



Holding On

A Study into Retention and
Attrition in Indian IT 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 4th 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 3per 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 fe₃ 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 fe₃ consulting.

A brief background to the IT 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.

In terms of skills, Global Insight noted that half of the level 5 CMM-rated organisations in the world are located in India, and that while most of the leading IT outsourcing companies operate at Level 5, most internal IT departments in Western countries operate at Level 2/3. Since 2000, 100,000 US jobs have been moved offshore.

In addition, in a global on-line survey of skills carried out by the certification and employment testing organisation Brainbench, they concluded that India leads the world in Java software development. This is borne out by Sun Microsystems plans to double staff in India over the next year.

Growing specialisation of certain urban areas is one of the key factors driving rapid skill building in offshore locations - for example, Bangalore is becoming the centre of application software development (FT 9 August 2005).

NASSCOM reports that the Indian IT software and services sector added 98,000 jobs and contributed nearly 68 per cent of India's export revenues during 2003/4. It is forecasting growth of nearly 32 per cent for the sector for 2005 with the total value of the IT/ITES sector expected to exceed US\$28 billion by the end of the year.

But success has its price. The reports which indicate a superior level of skills for the Indian IT sector also note that on the one hand, IT skills are increasing in other areas of the world and on the other, that worldwide, high-end IT skills are in short supply.

This has given Indian IT organisations three issues.

Increased demand for Indian employees and more chance to move

The first is that with increased business from developed countries, skills in India are in increasing demand. Furthermore, the development of a common IT language will facilitate the development of a more global economy; the Indian software professional no longer depends only on Indian firms for employment. With globalisation, Indians can move anywhere in the world for jobs. And indeed, this migration is being facilitated by other countries which are in need of their skills. Indian software developers were the largest recipients of the US H1-B visa in 2000 - the primary work visa for foreign professionals, valid for up to six years and which also allows holders to apply for a Green Card. The Information Technology Association of America has been lobbying for an increase in the 65,000 visa limit because of IT skill shortages in the US. Congress temporarily raised the limit during the dot com boom.

An example of government and local government authorities starting to become involved in active recruitment for skilled workers is the city of Dalian, competing with Beijing to become the IT outsourcing centre in China. The authorities are beginning a four month recruiting campaign this Autumn, not just in China, but also in Canada, the US, Singapore, India and Japan (FT August 17 2005).

In addition, the poaching of employees between firms in India, and attrition rates generally in the sector, have long been a cause of concern. While figures vary, attrition in the IT/ITES sector has been estimated at 30 to 40 per cent. Of key concern is the attrition of entry-level employees, something that was reflected in the research we conducted.

Declining cost advantages

The second issue for IT companies is that India's software success has diminished one of its main advantages - low cost. Demand for Indian software developers in and outside the country is estimated to be reducing cost advantages by 10 to 20 per cent each year (Secrets of Software Success 2000). While as mentioned above, Sun Microsystems are planning to double their staff in India, the company expects the wage advantage to decline and so is also investing in China, Russia and the Czech Republic.

The disappearing price advantage will require Indian software organisations - indeed *all* firms offering offshore services - to demonstrate value beyond mere cost savings. Software companies in India are increasingly facing competition from global multi-national corporations that are replicating the Indian offshoring model (i.e. low cost/high quality/high volume) both in India and elsewhere. To maintain market share, Indian companies need to move up the software value chain to add more value.

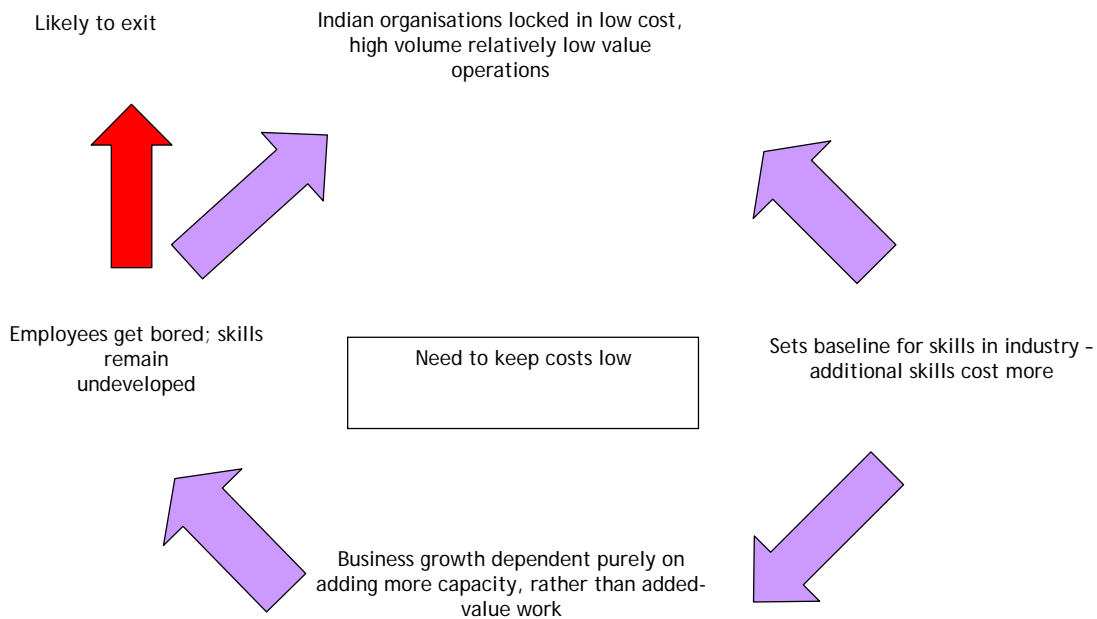
Difficulties in up-skilling locally

The third issue, and also a key question for Indian IT companies in the future, then, is not simply how to retain their people, but to grow skills in line with the aim of moving up the value chain to maintain their attractiveness on grounds other than cost. And here, for Indian organisations, lies one of their greatest challenges.

The organic growth of skills requires demand locally. Until very recently, there has been a limited domestic market to give firms an opportunity to develop their expertise locally before serving global markets (Parthasarathy 2004). Research from ICD in 1999 showed only 3.31 PCs per thousand head of population and UNICEF in 2002 reported only 2 internet users per 100 people in India.

Despite estimates this year from Forrester Research which indicate that India will add 80 million new PC users by 2010, an increase of 37 per cent by the end of the decade, India has lagged behind the world in the take up of information technology. Recognising this, the Indian government aims to increase the number of people owning a PC to 75 million and the number of internet connections to 45 million by 2010. However, it is clear that despite a revival of domestic growth in the IT/ITES market during 2003/4 (NASSCOM Industry Trends), the local market in which the IT and ITES industry could hone their skills is not solid at present. As mentioned, this makes moving up the value chain more difficult, as Indian firms may well be focused on satisfying existing business which uses only a limited range of skills.

Issues such as these form part of a vicious circle for Indian IT companies.



As most Indian firms have difficulty in extending their knowledge without increasing costs, this leads to an inability to provide value beyond writing code. This therefore sets the baseline for IT skills in India, which again, means that additional skills - to move organisations up the value chain - tend to cost more.

Growth therefore currently depends on adding more capacity and this becomes more difficult. Not only can employees become bored as their skills remain undeveloped because of the high-volume work they are doing, but also employees have no need to develop additional skills to move between employers. As a result, they do so with ease.

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.

Six senior directors from five software/IT organisations participated in this part of our research. The organisations employ nearly 12,000 people between them.

They were all growing organisations with an average increase in headcount planned for the following year of 35 per cent. From our interviews, their greatest concern was about the attrition of entry-level employees, which was defined by the majority of our respondents as employees having up to five years' experience.

Graduate recruitment - a growing problem?

The number of graduates our respondents thought they would recruit the following year varied from between 12 per cent of total headcount to a massive 55 per cent - roughly 1,900 graduates.

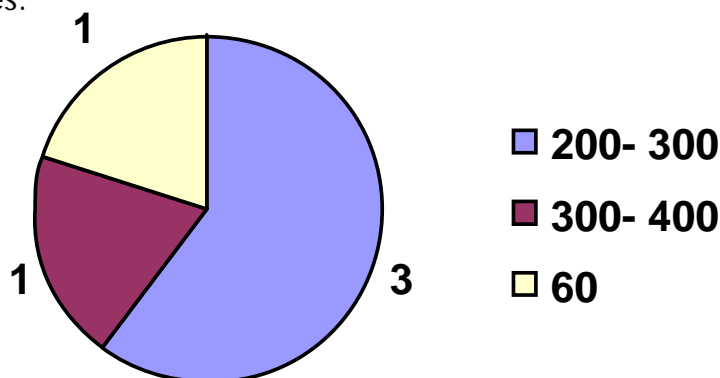


Fig 1: How many graduates will you recruit next year?

A comment from one respondent indicated that recruitment on campus is cheaper and easier than other ways of recruiting graduates. This in itself might be expensive in terms of time, if not cost, given that India's colleges number nearly 11,500, with more than 240 classed as deemed universities (Ministry of Education 2001 figures).

Given the huge growth of the industry - NASSCOM figures for the 2004 fiscal year indicate growth of 44.5 per cent in IT and ITES on the previous year - it is not surprising that the universities are struggling to provide the requisite talent.

The result is that even with graduate numbers topping 22 million, with 2.4 million added in 2004 alone, sufficiently skilled graduates are starting to be in short supply, and this is reflected in recruitment costs as HR managers join the "war for talent" which was mentioned by more than one of our respondents.

Recruitment costs varied considerably, from US\$540 per graduate to just over US\$1,000 per graduate.

More experienced hires where recruitment agents take a percentage of the first years' salary can often cost a great deal more (one respondent quoted between US\$10,000 and US\$12,000), and as a result, some companies are using existing employees to recruit for them.

"More than 45 per cent of our intake comes from employees who refer people to the company."

"We have a buddy reference scheme, which works very well for us."

This makes even more sense when these recruitment costs are put alongside the average graduate tenure. The longest tenure for graduates from our sample was five years, and the shortest only two years (see figure 2, next page).

"We lose 30 per cent of our graduates after two years, and after four, we've lost them all."

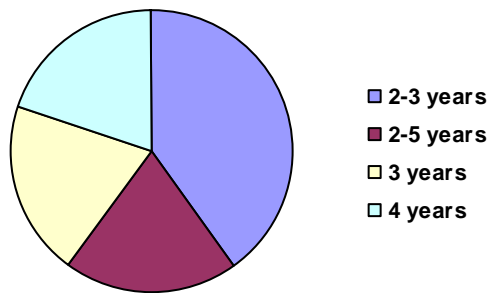
"We have substantial churn of employees between two and five years after joining us."

All respondents in our sample agreed that at campus level, competition for graduates was fierce, to the extent that all disciplines would be considered:

"We don't differentiate between them - everyone is trying to recruit from campuses

and we have a war of talent in India."

Fig. 2 On average, how long do graduates stay with you?



There was a split of opinion about the use of older workers - while some thought older workers were easier to retain than graduates, they were more difficult to recruit, and some thought older workers to be more of an effort managerially:

"Graduates are easier to recruit and retain because older guys have their whims and fancies. They often feel uncomfortable in a new situation."

Four out of our five respondents felt that the importance of graduate attrition will increase, while one thought it would remain at its current level of importance. The pace of growth of the industry is one obvious reason why companies feel the issue will increase in importance, particularly as currently, the growth of the industry relies on an increase in capacity, rather than firms working at a higher (and therefore more highly paid) level:

"We are growing like MAD. We want to grow five or six times bigger than we are and recruit 20,000 people."

There is also the view that currently the Indian education system is simply not keeping up with demand:

"It will become more difficult because the employment market is in a state; currently we estimate that there are 4,500 wireless engineers to fill 8,000 positions."

The Indian Government is aware that progress in its higher education needs to be made if the country is to prosper, not merely the IT industry. Indian universities have been under-funded for over 15 years - UNESCO research indicates that government 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 since reversed. Partly as a result of this, the quality of education in different higher education institutions is admittedly variable.

The Government has recently launched the Knowledge Commission to improve access and excellence in education and research institutions, perhaps hoping to address criticism made by the McKinsey Global Institute earlier this year that the overall quality of the education, with the exception of the top universities, could improve significantly (The Emerging Global Labour Market - the Demand for Offshore Talent in Services, June 2005).

With talent in relatively short supply, the impact of attrition on businesses is therefore keenly felt: four of our respondents pointed to the direct impact of additional costs of training and recruitment on the bottom line. Also mentioned were loss of billing and disruption to client services, which may put customer relationships - and their business - at risk. Mention was made by all of our respondents of the less easily quantifiable costs - of time and client trust, which impact on future opportunities and future business.

Two out of our five respondents felt that their retention rate for graduates was worse than other companies in the IT sector, two felt they were on a par, and only one felt it had a better retention record than other comparable organisations in the sector. There was, we felt, scant comfort in the view of four of our respondents that IT service industries and call centres had a worse retention rate than they did.

Middle and senior management - more stable

Thankfully, the recruitment problem at junior level is not repeated at all levels of all of the organisations we researched. Four out of the five organisations we spoke to had fewer problems at either middle or senior management level, although our respondents did report difficulties in recruiting to specific posts in marketing, HR and software development in both middle and senior level and sales at senior level. Two of the organisations we spoke to thought the importance of retaining middle management would remain the same, and two thought it would increase.

While only two of the organisations we spoke to thought that the attrition of middle managers affected their business, two thought it would impact them severely:

“We are part of a massive growth scenario. They are generally the leaders for today and tomorrow. Five years from now we want to be a \$1 billion company, today we are \$180 million. Retaining middle managers is the key.”

“Attrition of middle managers means the business vision will not be realised. It’s like having a boat with a hole in it in the middle of a river.”

“Leadership is an issue, and also loss of skills [when middle management leaves].”

While we didn't specifically ask for the average tenure of middle management, only one organisation thought that its retention rate for this level was better than other IT companies. Another organisation felt that their retention rate was better than service organisations and two felt that they did not retain middle management as well as organisations in the pharmaceutical, FMCG and construction 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.

Only one company reported difficulties in recruiting senior level executives and thought that the importance of retention at this level would remain the same - and have a similar impact on the business as the attrition of middle management:

"As the business grows, it is hard to have good leaders at the right time. Leadership shortage has a severe effect on the business."

According to the companies in our sample, senior management tenure is between eight and ten-plus years. There were a variety of views why this was so:

"Attrition is more stable with age. Married people stay longer."

"Loyalty comes with association - the longer they stay, the longer they *will* stay."

Perhaps this expectation that senior people will stay longer is one of the reasons why the recent senior executive departures from WiPro and Infosys have been so newsworthy.

Developing talent - a win-win

For organisations that are part of any growing industry, development of employees at all levels is crucial. Amongst our sample, there was a general recognition that training was a required element of being part of an emerging Indian profession.

When graduates join our sample companies, their general training is extensive and may last up to eight weeks; in addition, further technical training for specific assignments is also given which in some cases adds another six to eight weeks.

“The bulk of our people come with experience; our graduates go through training into the telecoms domain and then get placed into programmes.”

The general training tends to be formal, a set programme of modules and competencies including language, business etiquette (for that organisation), and support for the transition “from campus to corporate”.

<i>What training do you offer newly recruited graduates? (examples mentioned in interviews)</i>		
<i>Basic orientation:</i>	<i>Technical skills</i>	<i>Business skills</i>
Induction	C++	Behavioural training
Organisational policies	UNIX	Presentation training
	Testing methodologies	Language skills/written English
	Software engineering process	Business etiquette
	Configuration management	
	Java	
	IBM Mainframe	

In this way, Indian IT companies take graduates almost as raw materials and transform them into something the organisation can use. But this process of alchemy may cost organisations a great deal in training, time and in the delayed productivity of the graduates while they “settle in” and these costs may not be recouped if the graduates leave after only a short while.

The provision of good training at this level has both operational benefits and motivational benefits; graduates need to gain work skills and according to four out of five companies in our sample, the provision of training has a high impact on reducing graduate turnover.

Training at middle management level is also a significant investment, particularly “first manager” training. However, one of our respondents offered more “on the job” training at this level. The impact of training as a retention tool at middle management was less significant than at graduate level - it only had a medium impact.

This may be because, still in its infancy, the industry still values technical skills more than managerial skills, like Western companies in the 1980s. Alternatively, it may be that the IT industry in India is so young that enough managers have simply not been in place long enough to develop the skills required.

As could be expected, training at the most senior levels was more advanced and included strategy and leadership. The impact of training on retention at this level was thought to be negligible.

At this stage of their careers, it may be that senior managers are in charge of their own development, as part of their career management and they are not expecting their company to spoon-feed them.

Retention strategies

Buying loyalty

The companies we talked to felt they had a good idea of the reasons why their employees left them, although one of the five, when talking about graduates said:

“I wish I knew! According to our employee survey, they lack information about the company and they lack the line of sight in their career.”

As well as identifying what contributes to retention issues, our respondents have also made some attempts to deal with them.

Money and career options were top of the list of why graduates left. For example, all of our respondents identified that salary contributes at least to some extent (and three of our respondents felt that salary contributed a lot); as a result, four out of our five companies have introduced salary increases and three out of five “bonus schemes” with some effect. The view that “the grass is greener” seemed to run as a theme through the discussions, aided and abetted by the increased professional mobility afforded to them through the globalisation of the industry.

“They leave primarily because of pay.”

“Youngsters compare salaries with friends and batch mates. It’s a vicious circle.”

“Employees like to work on a variety of projects. They are keen on software products and opportunities to go abroad.”

A number of the organisations have developed their own methods of retaining employees by tying them into the organisation with money:

“We have a key employees list - the best of the best. We position them in the 85th-90th percentile of salary and effectively price them out of the market.”

In terms of using salary to combat graduate attrition, the impact was high for three companies and medium for one. Less of an impact was made by the introduction of bonuses - medium impact for three and high impact for only one company.

Where salary increases were used with middle management, the impact was high for two of the organisations and medium with another. Bonuses were not universally used with middle managers, and the impact was medium where implemented. One organisation told us it intended to introduce bonuses to more senior employees.

However, despite the seeming centrality of salary as a retention tool, there were conflicting views on its importance:

“A certain level of salary is a given. You need to set a good threshold, but it’s a hygiene factor, not a decision-maker.”

“People join us and stay with us for the money.”

In our experience, money tends to act as a yardstick for comparison when no other measure is available. The focus on financial gain (which includes bonus payments) may also be a symptom of the immaturity of the market.

Career planning

Only one respondent felt that lack of career progression **did not** contribute to retention issues with graduates and only one respondent thought that it **did not** contribute to retention issues with middle management. Certainly, when we looked at the comments on why middle managers leave, career development emerged as a theme.

Implementation of career planning programmes through all levels of the organisations, however, have had less than universal success, with respondents reporting low, medium and high impact of such interventions. This might be because of the complexity of some of the schemes:

“The programme [for graduates] has not been well used. We’re trying to simplify it.”

“We’re trying now to give a better line of sight to career opportunities in our company.”

A point made by one respondent is that career planning does not need to be formal, and should not be carried out only for senior personnel:

“Job challenge can be a part of career planning. And the quality of managers and leadership - at more junior level as well as senior - is important.”

Promotion: a risk too far?

Promoting employees to keep them in the organisation was not adopted by all organisations and had mixed impact on both graduate and middle management retention. Promotion, which can also be seen as additional job challenge, is one of the elements of job satisfaction. However, if given to employees with little experience, and if used only as a short term fix to retain restless employees, it is likely to prove risky for the organisation AND the employee.

Benefits or hygiene factors?

Our respondents had very mixed views on the impact of benefits on retention. Some companies have pulled together significant benefits for employees - from subsidised housing and unlimited sick leave to free transport and study sabbaticals. However, views of the impact of these vary quite considerably, from two respondents who consider them very important to one who said:

“These are hygiene factors and have a low impact.”

It may be that once packages of benefits are in place, employees simply expect them, which is why a competitive advantage is only present when organisations offer something that others do not.

ESOPs were adopted by organisations, had low impact for all levels of the organisation, primarily because the benefit is available to so few people.

Job satisfaction

Job rotation seemed to be implemented with only a few companies and for more experienced workers and middle managers only, but it had a positive effect, with two companies considering it to have a high impact and one believing it had a medium impact.

“We have programmes to try and lock people in and we are working on introducing job rotation.”

In classic organisational theory, the opportunity to use a variety of skills has been seen to be essential for job satisfaction - one outcome of which is intention to remain in the organisation. We would therefore expect that job variety would be an element that would help retention.

An interesting point was made by two of our respondents when tackling retention of middle management - that by the time employees reached middle management, they had somehow become worldly-wise and therefore almost all tactics to increase their retention were bound to have less of an impact:

“[Middle] Managers don’t get carried away easily, hence less impact.”

“Managers are not party freaks. They are sobered down by the time they reach middle management.”

We think that this more sober attitude is also aligned to the propensity of Indians to marry and start a family from their late 20s.

Work “shock”: managing expectations

One of the key themes that emerged from our research was that of realistic expectations - for graduates in particular, but also for middle and senior management.

Employee expectations measured against their actual experience in the job were considered to be a significant contributor to graduate retention issues for all except two organisations - one company in particular thought that unmet expectations contributed a lot to retention issues at all levels.

Of the remaining respondents, one felt expectation versus reality contributed "to some extent" to retention issues and one felt that expectations were well enough managed in their organisation through realistic job previews (RJPs), so this did not add to retention issues.

Even RJPs, however, do not always adequately prepare graduates for the nature of the work. This did contribute to retention issues, in the opinion of all but one organisation we spoke to. In some instances, it was not always possible to detail what work would be offered:

"We recruit people on projects so sometimes it's not possible to give them a clear understanding of what their job will be like."

Our respondents felt graduates were better prepared for the hours of work; three respondents felt that hours of work contributed to retention issues to some extent, while two organisations felt that this aspect of work made no contribution.

Our respondents stressed the lengths to which they went to ensure that the transition from outside into the organisation was made as easy as possible, from the development of a collegiate atmosphere to more specific help for individuals:

"We assign mentors for the entry level, but it all takes time."

"A lack of attention is what contributes to attrition - a new guy is isolated after plugging him into a project - he needs a mentor."

"We have a formal induction - do's and don'ts, working on protocols and a transition process called *Campus to Corporate*."

Exit interviews - reading between the lines

What is interesting about these comments is that, while all conducting exit interviews, the senior executives we spoke to often don't trust the information that they get from them. As a result, HR managers gain information on the reasons why employees leave their organisations more through deductive reasoning than through data, and often it leads them back to financial rewards as the driver of retention:

"The exit interview is an excellent instrument - at least, if gives a good post-mortem report."

"They underplay money but the behaviour points towards money; it is regarded as the lever in social status."

"I don't think they [exit interviews] reveal anything - I don't think there's any truth in what they say and I have no faith in exit interviews."

"It depends on the level of the individual. Senior managers tend to tell the truth. Of those who have been with us between two and five years, about 50 per cent tell us truthfully why they're leaving, if the level of trust between them and their managers is high. The other 50 per cent don't tell us what they really think because they don't want to burn their bridges."

"It is a ritual, but doesn't give us a right direction. We are forced to read between the lines. They do not reveal where the company failed to deliver the promise. Employees say "better prospects" and "compensation" which is a dead end answer. I don't believe in exit interviews."

"Like many companies we use exit interviews and reports. Many of the reasons they give us are euphemistically described as "personal" but it's often a combination of things. We'd be concerned if the people were leaving because they felt "stuck" and couldn't move forward in the organisation."

We agree that to some extent, employees will manage their image while exiting an organisation, perhaps to save face. Those who have been truly committed to the organisation are most likely to give truthful answers in exit interviews. We did not 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.

Attracting employees - reasons why they join

When asked why employees *joined* their organisation, our respondents cited a wide range of reasons. Interestingly, given the importance of money in persuading people to leave organisations, only one of our respondents felt that money was a significant incentive to *join* their company and they cited not only salary, but also bonuses.

For graduates, key reasons to join an organisation, according to our interviews, included the work itself, the quality of their peers and colleagues and the strength of the brand in the

marketplace.

“We’re rated as a dream company - we get the cream of the best colleges.”

“We’re a product development company and we have a good brand in the marketplace - we rank very highly.”

“Working in the technology industry is very attractive and we have a collegiate, informal culture. Also, their peer group has been recruited from the top schools and therefore people are always learning.”

When respondents considered why middle managers join organisations, the themes become slightly broader. Middle managers are more concerned about working globally and looking for opportunities. Money is again a key incentive, according to our sample, as is the type of work.

The impact of culture

The importance of culture was only specifically mentioned by two of our respondents - one in relation to graduate recruitment and one in relation to middle management recruitment. One respondent felt that working for his company helped to re-recruit people after they had left:

“They come back to us when they’ve left and found that the grass is not greener!”

This practice was also echoed by another organisation:

“We ask people who are leaving the organisation in a positive way to talk to us after three months in their new job to tell us what it’s like. This way we keep learning how to improve as well as staying in touch. Also, employees have the opportunity to come back to us.”

However, a very strong culture should also carry some health warnings:

“Because the culture is so friendly, this can translate into cliques and if people don’t fit in, they leave,”

For middle management, one respondent felt that the culture of his organisation was a distinct advantage in recruitment and retention:

“Working with us is an opportunity to work on world class processes, but we’re also a people-centred company. Performance is important, but not at the cost of people.”

This was echoed by another company:

“We stress work/life balance – some of our areas send people home if they’ve not left their desks by 9pm.”

The organisational cultures of our respondents were being influenced by social clubs and events, but the impact of these was mixed with both graduates and middle management.

Given the age of some of the organisations we interviewed, it might be that a definitive culture for them is yet to be formed. Two of our sample were less than four years old. In addition, at least one had been making a number of acquisitions that are also likely to impact the organisational culture. So culture as a facet of organisational life is more “fluid” in our sample than it might otherwise be.

The critical role of the manager

Without exception, all of our respondents considered that the skills of the immediate manager made a great contribution to retention issues, and four of them believed that the relationship with senior managers also did, to at least some extent.

“The manager is what starts people looking for jobs.”

“If managers spend their time with their staff looking at their career management, and continual employability, attrition will be low.”

“They leave managers, not companies. We need leadership development to make good leaders.”

Managers can also be part of the solution, as well as part of the problem, one respondent pointed out:

"If managers are perceptive they see the symptoms of the person who's unhappy up front - they need this sensitivity."

Management style was also considered important. For middle management:

"Their immediate managers take them for granted thinking they'll still be around in four or five years."

"Bad leadership by the immediate managers and inadequate attention to key talent is the cause for attrition."

The impact on India

The final questions in our interview asked whether respondents felt that recruitment and retention of employees to Indian companies had an effect on the Indian economy and whether it was cause for concern. Four of our respondents were very concerned and one simply thought it part of the rough and tumble of business life.

The impact on the Indian economy, according to our respondents, was varied. Two respondents considered that retention and attrition issues were a sign of the IT industry becoming more mature.

Talent being in short supply was one comment. One respondent thought that retention issues took him away from focusing on the strategic direction of the business, while another was concerned about possible inflationary impact from increases in salary.

A number of comments were made about the need for the country's infrastructure to develop in line with the pace of growth, although one respondent pointed out that this wasn't a quick fix and that change was needed in many areas, beyond merely business:

"Growth is high, and the infrastructure is not keeping pace - but like all things, the situation is very complex. We have many languages, many dialects - and unfriendly neighbours. We have a democratic form of government in India but it needs accountability and responsibility. With the sheer momentum of growth in India we are probably going to have no option but to change. The speed of change is very fast but our current form of democracy is slowing us down. Perhaps the momentum of the IT revolution will drive us to a more appropriate form of government."

The war for talent, one respondent thought, was key to the progress of HR in India:

“I think it’s inevitable that organisations will need to raise the standards of how they treat their people in order to compete for employees.”

Those to whom retention was a concern made a variety of suggestions on how to improve things and also told us of initiatives they had started:

“I began the Long Service Award and people laughed at me. The long service award for five years is called the Five Star Club. We award trophies, expensive pens, give letters of congratulations and invite families to dinner at expensive hotels. We do a presentation in front of senior management. We also run the Ten Star Club, which rewards ten years’ service. I have realised that 45 per cent of staff in my company are from the Five Star and Ten Star Clubs.”

One respondent felt strongly that the industry should work together to deal with the problem of retention:

“Companies should ultimately decide not to recruit job-hoppers or someone who has not completed a term project of say 18-24 months. I also think that similar competencies should have a similar salary - the variance should be at a maximum of five per cent. Currently there is a 30-40 per cent difference for similar skills.”

Suggestions were also made about potentially pooling HR resources to provide joint training and skills programmes, and to share costs. If wage levels were ultimately pegged by IT companies in India, we’re not sure what the outcome would be for the employees. The McKinsey Global Institute has indicated that Indian IT workers are some of the most mobile in the industry. With a worldwide shortage of skills, India may end up losing its most skilled workers and engineers to other countries such as the US, Canada and Australia, thus reducing its competitive advantage.

Retention in India - an interpretation

Before we add our own interpretation to the findings, it is interesting to note the differences between our respondents about the imperative to deal with retention:

“Turnover is an industry phenomenon. Employees like to learn and develop skills, they’re growing their wings and it is, in the end, a supply and demand phenomenon. It’s all very positive for the Indian economy when the software industry is growing and more opportunities are coming.”

“It is the IT industry in the process of getting to maturity.”

As mentioned, not everyone was so sanguine:

“We need to stop this bleeding of talent. Compensation levels are shooting up. China, the Philippines and India are vying for business. Cost is not the single factor; quality needs to be kept intact. We cannot keep increasing our costs by not reducing attrition.....If we don't stop this problem, we will make India unviable for business.”

“Loss of knowledge, costs of attrition, retention and training will override the outsourcing costs.”

This last comment is echoed by a number of academic and business commentators. Already, a “second wave” of outsourcing is being mooted, and in some cases, is being pioneered by Indian companies. A recent article in the Economic Times reported investment by TCS, Infosys and WiPro in China and the Philippines.

So - if retention is an issue for Indian IT companies, what can be done?

Our associate, Dr Mahen Tampoe, has conducted a great deal of research around knowledge workers, for the UK's Industrial Society (now the Work Foundation) and for many organisations. He was a senior manager in ICL before moving into academia and consultancy, and a result of his work and research, has identified three key areas for the motivation and commitment of knowledge workers - into which category IT and ITES employees will fall.

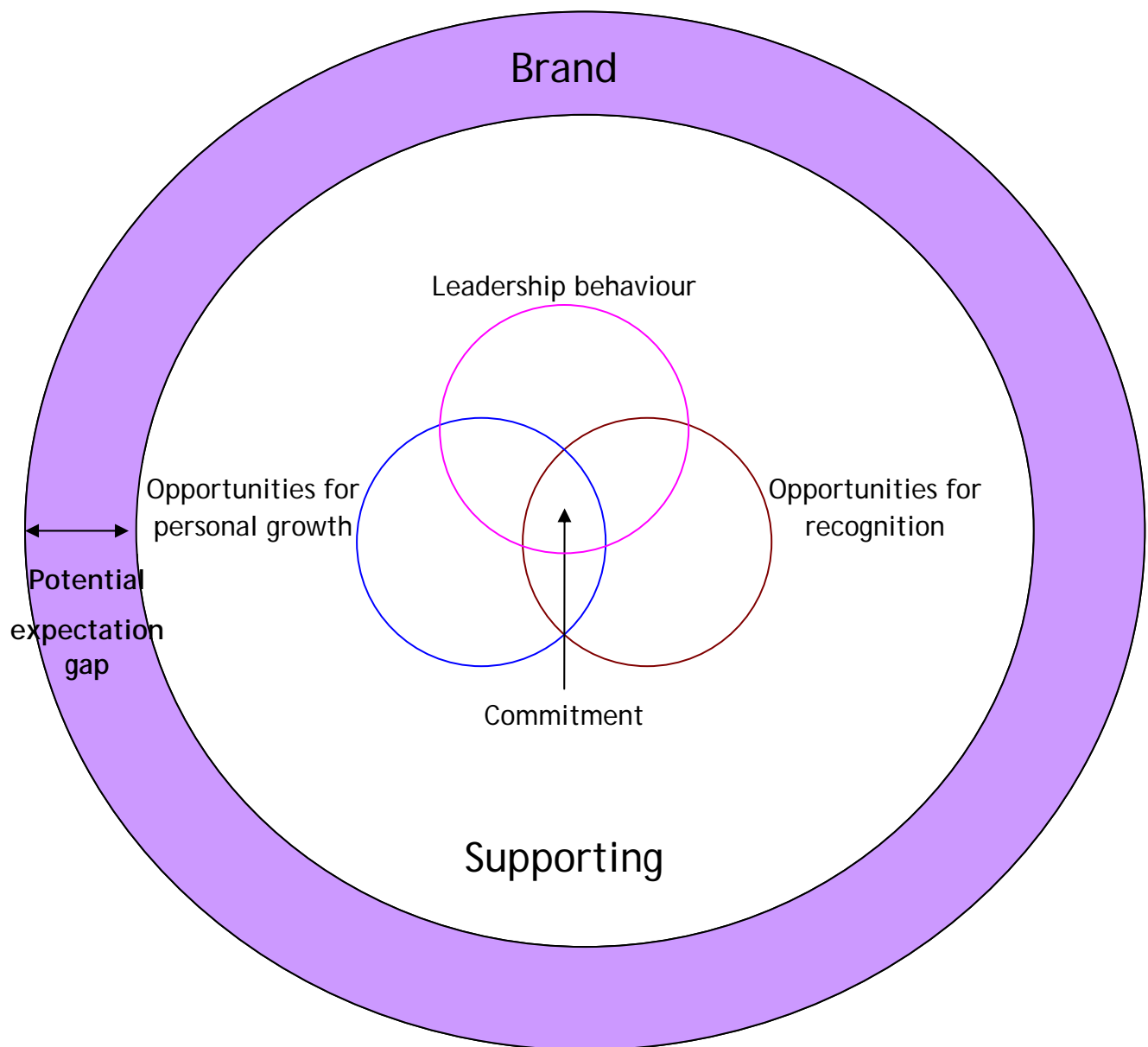
Knowledge workers want:

- Interesting projects
- Growth (of their knowledge)
- Recognition

Bearing this in mind, we believe the opportunities for our respondents lie in four key areas:

- The development of culture and brand to encourage commitment
- The development of opportunities for employees' personal growth
- The development of opportunities for employee recognition
- The development of leadership behaviour

The development of culture and brand for commitment



Our focus on culture is because of its links to competitiveness. Competitive advantage is created by developing services that are difficult for competitors to replicate. Part of these services will include the culture of the organisation.

One of our respondents said:

"Organisations need to develop a value proposition based on job challenge, the quality of leadership, the employability of employees, work/life balance and the treatment of people in good times and bad."

We agree. This is what we would describe as an employer brand and one of the most valuable things that an employer brand can deliver is *commitment* from employees.

It seemed to us that the concept of commitment was missing from the interviews we had. Commitment has long been a subject of academic research, and studies have found that committed employees:

- Want to retain membership of the organisation
- Are prepared to engage in organisational commitment behaviours - that is, doing work above and beyond the job for the good of the organisation
- Are more satisfied with their jobs

A number of elements are involved in the development of commitment and it is an area which has been well researched academically, particularly with graduate populations. Elements that contribute to commitment in organisations, particularly with new joiners, include:

- Confirmation of their expectations
- Job scope
- On the job experiences during the first month of employment

Interestingly, a key cause of retention issues for the majority of our respondents was the gap between expectations and reality. This is an area that contributes significantly to the development - or non-development - of commitment. Expectations can be raised by the way organisations promote themselves and their products, how they answer the phone, how they recruit - indeed, the very way in which they operate, or their culture.

We recommend that Indian IT companies consider their culture and the brand, where and how graduates and new joiners come into contact with it, and what impressions they form. Then we suggest they compare these impressions with the way new joiners are socialised into their organisations to see how far the organisation is making promises through its advertising and recruitment campaigns that it is not able to deliver.

The development of leadership behaviour

It has already been noted that the relationship that staff have with their immediate manager is a prime cause of discontent and potentially attrition.

We think that Indian employees may start their relationship with IT companies full of expectations that are well fulfilled until their initial training is completed. After this time, they will be left in the care of a manager.

Management behaviour is a key expression of an organisation's culture and unless managers are very skilled, when new entrants transfer to their manager, their expectations can easily be disappointed. For their first weeks in the organisation they have been trained and guided, and *valued* - managers need to ensure that they continue to feel this.

Our view is that the emphasis that is given to salary may be a proxy for feeling valued - and that when the importance of an employee is determined by salary, this is what employees demand to show how much the organisation cares about them. If another organisation will pay more, the implication at the moment is that they *value* them more. This is of course not limited to junior level staff - employees at all levels of the organisation want to feel valued.

We believe the issue of retention will be alleviated if companies find more, and more creative ways to demonstrate that they value their employees than paying them. Not only is the current practice damaging to the industry's overall competitiveness, but it is turning highly valuable knowledge workers into a commodity, where the price is the only thing that matters.

The development of opportunities for recognition

Manager involvement in the propagation of the culture is very important - in fact, culture is defined by how people treat one another, talk to one another and share information. However there are interventions on an organisational level that can support culture. One area is that of recognition.

One respondent told us of a long service award that he was responsible for introducing. His comment was:

"I began the Long Service Award and people laughed at me. The long service award for five years is called the Five Star Club....." (our emphasis)

The point we want to make here is that any interventions to recognise people need to be culturally-relevant; what works in one organisation may not work in another. What is important is that some attempt to recognise workers is yet another way of making them feel valued.

Knowledge workers may not appreciate being made employee of the month - but they may well appreciate being allowed to make a presentation to senior management or run a seminar at an external conference. They may feel proud and pleased to publish a paper on the work done in their department or on industry issues and be recognised for this internally.

If managers have never been asked to look for opportunities to recognise employees - "catch them doing something right" - they may feel uncomfortable at first, and training workshops can address this.

In addition, we recommend that employees be asked to help identify areas where recognition would make them feel valued and appropriate schemes put in place to support individual manager actions.

The development of opportunities for growth: a potential win-win

The crucial need for employee skill development to help the industry as a whole was highlighted at the beginning of this research - without local development of skills, the IT industry may struggle to rise out of the low value, high volume work it currently undertakes.

Additionally, according to our previous research and other academic studies the opportunity to develop is one of the key motivators of knowledge workers. One of our respondents noted:

"Job challenge can be a part of career planning. And the quality of managers and leadership - at more junior level as well as senior - is important."

Development does not need to be only addressed through training, it can be addressed through special assignments, delegation and job rotation - all of which enable employees to grow their skills. We believe that some sort of "future audit" to discover what employees would *like* to be able to do, conducted in strict confidence, would provide a sound basis for action.

The development of opportunities for recognition and growth is a key component of culture. These opportunities support one another and are greatly influenced (for good or bad) by leadership skills. Thus, all the interventions we have outlined here would fit together and enable senior executives to really begin to tackle the development of commitment in their organisations, in turn positively impacting turnover.

Getting started

So which of these ideas offers the best opportunity for our respondent companies? There are, of course, clues in the individual interviews we conducted. However, given the importance of the issue and the investment that would be needed to implement any one of the suggestions, we would recommend that the start point should be a diagnostic questionnaire.

This would be effective because there are large numbers of graduates in these organisations. This means that asking them a series of questions known to pinpoint causes of lower commitment and hence inclination to leave, would produce statistically valid and reliable indications of the largest gaps between the company's current practices and the needs of the graduates. This in turn would help to guide investment to where it would have the greatest pay-back.

This is not a "quick fix" but should show benefits within a few months. Indeed, the recognition signalled by senior management through the process of the questionnaire itself could have an immediate positive effect in some companies.

However, in the short term we would also recommend that companies examine the process of recruitment itself. As well as its potential impact on retention, there may be opportunities to reduce recruitment costs by, for example, automated screening of applicants.