



# Holding On

A Study into Retention and  
Attrition in Indian ITES Companies

September 2005



## Retention and Attrition:

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## Introduction and Acknowledgements

India is considered to be one of the world's largest emerging economies - the World Bank forecasts that India could become the world's 4<sup>th</sup> largest economy by 2020. It is a young, vigorous country - 60 per cent of its population is under 32, it has an emerging, increasingly affluent middle class of 300 million and its GDP increased 8.2 per cent in 2004, with seven per cent expected during 2005. As a result, it is a prime target for international investment (Forbes, 25 July 2005).

Liberalisation of the Indian economy and extra competition from overseas firms is putting pressure on the HR function of Indian domestic companies to prepare and develop employees.

Nowhere is this more vital than in IT and ITES industries. Despite the fact that India has the largest pool of scientific and technical personnel in the world, NASSCOM predicts a need for 1.1 million employees for the industry by 2008. With the additional requirement for excellent English language skills, this requirement is seen by many to be more and more unattainable.

The prize for developing sufficient employees with the right skills is significant. The potential for growth is enormous - India's share in global software and services industry is a mere 3 per cent. The McKinsey Global Institute estimates that about 1.5 million jobs were outsourced by rich countries to the developing world by the end of 2003. This is only a fraction of the 160 million potential jobs that could be done by people anywhere in the world, and is an indication that the global economy is genuinely borderless, where place is being replaced by information flow and where distance is irrelevant (The Emerging Global Labour Market, June 2005). Other estimates from McKinsey indicate that 4.5 million IT jobs will come from the US by 2008, and other sources estimate the number of jobs in the sector at 15 million by 2015.

But, as was noted by several of our respondents, the endowment of skilled labour has to be supported by efficient market mechanisms, government policies and technological education support such as universities and research institutions. These are necessary not only for producing job applicants with the right levels of skills, but also if the increasing level of partnership between overseas firms and Indian companies is to be maintained.

The launch of the Knowledge Commission (August 2005) recognises the need to develop bold proposals to improve excellence in research and teaching in science and technology. It has been acknowledged, even by government officials, that India's universities are falling behind the rest of the world and that action is needed to increase India's knowledge base.

In the here and now however, Indian HR needs to cope with the challenges and opportunities provided by liberalisation, explosive growth and demand, as well as the increasing competition from other developing economies. The retention of key and valued employees heads the list of tasks.

The success of many of the fastest growing Indian organisations results from their ability to produce a quality service, cheaply. If the primary basis for outsourcing for foreign companies is cost reduction – principally through lower employee costs – Indian companies will not be able to buy the long term loyalty of their people by indulging in spiralling wage bills.

This qualitative report looks at the measures being taken by HR directors in IT and ITES firms in India to increase the retention of their staff, reduce attrition and therefore the time, effort and money required to replace employees.

We are grateful to all those who participated in the research and who gave their time from sometimes impossibly busy schedules to be interviewed, or in the case of one organisation, spared time to return a call during the floods in Mumbai. We were also assisted in making contact with additional potential participants through the informal HR professional networks. We are grateful to Mr Pramod Fernandez for his support in this.

The research project itself was the brain-child of Manohar Suresh, associate consultant at fe<sub>3</sub> consulting. His drive and persistence in conducting the greater part of the interviews and initial analysis were outstanding. The bulk of the final analysis and reporting was completed by Karen Drury, founding partner of fe<sub>3</sub> consulting.

## **A brief background to the ITES/BPO sector in India**

According to the Economist Intelligence Unit's CEO Briefing for 2005, India is the top location for offshoring. This rating was based on nine criteria including labour costs, labour skills, labour regulation and infrastructure. Its nearest rival, according to the same report, is China, which lags behind India primarily because of a relative lack of English language skills, cultural barriers and a weak legal system.

India's offshore services industry is the largest in the world; types of IT services now located in India include back office, remote support, medical transcription, customer call centres, database services and content development.

Growth has been significant. During 2003/4, the ITES/BPO sector added about 73,500 jobs and contributed more than 28 per cent to IT/ITES revenues and the IT related process outsourcing and call centre business is estimated to be worth \$5.2bn (NASSCOM 2004).

While the call centre sector is not the largest source of subcontracted work, it has seen considerable growth (around 60 per cent) in the past 3 years (Datta 2004). In 2000 there were 500 foreign companies outsourcing work to about 60 call centres in India – by 2003, India had 800 centres, employing more than 200,000 workers (Mirchandani 2004).

ITES companies are now looking to find employees to supply this increasing demand from abroad, mostly US and UK companies, who are eager to benefit from a 30- 50 per cent reduction in their costs as a result of offshoring work to India.

However, the issue now for ITES/BPO organisations is how to attract sufficient qualified employees, given the attrition rate for the industry - which has grown in importance with the expansion of the business.

### Retention - simply a facet of the type of the work?

NASSCOM estimates that India needs to come up with 2 million additional knowledge workers in the next eight years to meet demand. But finding staff is not the only issue.

According to figures from BPO India, 35 per cent of ITES employees change jobs every year. A NASSCOM/KPMG report in 2004 also confirms this level of attrition, but rumours in the press - and also anecdotal evidence from some of our respondents - indicate that the figure could be much higher, particularly in voice-based services. A high percentage of women in industry (30-35 per cent) adds to the attrition rate and irregular working hours are not conducive to family life (BPO India, 6 June 2005).

High turnover has a significant impact on firm performance (Singh 2002) and some organisations, as well as increasing their recruitment efforts, are starting to look at employees who engage in "job hopping". BPO company eFunds, which has three centres in India and employs 2,500 staff, only hires staff who have been at their previous place of work for at least six months (BPO India 16 July 2005).

Some commentators see the high turnover rate not only as a consequence of expansion but also as a consequence of working conditions people find intolerable - 50 per cent of those who exit call centre leave the industry altogether (Datta 2004).

A number of academic studies have demonstrated that a combination of night-time working and repetitive call handling is very stressful, leading to potential health issues. In particular, previous studies have noted the exhaustion of workers, especially those working night shifts (Parthasarathy 2004) and also the feeling of being cut off from family, friends and "real life" (Mirchandani 2004).

### The positioning of call centres and BPO

The original positioning of the BPO as a "fun" way to work was in many respects, not surprising. The sector wanted to attract a workforce that was predominantly young, very well educated, but with this came "short attention spans" (Economic Times August 11 2005).

This positioning had a predictable impact; the ITES/BPO sector was not seen as providing a “serious” career - which led to people only working in the sector as a short term option, and more inclined to leave if a better - or better paid - option came along.

However, the Indian Government is planning a campaign to promote careers in call centre and back office work, and recent press coverage has stressed the career development potential in the ITES/BPO sector.

However, it seems to fe<sub>3</sub> that the sector will have to do a great deal of work to turn around the perceptions of many graduates, particularly because messages are still very mixed.

For example, the phrase “working for pocket money” has been recently quoted in many articles and even by one respondent in our research. While this might be consistent with a young workforce, it also reinforces the perception of the jobs as transient. This should be contrasted with the presentation of call centre work as a privileged occupation; the physical environment of offices is often modern and relatively luxurious; transport is provided for workers and the salary is high in comparison to other employment. Tough interview and selection processes reinforce the perception that call centre jobs are highly prestigious, as do messages about career opportunities and working on behalf of international clients.

But the reality for employees after entry may be very different - long hours, repetitive work, a high level of monitoring and control. The media often support this view - last year the Far Eastern Economic Review published an article entitled “A boring calling” (FEER, January 8 2004).

Voice workers have additional pressures, often dealing with foreign, suspicious, hostile customers and where they are called on to speak in an accent very different from their own.

We believe that the alignment of marketing and employee messages is key to manage the expectations of the workforce and increase their retention. The marketing message or brand is seen as a promise by prospective employees - it may be that ITES/BPO organisations are perceived to be breaking their promises the moment an employee starts work, and devaluing their brand in the long term.

## Methodology

After initial background desk research, we developed a 35-question interview guide which looked at the issues of recruitment and retention among new entrants, middle management and senior management in a number of targeted IT and ITES companies.

Organisations were “cold-called” to ask for their participation and if they agreed to be involved, the questionnaire acted as an interview guide. Interviews lasted between 25 and 75 minutes, and collected a variety of quantitative and qualitative information. Because of the selective nature of the interviews and our timescale, the quantitative data should be viewed with caution, but the qualitative data should be illuminating.

Data which is commercially sensitive has been reported as a sample average, although some of the comments from those executives who agreed to be quoted have been included to add further depth to our commentary. To ensure that organisations get maximum benefit from their involvement, we have prepared a summary report for each, in which they are benchmarked against the other organisations which participated.

We conducted interviews with seven senior directors in the ITES sector in this part of the research. The organisations employ more than 21,000 employees between them.

All the organisations we spoke to were aiming to expand over the next two-three years, consistent with growth of nearly 32 per cent over the 2003/4 fiscal year identified by NASSCOM. The average increase in headcount planned was just over 50 per cent. Two of the respondents we spoke to felt that because growth was dictated by demand, they could not give us figures.

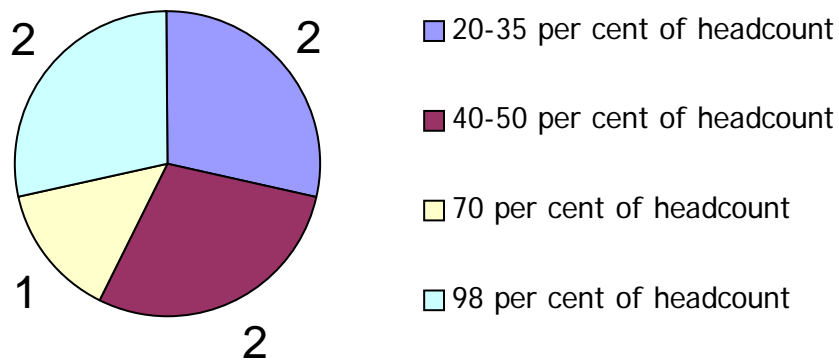
However, all of our respondents said their biggest concern was the attrition of entry-level graduates, with one adding that middle management attrition also concerned him.

“There is 70 - 80 per cent attrition in voice-based and 25-20 per cent in non voice based processes - it's a huge problem.”

### Graduate recruitment - a growing problem?

The numbers of graduates our respondents recruited per year varied considerably - from 300 at one end of the spectrum to 10,000 at the other. This also represented a wide range in terms of the percentage of their total headcount (Fig 1):

Fig 1: How many graduates will you recruit next year? (percentage of headcount)



In total, our respondents estimated that the number of graduates they would recruit would be more than 15,000.

For organisations whose workforce consists primarily of graduates, the twin issues of recruitment and attrition are obviously very important ones, because the volume of graduates to be recruited - either to run the business or as replacements - increases the costs. To try and combat this, NASSCOM has introduced a three-month pilot of a business process outsourcing certification programme to increase the abilities of those people applying for jobs - and thus cutting recruitment costs (25 August, *Economic Times*).

Not all respondents shared data with us regarding the cost associated with recruiting graduates. For those who did, costs varied between Rs 6,500 at one end of the spectrum and Rs 12,000 for "freshers" at the other.

One organisation had two bands - one for graduates straight out of college (Rs 12,000 per head) and one for more experienced graduates (Rs 14,000).

Some respondents viewed "recruiting costs" as more than just getting new graduates through the door:

"We spend about Rs 40,000 - but this includes training, induction and sourcing."

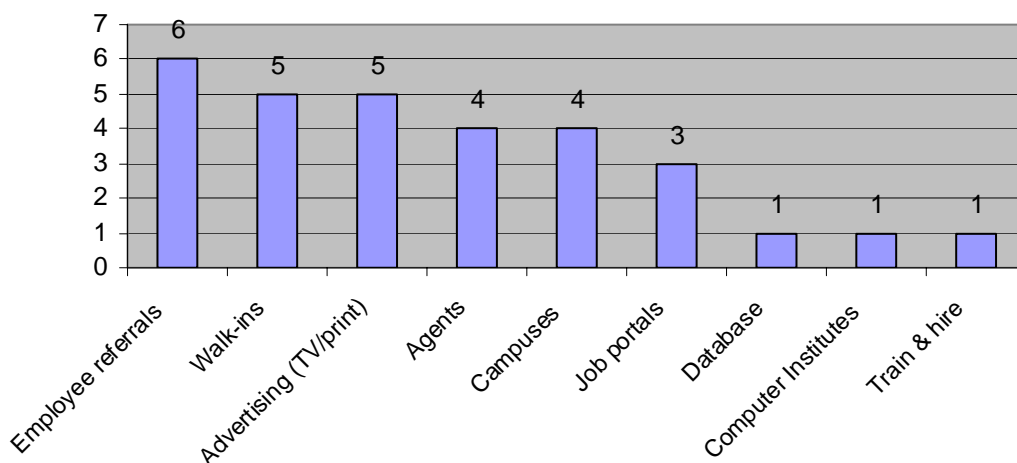
"Reference checks cost us about Rs 40,000."

One interesting thing to note is that an organisation looking for 2,000 graduates has the same level of recruitment costs per head as one looking for 10,000. This may be influenced by the type of graduates the organisation is looking to recruit, but it may also imply that processes are not sufficiently streamlined to effect cost savings. One organisation we spoke to clearly had the process very well defined:

“We pre-plan everything - we have the demographic sectors and types of students we recruit all worked out beforehand.”

Our respondents recruited graduates through a wide variety of sources (Fig.2):

Fig. 2 What are your sources of recruitment for graduates?



“There is a large chunk from head hunters and consultants.”

“Employee referrals and walk-ins are the cheapest. The people who come would have already done the research on us. We also source from our education institutions.”

An emphasis on keeping costs low is hardly surprising given the average length of tenure for a graduate, particularly as one of our respondents said:

“Training is expensive, especially voice and on the job training. The break even of training expenses is six months.”

From our sample, the longest tenure is two years, the shortest three months. In addition, there seem to be a number of “crisis points” for graduates:

"Some quit within 90 days."

"Approximately three months. If they don't leave then, they stick around for a year. If they don't quit in year one, they quit by the end of the second year."

"While many graduates stay with us at least one to two years, we lose people around the six month mark."

While four of our seven respondents felt that middle management had a longer tenure than entry level employees, tenure at this level is also not very long: according to our sample, the average tenure for a middle manager is two and a half years - in some cases not much longer than for graduates.

There seemed to be general agreement that non-engineering, arts and commerce students were easier to recruit because of the lack of opportunities for these students to find work within their discipline. Not surprisingly, in much greater demand were engineering, science, economics and commerce students.

"With technical and engineering graduates, we have a number of different industries drawing from the same pool - so the graduates have more choice."

However, not everyone required engineering graduates:

"People from all disciplines are looking for jobs. Youngsters are not choosy about jobs, we have excellent manpower for this industry, there is no shortage of supply and they are highly talented. We tackle the less talented by training."

When asked about older workers, the majority (five out of seven) of our respondents thought that older workers are difficult to recruit, but easier to retain and do not necessarily perform better than newly qualified graduates. The companies in our sample appeared to want to avoid types of employees who might take more effort to manage - including older workers:

"We tend to avoid computer science graduates."

"Older employees are difficult to employ, we avoid them."

"Older employees are difficult to recruit and are not mouldable."

There were mixed views about whether the issue of the retention of graduates would increase in the future. Four of our respondents thought the problem would increase, two thought it

would decrease and one thought it would stay the same:

“It’s not going to be positive for the next two years, demand is more than supply.”

This position may be exacerbated by university education in India. Even with total graduate numbers topping 2 million, sufficiently skilled graduates are starting to be in short supply - particularly as organisations reject many of the CVs they see - sometimes as many as 95 per cent.

There is some evidence that successive governments have been under-funding the country’s universities for over 15 years - UNESCO research (April 2005) indicates that expenditure on higher education fell by about 25 per cent between 1990 and 1999, and notes that there is no evidence that the trend has reversed. The government has recently launched the Knowledge Commission to improve access and excellence in education and research institutions, which should help to address criticism made by the McKinsey Global Institute earlier this year that the overall quality of education, excepting the top universities - could improve significantly (The Emerging Global Labour Market, June 2005).

There were a couple of comments about the dawning understanding of ITES as a potential career, after initially being seen as a stop-gap job.

“The industry is maturing and people are realising that there are careers in this industry.”

“People have realised the growth of the ITES jobs and industry and can visualise a future in it.”

Six out of our seven respondents felt that graduate retention and attrition affected their business. The most mentioned impacts were those on cost (on recruitment, training) and on performance. There was also the view that high attrition affects more than the bottom line *now*, but the organisation’s reputation, which may jeopardise *future* growth:

“Huge attrition causes a ripple effect, creating self doubt and negative perceptions of the company internally. Externally, clients ask for the attrition rate and if it is abnormally high, we lose marks. Companies are judged by their attrition rates as well as their profits.”

“We risk business growth, our long term plans and a stable maturity model if attrition doesn’t decrease.”

Six out of the seven respondents thought their graduate retention rate was worse than in many other industries, include IT and services. Only one respondent thought that his company's retention rate was better than other companies in ITES.

## Recruiting middle and senior management

The recruitment problems experienced at entry level are not repeated in the majority of our sample at middle management level. Four respondents answered questions about their middle management; of them, only two organisations reported that they had issues recruiting to middle management level, although respondents did feel that specific posts in scheduling, quality, HR and security were more difficult to fill. Only one respondent had issues across the board:

“We have difficulty recruiting anyone and everyone to middle management - it’s the hours of work, the fact that it’s a nascent industry and the pressure of the work.”

In addition, one respondent made the point that women were not easy to place at this level:

“There is lots of focus on gender - if the job requires a female, then it’s an issue.”

While we didn’t specifically ask for the average tenure of middle management, none of the companies we spoke to felt that its retention rate for this level was better than other industries. One respondent felt that his company did not retain middle management as well as organisations in the IT, manufacturing and service sectors.

The McKinsey Global Institute believes India has a shortage of executives at this level, and that the reason is that the phenomenal growth of the industry has outstripped its resources. The Institute warns that a lack of middle management will act as a constraint on further growth for the industry. A number of our respondents echoed this view, also believing that the importance of the retention of middle management would increase:

“We suffer from the growth rate of the industry. Demand is higher than the availability of skills and the market is expanding.”

“We have a short supply of middle managers.”

“It’s going to increase in the next three years and it will disrupt us before the company stabilises.”

One organisation was taking steps to maximise the potential to get the right candidates:

“We have pre-hiring, pro-hiring and induction programmes.”

Only two organisations thought that the attrition of middle management affected their business and the key reasons common to both respondents were those of stability, performance, customer relationships and client satisfaction:

“There’s a top-down effect - when middle managers quit, Team Leaders and then employees follow.”

“People don’t stay back - they leave too.”

Although one respondent noted that impact was a relative concept:

“The impact is not as large as at the associate level. Ultimately it’s the associates who win the bread for the company, not the middle managers.”

None of our respondents reported difficulties recruiting senior managers, although one noted that it generally takes a lot longer to get the best quality. However, three of our respondents felt that the importance of retaining senior managers would increase over the next few years and one told us how his company was tackling this:

“We tie them in with non-disclosure agreements and restrict their ability to join competitors.”

The importance of senior managers in providing direction and guidance to the organisation is highlighted by one of our respondents:

“Our morale was hit when two senior HR managers quit between January and October 2003.”

Media speculation on the cause of high-profile departures possibly doesn’t help the situation, despite comments from company spokespeople indicating “business as usual”:

“Top Indian IT companies have a depth of management wherein the next layer can take over. It is after all no longer a one-man show....marquee names heading to the exit door ‘is no longer a death blow.’”

(The Times of India, July 28 2005).

## Developing the right talent - for the long term as well as the short

Given the wide range of disciplines from which ITES/BPO organisations recruit, training - and entry-level training in particular - is a key element in sustaining productivity. A lack of training and development was considered to contribute to graduate retention issues by four of our respondents.

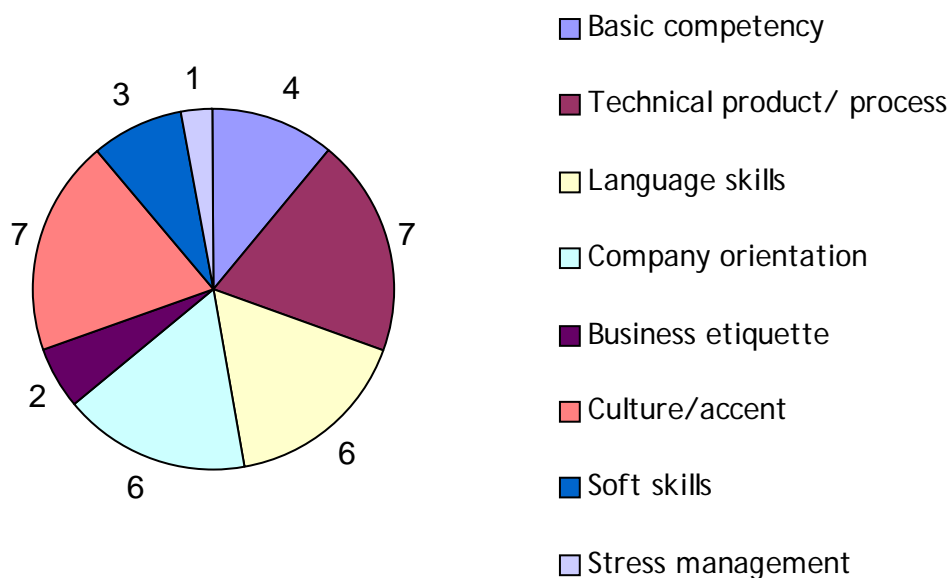
Generally, the sort of graduate training offered by our respondents was broadly similar (see Fig 3), but interestingly, only one of our respondents specifically mentioned "stress management", although one respondent did talk in more general terms:

"We try to avoid mental fatigue. We have a small prayer session and meditation and NLP exercises as stress busters."

This is possibly a response to the increasing concern about stress in ITES/BPO organisations, particularly in voice-based services, where often the location of the service centre needs to be disguised and therefore accents need to be "neutral".

A number of academic studies have noted the stress caused to Indian workers as they have to abandon their accents, their names and, to all intents, their identity. This cognitive spilt from their "real selves" could be categorised as a form of emotional labour, which is exhausting to the worker. We noted that all respondents gave language and accent training.

Fig 3: Graduate training offered by respondents by mention



The length of time taken to train entry - level graduates varies:

“We have three phases - it usually takes between six and 14 weeks, depending on the complexity of the products we support.”

“We train them on the verticals they will work on. There’s six to eight weeks of training, including voice and accent, depending on client needs.”

For back-office staff, NASSCOM’s three-month pilot to increase the “recruitability” of graduates would indicate that while the pool of graduates is large, the *right* graduates are in short supply. This pre-employment training, to be introduced in January 2006, would ensure new workers have the basic skills, which is beneficial on a number of levels. It makes the recruitment process more productive; it increases the number of potential recruits and it enables entry-level graduates to become more productive more quickly, reducing one of the hidden “costs” of bringing new people into the organisation.

While the content of graduate training offered by our respondents appears to be roughly the same, the effect of training as a tool to reduce graduate turnover varied significantly, from a low effect to high effect. We therefore looked at respondents’ comments on training to see whether the attitude that respondents have to training as a general philosophy explained this. The results were illuminating:

“We have brought an MBA campus into the company.” (Respondent reporting *high* effect of training on reducing graduate turnover.)

“We sponsor graduates for further studies and we take their feedback seriously.” (Respondent reporting *high* effect of training on reducing graduate turnover.)

“We are pro-active in offering opportunities, learning and growth.” (Respondent reporting *high* effect of training on reducing graduate turnover.)

One respondent identified that while training and development was offered in the organisation, its reach was limited:

“It’s a continuous process; it affects only 20 per cent of the employees.” (Respondent reporting *low* effect of training on reducing graduate turnover.)

We speculate that training is a key element of keeping employees engaged at work and if it is to be used as a tool in reducing attrition, training needs to continue to stretch employees and enable them to grow - not simply ensure they can do their jobs. As a general motivational tool, training and development needs to be available to all employees if it is to have a widespread effect - although we recognise that this increases the investment required.

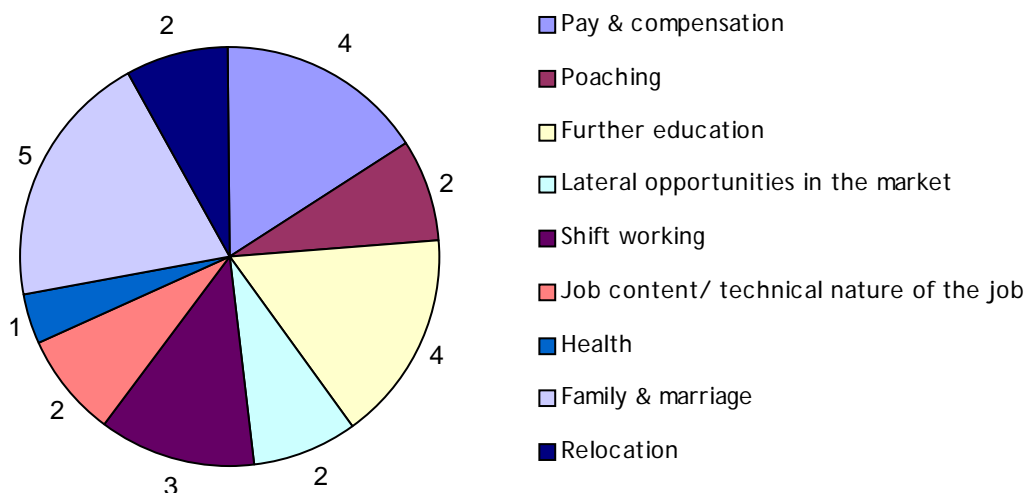
It should be noted that in line with the previous positioning of the industry as a “fun” and young environment, not everyone was of the view that developing graduates would be worthwhile. Respondents’ views on why graduates leave were very mixed, but some of the comments illustrated that some employees felt this was not an industry that would provide a serious career path (also see Fig. 4):

“According to our survey, fun is the first priority.”

“There is no office decorum and more of a college atmosphere... only five per cent of the population is career oriented and want to grow. The rest work for pocket money.”

In addition, the most frequently reported reason for graduates leaving was because of family or marriage - again reinforcing the perception of the industry as offering a stop-gap job and raising concerns about the utility of the investment in training. As previously mentioned, the attrition rate in ITES/BPO companies is added to by the high percentage of women graduates employed by the sector.

Fig.4: Reasons why graduates leave by mention:



Middle management and senior management training is, as could be expected, a great deal more complex than that offered to graduates.

Three respondents gave us details of the training offered to middle management. This included more soft skills - coaching and feedback skills, basic managerial skills, goal setting, an introduction to leadership, team management - as well as more analytical skills - problem solving for example. One respondent told us that his company offered an introduction to Six Sigma as part of the middle management training. One of our respondents told us that they didn't have a programme, but were setting one up.

It is interesting to note that those respondents who thought that the retention of middle management was going to increase in importance also seemed to have the most comprehensive training programmes.

Only one of the respondents we spoke to gave details of the training provided at senior management level. This included less skills development, but more alignment with the operation of the organisation - for example, "mirroring" other managers abroad, which helped to expand their senior level contacts in different geographies.

## **Growth as a retention tool - Promotion, job rotation and career planning**

A number of the elements we asked about fitted into the general category of "growth". We have reported on training and development, which seemed to us to be a key part of why bright and well-educated graduates might join a company. This section looks at other tools that encourage employee growth - promotion, job rotation and career planning.

All but one of our respondents used promotion as a graduate retention tool and the effect of it was high (two respondents) and medium (four respondents). For one of our respondents, promotion was less to do with retention and more to do with reward for a job well done:

"It's not for tackling attrition, it's a company policy."

Promotion can be seen as "additional job challenge", which is one of the elements contributing to job satisfaction. We believe that this would have a motivational effect and increase satisfaction.

Job rotation was used by fewer respondents and generally less successful as a tool for developing retention among graduates. Used by four of our respondents, it had a low effect for one respondent, a medium effect for two and a high effect for one respondent.

Two respondents reported using internal job postings (IJPs) among graduates, and one of these reported a high effect of this tool on graduate retention. The IJP was used as a method of giving employees a clear understanding of what their new role would encompass.

This tool crosses the boundaries into career planning. Career planning had a mixed impact on graduate retention and was used by five of our seven respondents. Comments on career planning were at both ends of the spectrum:

“It’s not very helpful in retaining staff.”

“It’s our USP.”

It is interesting to note that those respondents who viewed training and development as a part of their general philosophy towards employees and who recorded that it had a high effect on recruitment, also thought that career planning had a high effect. Those respondents reporting a low effect for training and development also reported a low effect for career planning.

However, six of our seven respondents believed that a lack of career progression contributes to retention issues, at least to some extent, so this may indicate a need to look again at career planning and ensure that if it is implemented, it achieves some power as an aid to retention. Currently, it would appear to be under-performing.

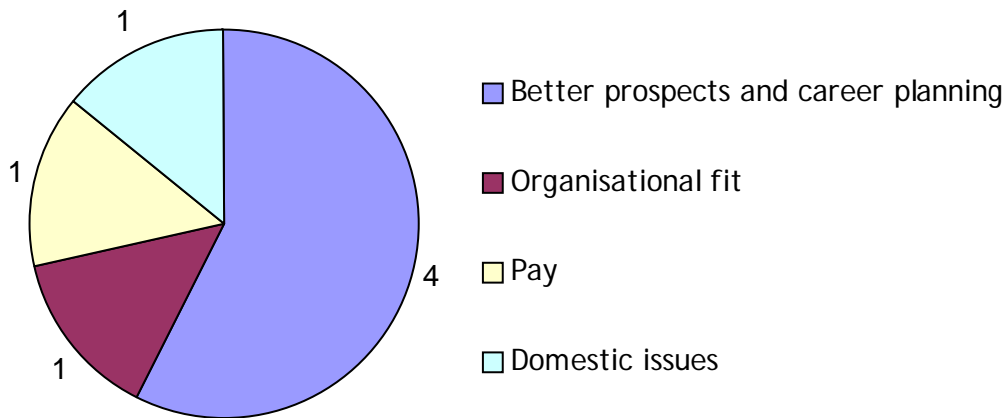
The use of promotion as a retention tool at middle management was used by three of the four respondents who gave us information about this level. Two found it had a medium effect on reducing turnover, and one reported it had a high effect.

Considering the findings on middle management in the light of respondents’ opinions of why middle managers leave organisations was illuminating (see Fig.5, next page).

Only two out of our four respondents reported using job rotation and career planning to reduce middle management turnover but these had had mixed results. However, one respondent noted:

“We’ve identified career planning as the key.”

Fig.5 Reasons why middle management leave by mention



Personal growth is a key driver of job satisfaction, and in turn, job satisfaction has been shown to influence intent to remain in the organisation. It may be that these interventions are less used because they are less known, but we think, given views on why middle managers leave - for new challenges and for new roles - it could be beneficial for organisations to review their policies on career planning in particular.

As with graduate entrants to organisations, a couple of our respondents identified that, there were "crisis" points in middle management tenure:

"The honeymoon period is for six months and after that, it's the regular grind."

"It is good for a few years."

## Retention tools

### Salary and bonuses

The views of our respondents on contributors to retention issues would indicate that if not at the right level, salary can cause significant problems.

"People quit when other companies wave bigger carrots."

"Whether salary is an issue depends on the market."

Salary was mentioned by four out of seven respondents as a reason why people left their companies. When asked about the effect of salary increases as a tool to reduce graduate retention, results were very mixed - two respondents thought it had had a high effect, two thought it had a low effect, and one thought it had a medium effect. This spread of outcomes may indicate that in general, salary is set at a high enough level to satisfy the graduates who join and that its efficacy as a tool depends on the level of salary in the market.

It also may indicate that salary in the ITES/BPO industry is not a primary concern for graduates - especially if they see the job only as a "stop gap" before they leave to do further education (mentioned by four people as a reason why graduates left), get married or have a family.

Salary increases appear to have only a medium effect on middle management retention for three of our respondents, and the effect of bonuses was even more mixed - one respondent reported a low effect and two reported medium effects on retention.

Again, this may be because financial rewards do not affect the retention of middle managers - only one respondent indicated that financial rewards had any impact.

Financial rewards did not seem to have any influence at senior management level, either:

"At the top it is mainly relationships with money, growth opportunities. It is very unlikely for money."

### Benefits and ESOPs

While salary and bonuses were not thought to have a particularly strong effect by all of our respondents, benefits were thought by three respondents to have a high effect on reducing graduate turnover, and by another two to have a medium effect.

Transport to and from the office was viewed as a positive benefit, which again picks up the issue of women working at night. While most respondents didn't give details of their benefit packages, those who did mentioned healthcare, good facilities, subsidised food and insurance. However, one respondent made the point:

"These things do not stop people leaving you - it is an aid to retention, not a barrier to attrition."

ESOPs were not offered to graduates by any of our respondents.

Only two people mentioned benefits when discussing middle management retention and the effect seemed to be high immediately, but then wore off. ESOP at middle management level, however, although introduced by only one respondent, had a high effect on reducing turnover.

Benefits were not a significant factor at senior management level and no mention was made of ESOPs.

### Having fun at work; social events and clubs

Given the youth of the employees in the industry, it was not surprising that six out of our seven respondents encouraged and funded social events and clubs for graduate members. The effect of these on retention was only low to medium but as one respondent put it:

“It adds to the feel-good factor.”

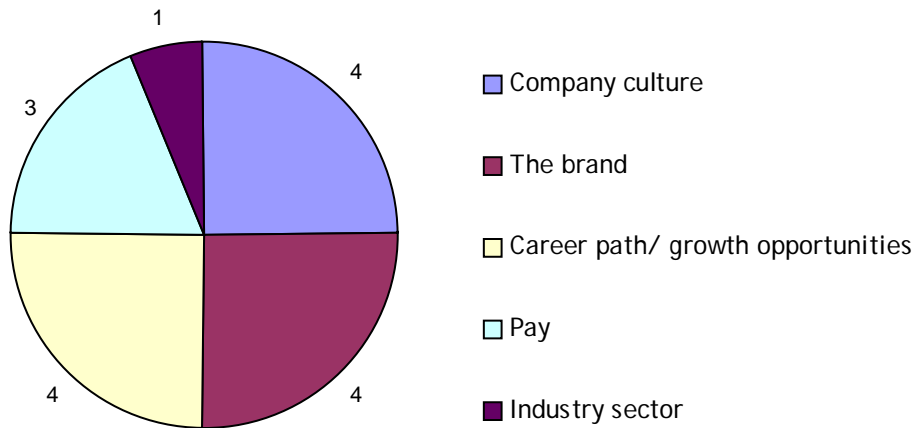
One organisation has famously hired people to organise events for the staff:

“We have hired a full time fun co-ordinator. We organise two events a week, and we are very dedicated to the event management.”

Unsurprisingly, this intervention did not have a significant effect on the turnover of senior and middle management. However, it is interesting to note that when asked about why middle management join (Fig. 6, next page), company culture and company brand (which at  $fe_3$ , we see as synonymous) are the top attractions, along with career path and growth opportunities.

A culture characterised by fun may well be attractive to a middle manager, particularly as the role itself seems to be characterised in itself by long hours and pressure.

Fig.6 Why do middle management join your company? By mention



## Retention strategies - reality "shock" and managing expectations

One of the key themes that emerged from our research was that of realistic expectations, particularly for graduates.

Graduate expectations, measured against their actual experience were considered to be a significant contributor to retention issues for all except one organisation.

"After two months' of training they cannot cope with the nature of the work; it ain't hunky-dory after the honeymoon!"

"The youngsters' perception is different from reality - every action is monitored."

"The initial 90 days is important; there is a transition problem and work environment plays a big role."

"Graduates are not used to working, for many it's their first job."

"Main reasons for attrition are that this is a difficult job and the transition to the industry is a shock. It's also a non-negotiable environment [in terms of targets, etc]."

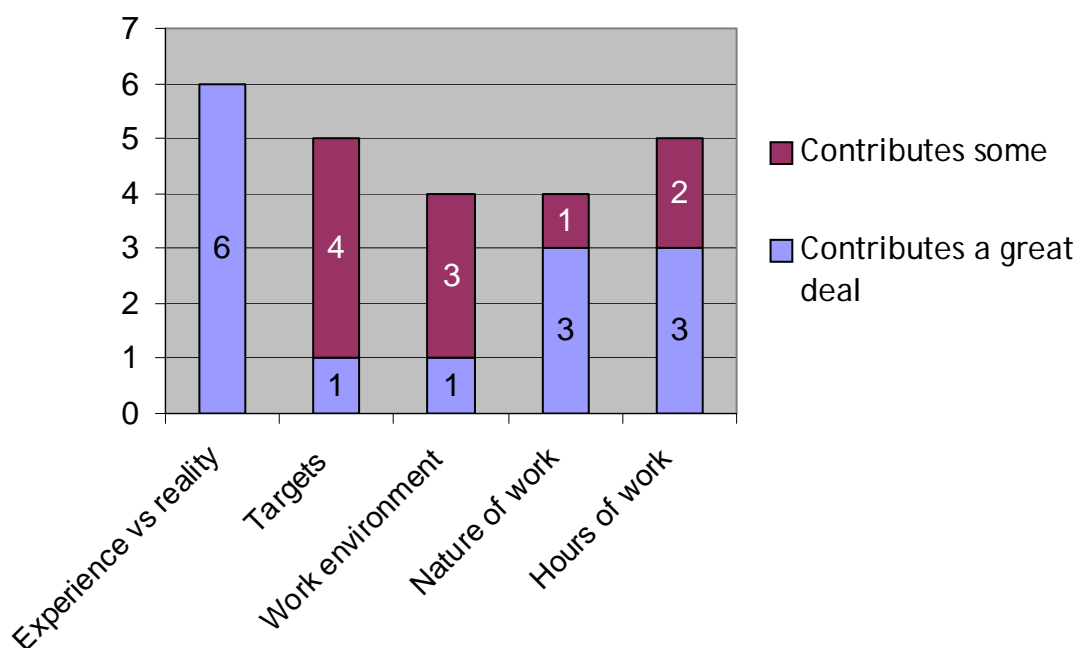
There are some aspects of the job that appear to come as less of a surprise to graduates and therefore do not contribute to retention issues. Issues with AHT are only a contributory factor for three of our seven respondents, and then only to some extent (rather than a great extent). As one respondent put it:

"AHT is a job requirement."

The work environment is a contributory factor for three respondents, and two believe it contributes to some extent, and one believes it contributes to a great extent.

However, looking at other contributors to retention issues, (Fig. 7) it would appear that graduate expectations of what their job will be are not well managed around targets and the length of time they will be expected to work - certainly not in the medium to long term.

Fig.7 Do you think any of the following contribute to retention issues? (By mention)



This could imply that some organisations unwittingly add to their own issues by not sufficiently clarifying the requirements of the job. In the long term, this may have implications for their brand - which in itself appears to be a powerful element to attract graduates in the first place.

### The critical importance of managers

The majority (five out of seven) considered that the skills of the immediate manager made a big contribution to retention issues with graduates and three quarters of respondents also thought this made a big contribution at middle management level.

"Team leaders are in short supply and are not properly coached in leadership skills."

“Team leaders’ communication skills have a huge impact.”

“People management at this level is an issue.”

In line with this, management style was also considered to make a big contribution to retention issues.

While at graduate level relationships with senior management had slightly less influence, this was because employees had less opportunity to come into contact with them. At one organisation, graduates were assessed by senior managers on a quarterly basis to evaluate their performance. We have assumed this is a positive relationship as the respondent thought that relationships with senior managers did not contribute to retention issues!

At middle management level, however, the relationship between managers and senior managers becomes much more important:

“Having access to senior management, an open style in which managers can get their points across and forgiving mistakes can make a significant difference.”

## **Exit interviews - true or false?**

We have assumed that respondents’ ability to answer our questions was facilitated by the collection of data from a number of areas. All of our respondents carried out exit interviews. Some of our respondents considered them a valuable source of data and devoted significant resources to them, while some were less convinced of their utility. On the positive side:

“We ask questions like: ‘What could have been different in this organisation? Are you going because you got a better opportunity? How can we keep you?’ We ask for feedback.”

“Exit interviews are the most important source of information about quitters, it is the barometer to know why he or she is leaving. We map candidates from day one until they leave. We ascertain what’s on their minds and we study what disappointed them. We have psychologists do that.”

“70 per cent of people attend exit interviews; we learn the positives and the negatives of the company, suggestions for improvement and relationships with immediate

managers.”

On the slightly less positive side:

“They give us valuable information, but many times, people choose not to do them.”

“They give us a wealth of information, extremely important for feedback and qualitatively, it is very important. We learn about the problems they faced, personal issues, small issues, transactional issues. Sometimes they are not candid.”

And finally, on the more critical side:

“We have a format for the exit interviews, we ask them what they like and dislike. What they think of benefits, compensation, salary etc. People lie.”

“Helps us some way with feedback. We get lies and artificial answers because they depend on us for the experience letter and references. They hide the problems they had with their bosses.”

We agree that to some extent, employees will manage their image while exiting an organisation, perhaps to save face. Those who have been really committed to the organisation are most likely to give truthful answers in exit interviews. We did not specifically ask about the questionnaires used at exit interviews, and it may be that as well as this information, other data should be collected, or used in association with it. For example, it might be that certain biographical data are associated with lower tenure.

## The impact on India

The final question in our interview asked whether respondents felt that the recruitment and retention of employees in Indian companies had an effect on the Indian economy and whether it was cause for concern. Of our sample, only one respondent considered that it was not cause for concern:

“While there is a higher cost, there are more and more colleges churning out resource. There are 400,000 graduates in India and 10 per cent of these meet my recruitment needs. The resource will always be there.”

In addition, there were people who acknowledged the significant benefits brought to the economy by the industry:

“Recruitment is giving jobs to a lot of people. We are building a bigger organisation and building business offshored from the West.”

“The Indian economy is booming because of the highly talented people.”

“BPO has enhanced the per capita income and there is more disposable income. This is good for the economy.”

“A significant part of GDP is contributed by BPO.”

However, a number of people also felt that the industry’s very success had developed potential threats:

“Because of the flourishing sourcing market, China, Vietnam and the Philippines can also take advantage of this.”

A number of people were not as relaxed about the level of attrition as our first respondent, and were particularly concerned about the level of India’s competitiveness:

“It [attrition] has a huge impact. BPO is a booming industry and we have to stabilise quickly. If not, it will not be a viable economic model.”

“It affects our national competitiveness - our costs, our ability to ramp up our capabilities, a spiralling salary bill and the external perception of us.”

And indeed, respondents were concerned about the competitiveness of their *own* companies:

“The Government of India and NASSCOM are addressing attrition as an issue. It has a severe effect on the companies’ bottom line.”

“The employer needs to cut down on the margins. It’s a hyper-competitive market and we are experiencing a maddening growth. Attrition costs, training costs are increasing and it is diminishing the margin.”

Despite many organisations recruiting “in bulk” for their businesses, there is also an understanding among some respondents that their people are not a commodity, but a key resource:

“The youngsters need to be mentored - they want to grow. I look for character, attitude and values in my candidates as they are the brand ambassadors.”

“In this industry, people are the asset. We have to concentrate on the three ‘Cs’ to make a successful BPO; culture - obviously very important - competencies which need development and to increase their commitment.”

“There are now several companies fighting for a good workforce.”

“We cannot be increasing salary often - we’d run out of business. We are focusing on issues other than money. We are trying to make employees happier.”

There was also one comment that indicated the role of ITES/BPO organisations in the wider society.

“This business has a social impact and effects stakeholders in the society. It is very important to align business with the society. We carry a good reputation and want to be an employer of choice. Take care of the river and the tap will follow.”

Considering the potential health impact of long, night-time working hours on the very fabric of Indian family life, while this is laudable, it may be challenging.

## Retention in Indian ITES/BPO - an interpretation

Before we add our interpretation of the findings, it is interesting to note the differences between our respondents about the imperative to deal with retention. On the one hand:

“In three to seven years this problem will be under control. It is a natural process for any nascent industry. It resembles the IT industry. Start up BPOs and call centres have these problems on a much larger scale and it’s quite natural.”

“It’s part of a cycle. We know that the market is quite dynamic and we plan for this by bringing the idea of leaving into the open.”

On the other:

“There is 70 - 80 per cent attrition in voice-based and 25-20 per cent in non voice-based processes - it's a huge problem.”

“High attrition and the constant process of recruitment can detract you from your customer focus.”

“No industry can ever live with this kind of problem. It is creating financial un-viability. It is a big problem.”

It would be interesting to debate with our research participants if they all agree that India would have three to seven years' grace to sort out this issue. A number of countries, particularly China, are following in the footsteps of India. China will have a significant platform on the world's stage as it hosts the Olympics in Beijing in 2008.

In addition, a few studies in the US and UK are starting to cast doubts on the cost savings attributed to outsourcing, as well as the quality of the offer. In 2004 a report by Booz Allen asserted that more than 30 per cent respondents were less than satisfied with outsourcing results.

More recently, Deloitte Consulting (*Calling a Change in the Outsourcing Market*, April 2005) found 70 per cent of participants had significant negative experiences with outsourcing; high on the list were hidden costs and the amount of management they had to supply to source the outsourcing project. Deloitte estimates that one in four participants in their survey have brought their functions back in house.

On a smaller, but perhaps more vocal front, trade unions in both the UK and US have long opposed the outsourcing of jobs. A recent story from the *Independent* newspaper, spoke of UK graduates being sent to India to help satisfy the demand of insurers and banks moving jobs there. The story contained a quote from the union Amicus, which represents 1.2 million workers in every industrial, and occupational sector in the UK:

“What this website does demonstrate is that evidence is mounting against the proponents of offshoring who have been shouting from the rooftops about the never ending supply of cheap, educated English speakers in India. Major UK financial services companies have tied themselves to an offshoring strategy which they will find increasingly difficult to sustain.” (*The Independent*, 5 July 2005)

A further comment from the *Independent* was on the recent outsourcing of 2,000 jobs to India by Centrica:

“However well the call centres of India train their staff, or tutor them in our British ways, the cultural differences and knowledge base is often just too different to allow for expected standards of service. Some British companies that have offshored these functions are already bringing them back.” (*The Independent*, 16 July 2005)

While these comments hardly constitute a turnaround in public opinion, unemployment in the UK and the US is very low at the moment; should this change, it is likely that public opinion will, too.

Another way of responding to these trends is that they point to the next set of opportunities to Indian ITES companies. Clearly, the market for off shoring existed initially mainly because of significant cost reductions. The basis of competition is therefore cost leadership. However, in the future, as more countries with relatively low-wage economies enter the market, India may find it cannot successfully compete on this basis indefinitely. It may therefore be driven to change the basis of competition - from cost to quality.

## Potential areas for action

We see two key strands of action if the industry is going to address its retention issue. The first is about the external perception of the industry as a whole and companies in particular. This perception moulds the expectations of employees as they join and leads to our second strand of action - the development of high involvement work practices (HIWP) in ITES/BPO organisations. Addressing the two strands should help with retention; as a bonus, they should also facilitate an increased emphasis on quality.

### Strand one - The right message

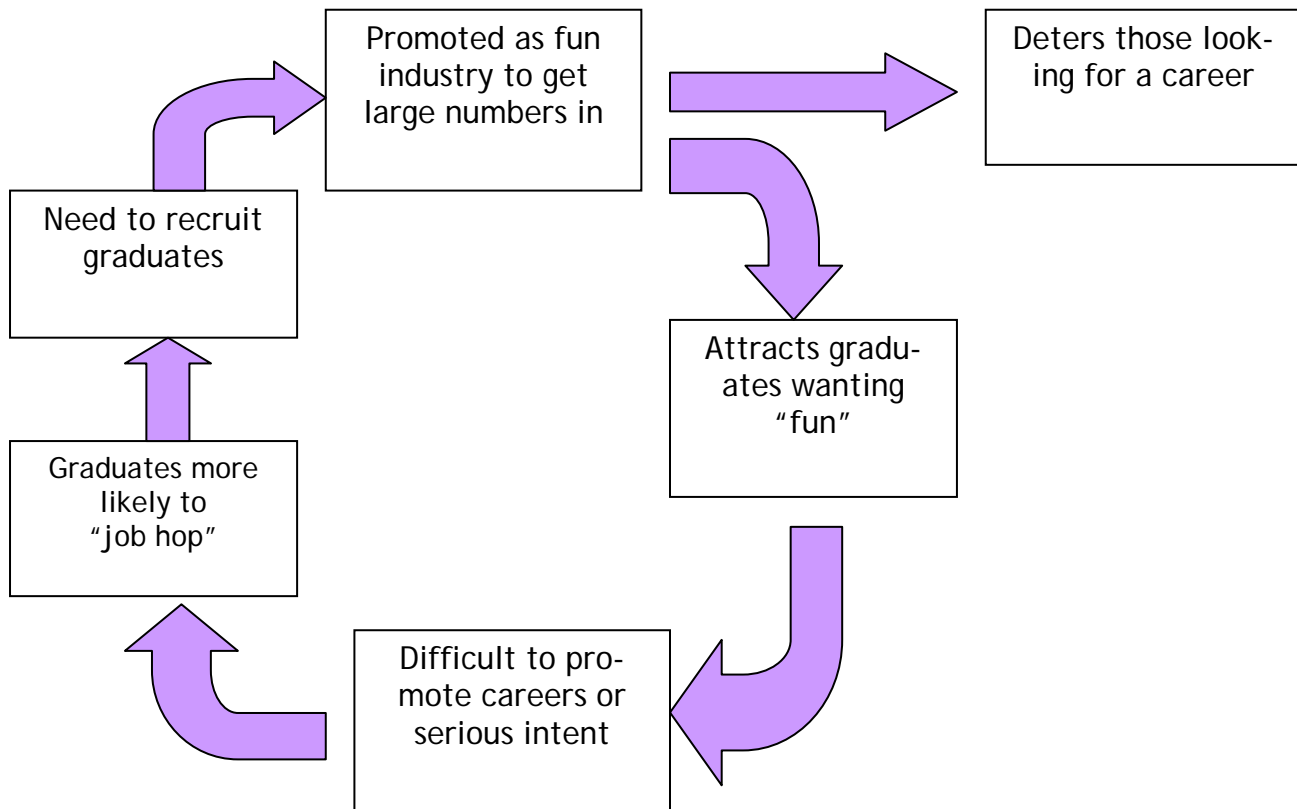
We understand that efforts to reposition the industry have already begun, but individual organisations could usefully consider their recruitment campaigns and how they present themselves to new entrants.

This could be done through a competitor brand audit which will identify what makes organisations different from each other and therefore attractive to potential recruits. Research has shown that people choose their place of work as an expression of their personal values and identity - the closer the alignment of the brand message to the reality, the less likely it is that organisations will disappoint them, and the *more* likely it is that employees, finding an organisation which reflects their own identity, will remain. Many respondents cited their brand as a significant attraction when recruiting:

“Brands play a very important role in recruiting and retaining employees. People work for brands and stay for brands.”

“Undoubtedly the brand helps us recruit.”

Fig. 8: A vicious circle



Some of the comments have indicated that “image” - sometimes based on minor physical symbols - is quite an important element in attracting recruits who were thought by some of our respondents to be quite immature. It is important that as well as making organisations attractive, the brand is also used to help employees to *self select* in terms of being the kind of employees organisations *want*.

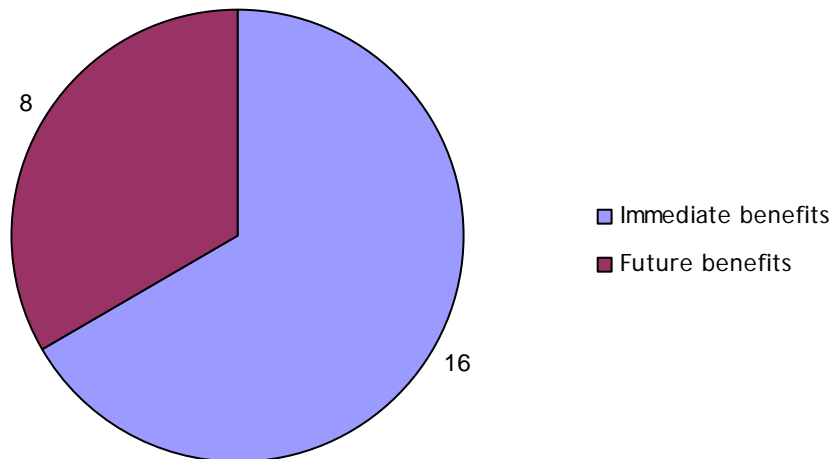
Use by some organisations of RJs has helped to “weed out” unsuitable candidates and we endorse this as part of the interview process, particularly when it is reflected in the general communication of the brand - through advertising, public relations and recruitment processes. These latter processes should be guided as far as possible by the brand to become a brand experience in themselves, reflecting the values of the organisation.

The advantages of addressing this strand are therefore two-fold: on the one hand you avoid recruiting employees who quickly lose commitment to the company; on the other hand you meet the expectations of well educated graduates who will then be more likely to be your brand ambassadors in the future, strengthening the brand in the long term.

## Strand two - delivery of the message

We have categorised the elements mentioned by our respondents in relation to why graduates join their organisations. As can be seen from Fig. 9, joining an ITES/BPO organisation seems to be a matter of employee convenience:

*Fig. 9 Why do graduates join your organisation? (By mention)*



Immediate benefits include: a strong brand, pay and benefits, good shift timings, the location of the office and the work environment, company emphasis on work/life balance, company culture and access to senior management.

Future benefits include; training and growth opportunities, career development, being part of a growing organisation, having strong partners and an international reputation.

As can be seen from the chart, graduates appear to be joining ITES/BPO organisations because of what they can get *now*, rather than what they may have to wait - and work harder - for. This is in line with some of the comments made about them as a workforce:

“Graduates are immature and looking for money more than a career.”

“Youngsters make judgements on superficial things - security guards, the building, the campus.”

“Youngsters say they want to buy the latest phone from Nokia from their first salary. They’re very immature.”

To some extent, we surmise that this is a “chicken and egg” situation - graduates arrive expecting fun; this is delivered. As a result, they may not take the job seriously and are shocked by the level of hard work needed - as they were expecting a “fun” environment.

Once the external message has been redefined, the internal message also requires redefinition. One method of doing this is to introduce high involvement work practices (HIWP), which give more junior employees more responsibility for their actions.

For call centres in particular, the focus on numeric outcomes makes the call centre environment incompatible with the intrinsic job aspects which previous academic studies have found important to employees; the ability to grow, the opportunity to teach others, accomplishment and professional development. However, the introduction of HIWP has been tried in US call centres and found to be effective in developing job satisfaction and commitment, and reducing attrition.

We have said that the role of team leaders in ITES/BPO organisations is critical - with the introduction of HIWP, it becomes even more critical. Team leaders and managers are an integral part of connecting employees to the wider running of the organisation, and to giving them a wider sense of responsibility, not just for their own work but as a contribution to that of their team. This may be calling for managers and team leaders to possess more skills than they do currently, and training in these work practices may be required.

We understand that 85 per cent of Indian BPO work is in handling calls, but this accounts for less than 10 per cent of the work outsourced globally. In order to be more profitable, and offer more than just a price differential - a strategy easily copied - India's ITES/BPO organisations may want to consider a wider, more sophisticated service set on which to build a sustainable future. This will in turn require highly skilled and visionary HR directors for two reasons: they will need to have time to develop lower-level staff to implement new ways of working - rather than focus on finding new employees to replace those who have left. They will also need to find a new and more significant seat at the Board table to help devise the strategies to move up the value chain. One respondent commented:

"HR people need to be highly educated and experienced. HR is more of an art than science."

As a final thought, sometimes organisations operate in a particular way because they are:

- Compelled to do so by regulators or powerful customers
- Deluded into doing so by miming "best practice"
- Seduced into doing so by specialist consultants and technologists

As John Purcell (2001) observed, in "call centres the technology tends to come from a very limited number of sources, the same consultants are often used and managers build their careers by moving from one centre to another, spreading the one best way approach as they go." We wonder whether, given that the type of work is not likely to change in the short term, there are other ways to organise it that have not been considered - and therefore which could change the work experience.