Factor Analysis Approach to Explore Dimensions of Employee Retention in BPO Industry in Kerala

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Abstract

Global trade in services is fast growing than trade in goods. Outsourcing of intermediate goods and business services are the most rapidly growing components of international trade. IT-BPO sector has become one of the most significant growth catalysts for the Indian economy. In addition to strengthening India's economy, this industry is also positively influencing the lives of its people through an active direct and indirect contribution to the various socio-economic parameters such as employment, standard of living and diversity among others. Human resources are the drivers and principal value-creators of the output of this industry. Therefore, attracting, training, retaining and motivating employees are the critical success-determinants. However, retaining talented employees is a serious concern in knowledge based organizations. The present study aims at identifying the major dimensions of attrition in BPO industry in Kerala. A survey instrument was developed for the study to gather information from the respondent employees in Kerala. The population for this study comprised of employees working in various BPOs in Kerala. A sample size of 240 was chosen by simple random sampling method from 50 selected BPOs in the State and Exploratory Factor Analysis was used to extract dimensions of employee retention. Twenty five variables were identified and six dimensions were extracted to delve into probable causes of employee retention. The result showed job support & recognition and Compensation & Career growth as the most significant factors of retention of employees in BPO industry in Kerala.

Keywords: Business process outsourcing; Retention; Employee turnover; Organizational culture; Compensation; Motivation.

Introduction

The ITES/BPO Industry is playing a vital role in India's economic growth. It accounts nearly for 5.2 percent of the country's GDP. Over the last 10 years, this industry has grown at an average annual rate of 30 percent. The aggregated revenue from the sector is estimated at USD 95 billion in FY year 2013, growing at 10.2% over FY 2012 with the provision of direct employment to about three million people. It is expected that the industry will reach USD 106 – 111 billion during FY 2014; a growth of about 13 – 15% over FY 2013. Domestic revenues will also grow at a rate of 13-15 per cent and are expected to reach INR 1180-1200 billion (NASSCOM 2013). Key global megatrends around macroeconomics, demographics, social, environmental, technology and business will present a new set of opportunities in the form of largely untapped markets and customer segments, which can propel industry revenues to USD 225 billion by 2020 (NASSCOM 2011). With the whirlpool of opportunities the Indian Business Process Outsourcing sector seems to be on a happy ride.

India became familiar with 'Business Process Outsourcing' only in the early and mid 1990's, but now the entire country seems to be quivering with the 'BPO fever'. The foreign direct investment (FDI) in the country owes a

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lot to this sector, which is progressing at a break-neck speed. India has the second largest English-speaking scientific professionals after the US. It is considered as a knowledge economy with a highly talented technical workforce. A knowledge economy is one that relies intensively on human skills and creativity, the utilization of human intellectual capital supported by life-long learning and adaptation, the creative exploitation of existing knowledge, and extensive creation of new knowledge through research and development. Knowledge-workers are the main resource in the IT Industry. They add value to their organizations through their communications skills, high level of education, and domain knowledge. As such, employees in the IT Industry are valued human assets and not nonessential cost-centers. Therefore, attracting, training, retaining and motivating employees are the critical success-determinants. The objective of this brief research paper is to identify the crucial factors of retention.

Employee Retention

High attrition rate is an important issue in BPO industry. According to a recent survey conducted by All India Management association (AIMA) on CEO's and HR managers of different IT organizations, attrition is the second important issue related to HR department. a global call-centre report (Neale Helen 2004) state that Indian call centers (a significant vertical of BPO) have the highest employee turnover of 40% against a global average of 20%. Another benchmarking analysis (Scholl Rebecca 2003) reports that while India had the second lowest average full-time customer service agent annual salary (US$3334) just ahead of China, it had the greatest level of call centre agent attrition (38%) and lowest average employee tenure (11 months) in the Asia Pacific Region. Thus, there appears to be a situation in the Indian ITES/BPO industry where highly qualified workers entering this services sector nonetheless exit the industry in high numbers after short stints at work. A speaker at the ITES-BPO Track at

NASSCOM commented that it is not ITES, but Human Resource Enabled Services (HRES); and this concisely explains the importance and value attached to the 'people' aspect in this service industry ((NASSCOM 2003).

Retention of knowledge workers is a process in which the employees are encouraged to remain with the organization until the completion of the project or till the time of their retirement. It is beneficial for the organization as well as the employee. Employee retention and attrition is 'flip side' of each other.

High attrition not only reduces the efficiency or customer satisfaction, but is also expensive. When an employee quits, there is departure of knowledge, skills and contacts creating a huge dip to the organization. When the employees move they not only take skills and knowledge but also trade secrets with them as they typically moved to the competitor's organization (Abassi and Hollman, 2000).This create a great need to identify the reason for the high attrition rate. Companies are facing high attrition rate due to which they are losing their top talent. It is very important to retain top talent by talent management. 'Talent Management is the process through which employers anticipate and meet their needs for human capital' (Peter Cappelli, 2008). It is very important to retain top talent to promote innovation and creativity which will help organization to differentiate from its competitors. For employee retention two factors are important i.e. length of relationship and relative concern for individual. Short term relationship leads to high attrition rate. To increase the length of relationship, organizations are investing more in career development and security and position their recruiting efforts to reflect the long-term benefits of employment. Those seeking short term relationships are most likely to expend additional resources on compensation and benefits (Agarwal and Ferratt, 2001).

Review of Literature

Abhoy (2000), concluded that ensuring employee commitment and retaining best talent

is the major challenge in software firms. Agrawal *et al* (2003) suggested that the work place must be conducive for learning and at the same time informal, full of fun, excitement and passion so that employees can learn, experiment and relieve stress. Gwen *et al* (2003) concluded that changes that could be made to make the workplace more challenging and rewarding includes having a more flexible work environment, more effective communication and more career development and training. Suryanarayana *et al* (2003) found that work environment is a significant factor that affect job satisfaction and work commitment of software professionals. Deepak *et al* (2012) found that employees in at a comparatively lower age have a higher propensity to leave the job and lack of safety among female employees and availability of more career opportunities in the external labour market are the most significant reasons for employees to leave the organizations. Muhammad Umer *et al* (2011), in their paper on employee retention in BPO industry in Pakisthan, identified that the variables such as career development, supervisor support, work environment and work life balance have significant and positive impact on employee stay in BPO industry.

Monis *et al* (2011) concluded that the employee growth and development activities such as continued education courses, tuition reimbursement, career development skills training, opportunities for promotion and internal career advancement, coaching, mentoring and leadership development programmes have a positive impact on enhancing employee satisfaction and reducing the possibility of employee leaving. Karthikeyan (2010) found that variables like sufficient financial resources, encouragement by supervisors, effective leadership, efficient feedback system and good relationship with colleagues play a significant role in improving organizational climate. Adhinarayanan *et al* (2011) found that career growth and compensation are the important causes for increased employee turnover in companies and employee, employer and supervisor all are responsible for the hike in the rate of attrition.

They strongly recommended for the conduct of an exit interview to realize actual cause of leaving and to reduce the possibility of future employee turnover.

Shaveta *et al* (2011) concluded that as the total cost in association with hiring of employees to fill the vacancy of the gone out employee is substantial, organizations have to build their own retention strategies to ensure long-term stay of their best talent. Shefali *et al*(2012) recommended for the adoption of certain techniques like Muscle Relaxation, Biofeed Back, Meditation, Cognitive Restructuring, Time Management, Employee Assistance rogramme and Employee Wellness Programme to minimize stress, enhance productivity and to reduce the employee dissatisfaction. A study by Venugopal *et al* (2006) revealed that most of the organizational measures to retain talented persons such as rewards, recognition and appreciation, better communication etc. are accepted by the professionals. Gayathri *et al* (2012) said that frustration and constant friction with their superiors or other team members are the real reasons of most employees leaving an organization and identified mentoring, well equipped safety environment, potential and prospective roles, encouragement and recognition and competitive compensation as the significant variables that influences employee retention.

Need of the Study

No significant research studies are carried out on the problems of BPO industry in Kerala. Most research in the BPO sector are on national basis to address specific problems related to environmental analysis like organizational climate, work life balance (Kanwar 2009), the HRM systems (Rakesh Yadav 2011), growth and opportunities, challenges, issue of attrition and issues of job satisfaction, job stress (Shefali 2012) etc. in Indian BPO industry. Review of various literatures on employee retention in Indian BPO industry reveals how various researchers have identified a plethora of reasons behind the burning issue of attrition

and what are the recommendations they made for retaining employees in this industry (Misra P.,2007; Prakash 2012;, Singh Harsimran 2005). Most of the research on BPO industry, especially on Indian call centers is based upon qualitative approaches involving small numbers of workers (D'Cruz 2007; Mirchandani 2004, Shah 2003). Broader based survey research has been restricted to managerial aspects. Presumably due to the difficulties in gaining research access to BPO units, employee voice on a larger scale has been absent from much of the studies, although recent work is beginning to address this deficit. A few studies have canvassed employee perceptions of their work. However, such studies are not reliable as they depend on either small number of samples or spread across a large number of organizations. A remarkable research on the dimensions of employee retention is not yet done in Kerala. In this context there is the strong need to conduct an elaborative study to identify the major dimensions of employee retention in BPO industry in Kerala so that measures can be taken to retain employees.

Statement of the Problem

IT-BPO sector has become one of the most significant growth catalysts for the Indian economy. However, the sector is facing the challenge of shortage of sufficient competent middle and top level managers and poor retention rates. Studies on various dimensions have been done in India and abroad to address the issue pertaining to IT/BPO industry. But, most of the studies limited their scope on HR practices, employee work life balance and stress. Assurance of employee retention is a crucial challenge to any manager. Kerala state is a growing BPO destination in India. The cities like Thiruvananthapuram and Cochin, are growing fastly, especially after the formation of Special Economic Zones and development of Info park and Techno park. It is expected that both these cities will become Tier II cities in terms of BPO development (at present they are included in the list of Tier I Cities). As per a recent Nasscom estimation,

about 120000 new job opportunities will be created in IT and ITES sector in 2013. However, huge rate of brain drain and attrition in BPO industry in Kerala badly affects its accelerated growth in our state. Therefore, it is necessary to identify the various dimensions of employee retention in BPO industry in Kerala in order to ensure long stay of employees in this sector. Since there are no remarkable studies on this aspect pertaining to Kerala, the present study is significant to develop employee retention strategies in BPO sector in the state.

Objective of the Study

The specific objective of the study is to identify the major dimensions of employee retention in BPO industry in Kerala.

Scope of the Study

The study confined to BPO employees working in Kerala. As the population is high, it is not possible to build a one-to-one rapport with all the employees; hence a limited sample of 240 employees from different BPO verticals is selected for detailed study and analysis. Thus, the scope of the study is limited to the selected samples and selected dimensions of attrition.

Research Methodology

A systematic and organized methodology was used for the research study. An extensive field survey was conducted to obtain the required information. The population for this study comprised of employees working in various BPOs in Kerala. A sample size of 240 was chosen for this study. Convenient sampling technique was used to gather data from the respondents. The study is restricted only to lower and middle level employees where the attrition is highest. The questionnaire was intricately designed to tap the information about the factors responsible for retention. Respondents were asked to