

Managing Attrition: The Real Problem Behind the Growth of Business Process Outsourcing (BPO) Companies

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ABSTRACT

Human Resource is considered to be the most valuable asset in an Organization. It continues to play, even in the computer age, when everybody feels that men have a little role to play. It is true that computer, to some extent, does play a role, but programming and feeding such programme require manual operations. In other words, the application of manpower has no substitute and therefore, it has a continuous role to play. The main problem against the manpower development is attrition. The rate of attrition is increasing every day so that production and profit decrease. Noteworthy is the continuously growing rate of attrition among the IT, ITES and other Software based companies. This has made the companies to take up research studies based on their employees, especially to identify the factors of attrition. This research on the attrition analysis helps to know about the employees' attitude towards the company and the work, also highlighting various other direct and indirect effects of attrition on production, cost, discipline and efficiency in the industry. The reasons influencing the attrition such as low satisfaction level in salary, practices followed by local players, relationship with immediate boss, work stress, etc. were found to be common among most of the IT companies. This research discusses the remedial measures and those recommendations that can be considered by the companies positively to reduce attrition in the days to come.

Keywords: IT/ITES, Attrition rate, Attrition costs, Innovative ways

INTRODUCTION

Attrition is a common phenomenon, found every where throughout the terrestrial globe, with exception to any one country. Human Resource is considered to be the most valuable asset in an Organization. It continues to play, even in the computer age, when everybody feels that men have a little role to play. It is true that computer, to some extent, does play a role, but programming and feeding such programme require manual operations. In other words, the application of manpower has no substitute and therefore, it has a continuous role to play. The main problem against the manpower development is attrition. The rate of attrition

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Attrition – the management view

“Our assets walk out of the door each evening. We have to make sure that they come back the next morning”

- Narayana Murthy, Chief Mentor of Infosys.

“With so much of uncertainty in the market people are trying their best to stop or to at least have a control on the attrition rate. Let me share with you the opinion of the real gurus of the industry. Training is a very important aspect of the ITES-BPO industry”

- Mr. Arjun Vaznaik, COO, Tracmail

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“Career growth in the industry is robust

and there is a long-term opportunity. The great growth momentum that the industry is witnessing is creating both vertical and lateral career opportunities. There also exists enough growth opportunities in the middle-management and supervisory level within the industry”.

- Aadesh Goyal, Executive Vice President & GM, Hughes BPO Services

“It will not be possible for the industry to arrive at a blanket agreement on poaching but bilateral agreements between companies are being signed. Basic norms are being put in place and code of ethics is being stressed upon by industry players within the sector with respect to HR practices. We are encouraging companies to adopt responsible behavior in order to ensure that the industry does not become a victim of its own actions. Industry needs to go aggressive but not cannibalistic.”

-Mr. Suren Singh Rasaily, Senior Vice President, NIIT Ltd. and Head Plantworkz,

Objectives of the study

The reason behind the study is to know the attitude and satisfaction level of the employees and reason for departing from BPO Companies. When the companies provide them with all the necessary facilities within the building, the employees will be pleased to work in the company. The lack of facilities in the company would cause dissatisfaction of the employees and will pave the way for them to leave from the company and also hit hard in the targets of the company. The top-level people will be always thinking about the targets and goals of the company. They will not be ready to hear any problem within the office in terms of the facilities. They will be always insisting to keep up the targets, against all odds. This has made it important to understand the employees and factors in the BPOs to revamp and revive the industry.

The study was carried out with the objectives:

- (a) To study the attrition rate in BPO Companies.
- (b) To ascertain exact reasons of the departed employees for leaving the companies.
- (c) To find out the attitude of the departed employees' towards the companies.

- (d) To know the perception of ex-employees about the working environment.

The study mainly focuses on employee attrition and suggesting measures to minimize attrition rate. The attrition rate is analyzed for finding job security, working conditions, motivational factors, Superior-subordinate relationship, welfare facilities, and leave facilities

The problem background - the literature

- In HRM REVIEW magazine dated March 2008, Col.P.S.V.Ramanan in his article on “Motivational Strategies for attracting and retaining the talent: Indian armed forces”, discussed the difficulties encountered in attracting talented youth to bear arms for the country, especially in the officer cadre leading to the persisting shortages of officers in the armed forces.
- In the website www.incentivecentral.org, Commitment and Necessary Effort Model (CANE) of motivation had been published and also employee dilemmas in key factors of performance had been mentioned.
- In HRD NEWSLETTER, March 2008 issue, K.Sangeetha in her “Fun and Laughter at Workplace-An Attrition Blocker?” article says that creating a fun and laughter filled work environment in an organization will pave way for its success in the market place. Such a company is sure to emerge as an ‘Employer of choice’.
- An analysis of city rankings by different surveys and study of recent outsourcing trends reveals that the top 10 outsourcing destinations in India-Article published in December 2006 in chillibreeze.com
- In the website www.bpoindia.org, it was mentioned that, the business process outsourcing (BPO) industry in the country which is expected to employ around one million people by 2008 is facing the challenge of finding quality human resources given the current attrition rate of around 50 percent.
- Analysts say attrition rates vary by 20%-40%

in some firms, while the top ones averages at least 15%. Nasscom in a report said the outsourcing industry was expected to face a shortage of 262,000 professionals by 2012.

- The size of the Indian BPO market is likely to be around \$9-12 billion by 2006 and will employ around 400,000 people, ICRA said in its Indian BPO industry report

METHODOLOGY

The research was done in a descriptive manner, in which the attrition problems were studied among the BPOs in the State. Descriptive Research includes the surveys and fact-finding enquiries of different kinds. The major purpose of descriptive research is the description of the state of the affairs or problems. The findings and suggestions based on the research had been represented adequately.

Data Sources Sampling

Both primary and secondary were utilized to arrive at the findings and conclusions for this study. Secondary data used in this research were collected from reports, online journals, printed magazines, books, company records and survey reports on industry. The primary data was gathered through interviews and telephonic discussion with the executives of about 65 BPOs in the State, adapting a simple random convenience sampling technique. The views and opinions of the executives were recorded and then analysed statistically for arriving at the strategic findings for the study.

Attrition – the real problem of hr

The business process outsourcing (BPO) industry in the country which employs around one million people is facing the challenge of finding quality human resources given the current attrition rate of around 50 percent.

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Attrition rates in IT-enabled business process outsourcing sector have come down from the 30-33 per cent being witnessed of late to about 25 per cent now, according to statistics compiled by the National Human Resource Development Network.

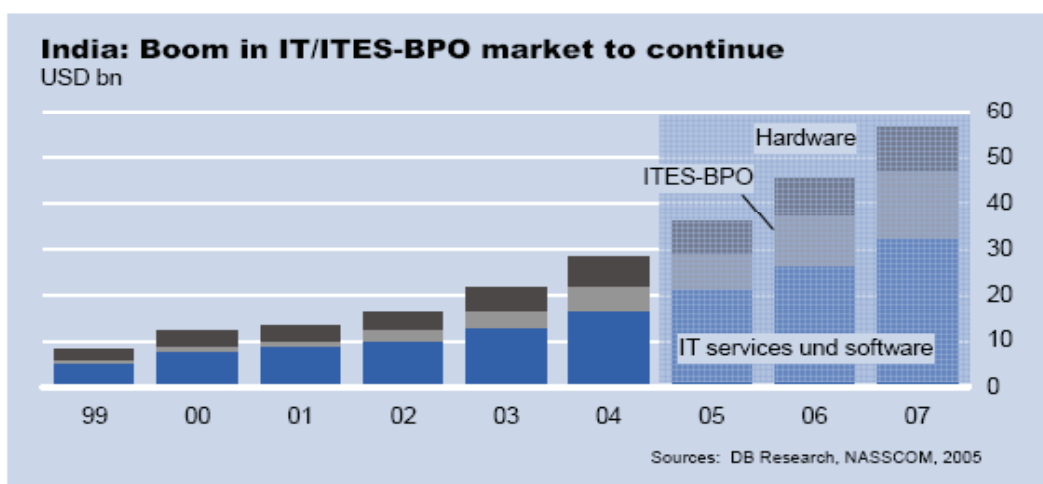
Table 1. Average Attrition rates of Different Countries in 2008

Attrition rates	%
US	42%
Australia	29%
Europe	24%
India	18%
Global Average	24%

Source: India Times

With the global financial meltdown it appears employees prefer to stick to their current jobs as much as possible. In 2007 the attrition rate was about 50-55%. In November 2008 BPO attrition

Figure 1. Chart showing the Growth of BPO market in India



Source: nasscom report, 2008

fell to 30%. The attrition rate in few leading companies are,

- Infosys BPO 28%
- Wipro BPO 18%
- TCS BPO 21-22%
- Tesco HSC has seen a 6% drop in attrition

Reasons for people to prefer to join bpo's

In general a person with any graduation can join any of the BPO. Some BPO's like to take people with MBA but then again the specialization are of an individual hardly makes any difference. Again, this is the industry; where there is no reference checks and very often people don't even specify there exact age.

Lets share some of the reasons as to why people prefer to join a BPO:

1. Did not get a better job.
2. Find nothing better to do.
3. Education level doesn't matter
4. Good work environment
5. Good Benefits
6. Flexibility of time
7. Attractive life style
8. Transport facility

Reason for people to leave the bpo's?

When there are so many benefits associated with BPO industry. when there are so many privileges for the BPO employees than what makes them to change the company/industry? Is it only MONEY that matters or anything else as well?? Here are some of the reasons for a BPO professional to change his/her job.

- No growth opportunity/lack of promotion
- For higher Salary
- For Higher education
- Misguidance by the company
- Policies and procedures are not conducive
- No personal life
- Physical strains
- Uneasy relationship with peers or managers
- Mismatch of job profile
- Employees' expectations of the job.
- Lack of recognition/appreciation
- Lack of trust
- Lack of empowerment and employee engagement

- Odd working hours
- More lucrative job offers

Challenges for a hr professional in bpo

1. Brand equity: People still consider BPO to be "low brow", thus making it difficult to attract the best talent.
2. Standard pre-job training: Again, due to the wide variety of the jobs, lack of general clarity on skill sets, etc, there is no standard curriculum, which could be designed and followed.
3. Benchmarks: There are hardly any benchmarks for compensation and benefits, performance or HR policies. Everyone is charting their own course.
4. Customer-companies tend to demand better results from outsourcing partners than what they could actually expect from their own departments. "When the job is being done 10,000 miles away, demands on parameters such as quality, turn around timeliness, information security, business continuity and disaster recovery, etc, are far higher than at home. So, how to be more efficient than the original?
5. Lack of focused training and certifications Given this background, the recruiting and compensation challenges of HR departments are only understandable.

Components of attrition rate

Total Number of Resigns per month (Whether voluntary or forced) divided by (Total Number of employees at the beginning of the month plus total number of new joiners minus total number of resignations) multiplied by 100.

$$\frac{A}{B} \times 100$$

A= (Total no.of.resigns/month)

B= (Total. no. of. employees at the beginning of the month +total .no .of .new joiners- total. no. of. resignations)

If it is calculated in monetary terms, it includes the following:

Costs Due to a Person Leaving

1. Calculate the cost of the person(s) who fills in while the position is vacant. Calculate the cost of lost productivity at a minimum of 50% of the person's compensation and benefits cost for each week the position is vacant, even if there are people performing the work. Calculate the lost productivity at 100% if the position is completely vacant for any period of time.
2. Calculate the cost of conducting an exit interview to include the time of the person conducting the interview, the time of the person leaving, the administrative costs of stopping payroll, benefit deductions, benefit enrollments.
3. Calculate the cost of the manager who has to understand what work remains, and how to cover that work until a replacement is found.
4. Calculate the cost of training your company has invested in this employee who is leaving.
5. Calculate the impact on departmental productivity because the person is leaving. Who will pick up the work, whose work will suffer, what departmental deadlines will not be met or delivered late.
6. Calculate the cost of lost knowledge, skills and contacts that the person who is leaving is taking with them out of your door. Use a formula of 50% of the person's annual salary for one year of service, increasing each year of service by 10%.
7. Subtract the cost of the person who is leaving for the amount of time the position is vacant.

Recruitment Costs

1. The cost of advertisements; agency costs; employee referral costs; internet posting costs.
2. The cost of the internal recruiter's time to understand the position requirements, develop and implement a sourcing strategy, review candidates backgrounds, prepare for interviews, conduct interviews, prepare

candidate assessments, conduct reference checks, make the employment offer and notify unsuccessful candidates. This can range from a minimum of 30 hours to over 100 hours per position.

3. Calculate the cost of the various candidate pre-employment tests to help assess a candidate's skills, abilities, aptitude, attitude, values and behaviors.

Training Costs

1. Calculate the cost of orientation in terms of the new person's salary and the cost of the person who conducts the orientation. Also include the cost of orientation materials.
2. Calculate the cost of departmental training as the actual development and delivery cost plus the cost of the salary of the new employee. Note that the cost will be significantly higher for some positions such as sales representatives and call center agents who require 4 - 6 weeks or more of classroom training.
3. Calculate the cost of the person(s) who conduct the training.
4. Calculate the cost of various training materials needed including company or product manuals, computer or other technology equipment used in the delivery of training.

Lost Productivity Costs

As the new employee is learning the new job, the company policies and practices, etc. they are not fully productive. Use the following guidelines to calculate the cost of this lost productivity:

1. Upon completion of whatever training is provided, the employee is contributing at a 25% productivity level for the first 2 - 4 weeks. The cost therefore is 75% of the new employees' full salary during that time period.
2. During weeks 5 - 12, the employee is contributing at a 50% productivity level. The cost is therefore 50% of full salary during that time period.

3. During weeks 13 - 20, the employee is contributing at a 75% productivity level. The cost is therefore 25% of full salary during that time period.
 4. Calculate the cost of mistakes the new employee makes during this elongated indoctrination period.
- 100 staff at 10% attrition means 10 people leave and are replaced each year.
 - A replacement cost of 80% of a salary of 25,000 means the cost of each replacement is 20,000.
 - The cost of turnover is therefore 10 x 20,000 or 200,000 a year.
 - The oncost to the overall salary bill is 8%.

New Hire Costs

1. Calculate the cost of bring the new person on board including the cost to put the person on the payroll, establish computer and security passwords and identification cards, telephone hookups, cost of establishing email accounts, or leasing other equipment such as cell phones, automobiles.
 2. Calculate the cost of a manager's time spent developing trust and building confidence in the new employee's work.
- (Saving 8% of salary costs would make the average HR manager a hero.)

Innovative ways to curb attrition

As BPO industry booms attrition rates also rises. No matter how good the perks, every year a good percentage of employees leave each and every BPO. The reasons might vary. It can be personal or professional. But for the people oriented BPO industry, rising attrition rates becomes a nightmare. Some BPOs however, have come up with innovative methods to reduce attrition rates and keep their flock.

The latest toolkit applied to keep a leash on employees is an Early Warning System (EWS), which uses a RAG analysis to identify employees likely to quit or stay. The acronym stands for the colours red, amber and green. Employees falling in the red category are the most likely to quit within 30 days. The amber ones will hang on longer while the green brigade is the happy lot.

Lost Sales Costs

1. Calculate the revenue per employee by dividing total company revenue by the average number of employees in a given year. Whether an employee contributes directly or indirectly to the generation of revenue, their purpose is to provide some defined set of responsibilities that are necessary to the generation of revenue. Calculate the lost revenue by multiplying the number of weeks the position is vacant by the average weekly revenue per employee.

It is clear that there are massive costs associated with attrition or turnover and, while some of these are not visible to the management reporting or budget system, they are none the less real. The 'rule of thumb' appears to be very inaccurate indeed and, while it depends upon the category of staff, it is probably better to estimate around 80% of salary as a truer rule of thumb - and this will be on the conservative side. What does this mean? Well it means that if a company has 100 people doing a certain job paid 25,000 and that turnover or attrition is running at 10%,

The cost of attrition is: **(Total staff x attrition rate %) x (annual salary x 80%)**

Brainchild of a team in India, if the system becomes popular, it will provide much relief to the harried HR managers in the over \$7bn BPO industry, which employs about 500,000 employees. The idea of EWS comes from the world's largest call centre company, the \$2.3-bn Convergys. It employs over 10,000 people in India, with Gurgaon being the largest centre outside the US. The RAG solution has been developed by its HR and IT team in Gurgaon.

Convergys has identified 50 triggers like low motivation levels, rejection in internal job postings, absenteeism, drop in call quality and so on. These triggers are fed into the EWS software and the outcome is the RAG analysis. Another

BPO player, Mumbai-based ICICI OneSource, does a Talent Risk Analysis to reduce attrition. At some companies such as Xansa India, the attrition is a more manageable 20% as the company has only UK-based clients and all employees are home by midnight.

EWS has helped Convergys reduce attrition by 16%. Explains Koustuv Mitra, HR head at Convergys India, "It starts with the team leader engaging with the team to understand their motivation and commitment levels. The 50 triggers are fed into a system and the outcome puts the employees in three RAG categories."

The company meets all the employees who fall in the red category (most likely to leave within 30 days) to try and solve their problems. It then meets up with about 30% of the staff in the amber category to see what can be done to keep them motivated. Says Mr Mitra, "We are proactively picking up signals and trying to do what we can do. We also looked at unsuccessful cases where we have been unable to retain staff. The exercise has led to 16% improvement in attrition." Convergys now plans to use the EWS in its other global centres as well.

However, not all companies are convinced that this can work all the time, and are trying out other techniques. For instance, ICICI OneSource has Talent Risk Analysis (TRA). "The software tools sounds a bit like science fiction. We use TRA where we try and predict who all might quit. We look at patterns of attrition in the past, which help us identify candidates likely to leave. Our annual attrition is around 50%. Over time, things have not got worse, but better, considering that today even in the manufacturing sector attrition is touching around 20%", says Aashu Calappa, Vice President, HR, ICICI OneSource. With attrition rising everywhere, tools like TRA, EWS and RAG may well be the new tools on HR managers' laptops.

Suggestions to manage attrition in bpos

- As cost of living is gradually increasing, salary hike can be given at regular time intervals.
- Could increase the man power and avoid extension of shifts

- Can arrange refreshment seminars in order to reimburse their attitude and hone their soft skills
- Improve medical facilities / can arrange for frequent medical check ups
- Could hold some amount in the salary of the staffs till bond period and later can be returned
- Try to give compensating holidays at time. Since it being a stress related industry they have to take rest at regular intervals instead of consolidating the leaves.
- Can arrange leadership trainings, management trainings for team leaders
- Week wise target can be given to team leaders to avoid last minute rush, this will help to minimize the month end pressure. Then in notice board and e-mail daily/weekly/monthly production review can be sent.
- Team leaders can be rotated among teams ,in order to avoid vertical conflicts
- Kaizen style of management can be followed, that is continuous improvement could be adopted.

The future of bpos

About one quarter of the top Business Process Outsourcing (BPO) operatives will not exist as separate entities by 2012. The rise of new vendors, acquisitions and market exits will change the BPO provider landscape in the coming years. The enterprises should look for warning signs while evaluating BPO vendors to lessen risks, states a recent report by analyst firm Gartner.

"As providers are exposed to the economic crisis, loss making contracts and an inability to adapt to standardized delivery models, many will struggle to survive in their current form. Some will be acquired and some will exit the market completely to be replaced by dynamic new players delivering BPO as automated, utility services," said Robert H. Brown, Research Vice President, Gartner.

The report "Assess and Manage Vendor Risks to Protect Your Business" has identified six key points to watch for, that might announce the predicted market shakeout. The report also identified the BPO vendors which may be the candidates for acquisition or for instant market exit.

The report suggests to look out for unprofitable portfolio BPO deals, as some BPO providers are carrying unprofitable contract portfolios, largely stemming from too much, too soon pursuit of the deals, without much thought as to how to transition them to a standardized, rationalized, profitable state of ongoing operations.

The enterprises have also been asked to gain insight into the vendor's track record of winning new businesses, particularly over a sustained period of two to three years. The report suggests that the loss of a major customer can be a leading indicator of trouble, especially if the remaining

portfolio of business is small. The report suggested that some heavily leveraged vendors may be unable to obtain the necessary investment needed to bid on a business opportunity despite of attractive propositions.

The financial services sector accounts for about one-third of the total BPO market globally and provides significant amount of BPO revenue. The banking sector was the first to be exposed to the credit crunch resulting to financial meltdown. The mergers and acquisitions saw both current and prospective buyers of BPO getting out of play and this exposure could still leave many BPO providers vulnerable for long term.

Also, as per Gartner's previous BPO survey report, cancellation rates rose in 2008 as compared to 2007 data. On this basis, the report advises buyers to build exit strategies into contracts and develop contingencies for contract termination, especially before signing the deal.

Figure 2. Chart showing the Growth of BPO Exports in India



Source: NASSCOM Report, 2008

CONCLUSION

Attrition is a common phenomenon, found every where throughout the terrestrial globe, with exception to any one country. It continues to play, even in the computer age, when everybody feels that men have a little role to play. It is true that computer, to some extent, does play but programming and feeding such programme require manual operations. There are certain activities that are relied upon men only. In other

words, the application of manpower has no substitute and therefore, it has a continuous role to play. The main problem against the manpower development is attrition. The rate of attrition is increasing every day so that production and profit decrease.

It is high-time that every organization has to look into the problem of attrition seriously and to control it effectively, to progress ahead.

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