 per cent in FY1998 to an estimated 7.5 per cent in FY2012. The market size of IT industry in India is presented in Figure1.1

Source: NASSCOM Report (2013)

Figure 1.1 Market Size of IT Industry in India (USD billion)

In terms of revenue contribution the top six firms contribute around 36 per cent of the total industry revenue, indicating the market is fairly competitive. The market share of IT player based on revenue of 2012 is TCS 10.7 per cent, Wipro 7.2 per cent, Cognizant 6.8 per cent, Infosys 6.3 per cent, HCL Tech 4.2 per cent and Tech Mahindra 1.1 per cent.

The Indian IT & ITeS industry is categorized into four broad segments i.e., IT Services, Software products and engineering services, IT enabled services (ITeS-BPO) and Hardware segment. These segments generated combined revenues of over $108 billion during FY13. The revenue from IT services constitutes about 54 per cent of the total industry revenues and the segment wise market share is shown in Figure1.2.

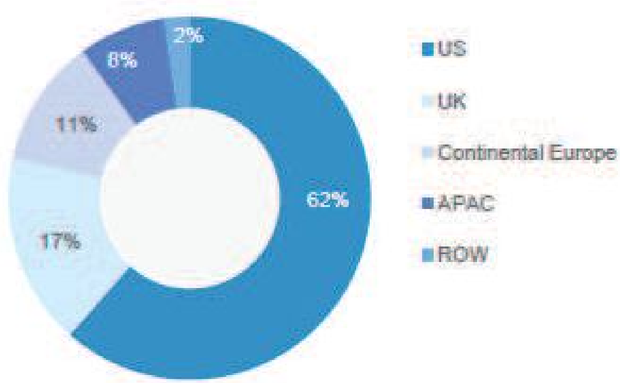
IT & ITeS Sector		
	IT Services	• Market size: USD56.3 billion during FY13 • Over 78 per cent of revenue comes from the export market • BFSI continues as the major vertical of the IT sector
	Business Process Management (BPM)	• Market size: USD20.9 billion during FY13 • Over 85 per cent of revenue comes from the export market
	Software products and engineering	• Market size: USD17.9 billion during FY13 • Over 79 per cent of revenue comes from exports
	Hardware	• Market size: USD13.3 billion during FY13 • The domestic market accounts for a significant share • The domestic market is experiencing growth as the penetration of personal computers is rising in India

Source: NASSCOM Report (2013)

Figure 1.2 Segments of India's IT Sector

With a Compounded Annual Growth Rate (CAGR) of over 24 per cent in the last decade, the Indian IT/ITeS industry has emerged as a key growth engine for the economy catering to different sectors like Banking, Financial Service and Insurance (BFSI), telecom and media, manufacturing, retail, healthcare, travel and tourism, construction and utilities. Mirroring the export market, the BFSI has been a dominant contributor for IT-BPM. It generated export revenue of around US$31 billion during FY13, accounting for 41.0 per cent of total IT-BPM industry exports from India, and approximately 85 per cent of total IT-BPM exports from India across four sectors: BFSI, telecom, manufacturing and retail and with over 60 per cent share.

And in terms of key market, US still accounts for a lion's share of the business generating around 62 per cent of India's export revenues. Non US, UK countries accounted for just 21 per cent of total Indian IT-BPM exports during FY12. The geographical breakup of the distribution of export revenue is presented in Figure 1.3



Source: NASSCOM Report (2013), Note:ROW: Rest of World, APAC:Asia Pacific

Figure 1.3 Distribution of Export Revenue Across Geographies (FY13)

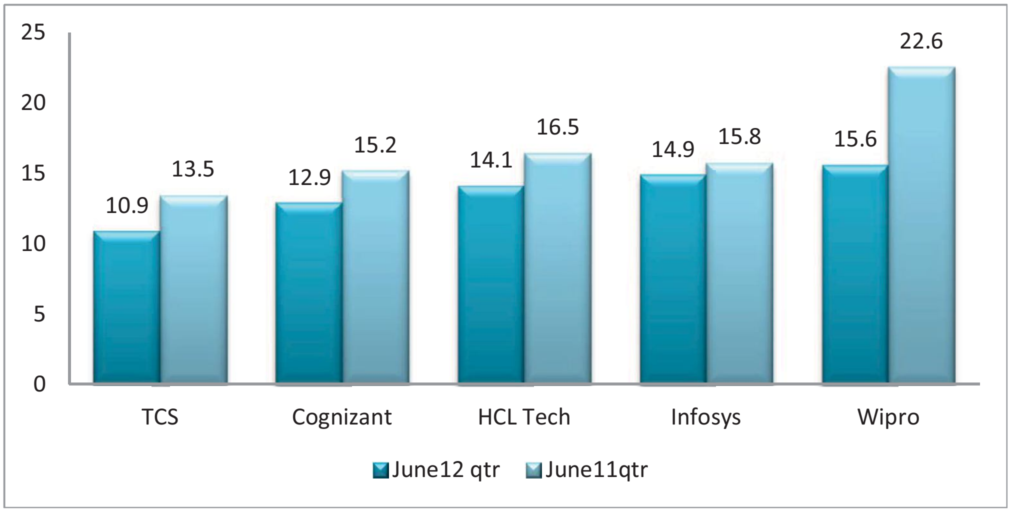
India's people advantage has been one of the prime reasons for the promising growth of the IT/ITeS sector. Often termed as intellectual capital, people have been the main drivers and value creators. Gone are the days when IT/ITeS industry attracted the best of minds. With all the other sectors moving on a high growth trajectory, the talent war is increasing and the IT/ITeS sector is witnessing huge employee attrition.

Time and again the importance of human capital management and lowering the attrition has caught the fancy of researchers. Lowering the attrition is a very challenging task for most of the companies and particularly for service industries like IT/Software, which is employee centric industry and where high quality human capital are critical for sustainable business operations and growth trajectory of the company.

Employee Attrition simply means "A reduction in the number of employees through retirement, resignation or death." Attrition can be conceptualized in many forms, employees leaving and employees retiring from an organisation. According to the Worldwide Survey by Global Human Resource and Management Consultancy (2013) in association with the Centre for Economics and Business Research Institute reported that in 2014 the Asia-Pacific will experience its largest spike in employee turnover (job switch) levels this year, and organisations in the region will experience the highest increase in turnover rates worldwide. India is expected to lead the region in turnover rates at 26.9 per cent (in the organized sector) in 2013-14 the highest attrition rate globally; this figure is expected to go up further in 2014-15 to stand at 27.5 per cent. To further state the problem of attrition, according to a survey done by Mafoi Randstand in the year (2012), Indian workforce ranked top in job hopping among the employees of 25 countries surveyed across the globe and specifically in India the attrition rate in all the sectors has been hovering around double digits. It is the highest in the IT/ITeS sector at 31 per cent, followed by telecom (26 per cent), banking and financial services (23 per cent), aviation and hospitality (22 per cent), real estate (15 per cent), FMCG (21 per cent), automobile and manufacturing (19 per cent).

Employee turnover is predicted to rise to 26.9 per cent in 2013 with an employee base of Rs 3 crore as compared to 26 per cent in 2010 on an employee base of Rs 2.8 crore, according to the study, 'Preparing for Take-Off', conducted in association with the Centre for Economics and Business Research. It covered 700 million employees in 19 countries. Worldwide, attrition is predicted at 21.2 per cent in 2013 on an employee base of Rs 71.6 crore compared with 20.3 per cent in 2010 on an employee base of Rs 64.4 crore. The number of workers expected to take flight will reach Rs 161.7 million in 2014 - 12.9 per cent increase compared with 2012 - as growth builds and employment opportunities increase, according to the study. Comparatively, turnover was minimal between 2010 and 2012. In the next five years, 49 million employees will leave their employers globally according to The Economic Times report (2013).

Attrition has always been a sensitive issue with IT firms and turnover of highly skilled employees can be very expensive and disruptive for firms and if you talk to any Manager in the IT industry on what is the biggest challenge he would face in a project, the answer will be not technology, not schedule, not cost, it will be more often than not the resources and the attrition that comes along. The company wise attrition rate in some of the MNCs in Indian IT industry is presented in Figure1.4



**Source: Company website and Annual Report*

Figure 1.4 Employee Attrition Number (in percentage)

Adding to the challenge of high attrition over the past two decades, levels of world trade have steadily being increasing and in response, organizations are either maximizing international opportunities or are forced to internationalize in order to survive. The growing internationalization of business has resulted in large scale global movement of employees, for periods ranging from a few months to a few years. Organizations use international assignments and expatriation to fill positions, to develop business, and to develop people for future leadership positions. Research has found that these assignments create a "global mindset," and this is often prerequisite for leadership positions in large multinational enterprises.

According to Brookfield Global Relocation Trends Report (2010), almost half (47 per cent) of the 118 companies surveyed employed over 100 expatriates, with 20 per cent having more than 500 expatriates. Sixty-one per cent of these companies expected the number of international assignees to further increase in (2011), indicating the extensive experience MNCs have in managing international assignments, yet they face problem with repatriation (employees returning home after completion of their international assignment) and that these problems are not always taken seriously, because of which many have hit the exit button and many are planning/intending to leave the organisation in the near future, this despite the fact that they are loaded with better compensation package.

1.3 NEED FOR THE STUDY

MNCs have recognized the need for global leaders for operating successfully outside the domestic market and to this end companies are investing large amount of resources on development and building a pool of global leaders to leverage on the employees' skills and experience acquired overseas (Tung 1998). However, it's often found that such global leaders are very mobile and retaining them is a great challenge facing organizations today. In this regard the well-known global financial advisor, ERNST & YOUNG, has said,

"Managing human capital can no longer be treated as 'soft', unquantifiable, and peripheral to business success. Successful leaders are now focused on the real financial value realized by proper people management. Your people provide a major opportunity for competitive advantage and often represent one of the most significant investments. Yet, we must better understand and manage the Risk of Global HR, Benefit, and Global Mobility Programs. Controlling expense is an important component in achieving your business objectives; for example, an additional budget unit spent on training will often reap rewards many times over, while cuts to a little-used benefit may have no impact on employee morale".

1.4 RESEARCH PROBLEM

Operating in the knowledge-based economy, the scenario today looks quite complex for Indian IT companies, on one hand with increasing global footprint the international mobility of Indian employees has increased manifold and have given rise to mammoth opportunities for international exposure for today's global workforce and on the other hand, organizational loyalty is reported to be in decline as turnover rates increase, average job tenure falls and employees go "job shopping", more so among returning employees after their international assignment. Under these recent developments employee turnover has been viewed as an important organizational problem.

Research has shown that repatriates returning to parent companies are more likely to resign and seek employment elsewhere than managers who have worked 'domestically'. According to Brookfield Global Relocation Trends Report (2011), of the 118 companies participating in the Trends Report, 28 per cent of repatriates quit their organization within one year of returning from their assignments, and the 15-year historical average indicates 22 per cent of repatriates quit their organization within one year of returning from their assignment compared with an average annual employee turnover rate of 8 per cent in these same 118 companies. This indicates that MNCs are losing a significant portion of their international human resource capital. Also significant was the fact is that these numbers will increase further if the market conditions are better and to substantiate it 79 per cent felt the market demand for their international skills was high, and they would be able to locate a job with another company.

In addition to loss of human resource it is further estimated that most companies spend between US$300,000 and US$1,000,000 annually on an individual on foreign assignment and in addition if the employee leaves the organization the cost of replacing the employee is almost 29 per cent (non-management) to 46 per cent (management) of the person's annual salary according to study done by Selmer (2001). Moreover the loss of internationally proficient employee often causes loss of critical business contacts and relationships, opportunities and non-measurable losses like damaged corporate reputation. By leaving, a repatriating employee not only causes the home organization a financial setback, but also forces the company to lose the employee's recently developed international competence and experience (Hyder & Lovblad 2007). Hence it is very critical for companies to facilitate smooth transition of the expatriate after the assignment to enhance the returning employees stay in the organisation. However in reality, things are very different since repatriation's focus is on re-entry into a familiar home country; therefore, the repatriation process is often assumed to require much less HR attention than expatriation and often do not receive help with the readjustment process. It is often believed that returning to home country after completing an international assignment in a foreign country should be an "easy and straight forward process". Many of the returning employees often think that "You are back home; how hard could the adjustment be?" Many HR personnel, executives, researchers, and even expatriates themselves assume that everything will return to normal as soon as the employees return home, however, the reality may be very different forcing the employees to leave the organisation. (Adler 1981, Stroh et al 1998). To quote a study conducted by the Business International Corporation:

"Repatriating executives from global assignments is a top management challenge that goes far beyond the superficial problems and costs of physical relocation. The assumption is that since these individuals are returning home they should have no trouble adapting. However, experience has shown that repatriation is anything but simple".

Hence, considering the criticality of mobile employees and seeing repatriates as a resource it is vitally important to put attention on the strategic importance of human resource with international experience and develop assignment policies that are in line with competitive practices while effectively supporting both business needs and the expectations of assignees so that companies can effectively attract and retain the top talent available both in domestic and international market.

1.5 OPERATIONAL DEFINITION

1.5.1 Overseas Assignment

Work assignments of at least one month to several years where the employee is working a country other than his/her homeland. Other terms used interchangeably are foreign assignment and international assignment (Whitman 1999).

1.5.2 Expatriate

The term expatriate has been used to describe an employee of an organization who is sent overseas to complete a job that is in a country other than their home country (Stahl et al 2009).

1.5.3 Repatriate

The term repatriate refers to an individual returning from a foreign assignment. It is defined as employees who return from their assignments and continue with the organization (Stahl et al 2009).

1.5.4 Repatriates Adjustment

Repatriates Adjustment is the reintegration of an individual to the home culture after living in a foreign culture. In this study, repatriate adjustment is defined as the ability of the repatriate to adapt or conform to his/her living and working environment (Whitman 1999).

1.5.5 Repatriates Job Satisfaction

Job Satisfaction is defined as an individual's total feeling about their job and the attitudes they have towards various aspects or facets of their job, as well as an attitude and perception that could consequently influence the degree of fit between the individual and the organization (Ivancevich & Matteson 2002).

1.5.6 Repatriates Organizational Commitment

Organizational Commitment is a psychological stabilization or helpful force that binds individuals to courses of action relevant to the organization (Carriere & Bourque 2009).

1.5.7 Turnover Intentions

Turnover Intention is defined as conscious willfulness to seek other alternative job opportunities in other organizations (Tett & Meyer 1993). It is important to acknowledge that turnover can be both voluntary and involuntary. Voluntary turnover occurs when employees themselves decide to quit; involuntary turnover occurs when employees are fired by the organization for some reason. Our attention in this research is focused primarily on reducing voluntary turnover-keeping the employees that the organization wants to keep.

1.6 CONCLUSION

As employees international mobility has increased, so also the complexity of managing the mobile workforce. Research studies on employees returning to the home country have shown that returning employees are more likely to resign and seek employment elsewhere and this has become a significant human resource (HR) issue more so in IT industry, where high quality knowledge workers directly influences the growth trajectory of the company. In this regard it is important to know what factors influences repatriate's intent to stay in the organization and bring forward a workable and practical solution for retaining employees so as to maximize the return on investment.