



Empirical Study on Addressing High Employee Attrition in BPO Industry Focusing on Employee Salary and other Factors in Karnataka and Kerala States of India

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Abstract

Globally competitive organizations will depend on the uniqueness of their human resources and the systems for managing human resources effectively to become successful. Outsourcing is a management process in the globalized business context that has been well understood, tried and tested by successful organizations across the world. The issue of employee attrition/turnover has been found to be making huge economic impact on the Business Process Outsourcing organizations located in the states of Karnataka and Kerala. The present study aimed at addressing high employee attrition in the above sector by identifying the Critical Factors which causes high attrition. The data has been collected through a structured questionnaire survey. The study identified 13 factors affecting high employee attrition in BPO industry using Factor Analysis. Also multiple regression analysis was applied to analyze the collected data. It is found that the attrition factor employee's salary has emerged as the most critical factor affecting high attrition in the BPO sector of the above two states.

Keywords: Business process outsourcing, critical factors, employee attrition, factor analysis, multiple regression analysis.

Introduction

Human resources represent the collective expertise, innovation, leadership, entrepreneurial and managerial skills endowed in the employees of an organization. It is an important corporate asset and the overall performance of companies depends upon the way it is put in use. A firm's resources propel it towards its goals, just as an engine propels an automobile towards its destination¹. Every organization is comprised of people. Acquiring their services, developing their skills, motivating them to high levels of performance, and ensuring that they maintain their commitment to the organization are essential to achieving organizational objectives. Nawaz found that organizations change their HR policies and practices due to technological development². Preethi and Rajashekar noted that while HR plays a key role in the early recruitment and orientation phase and in guiding the onboarding process, the hiring manager must be proactive and engaged in facilitating the employee's successful integration into the organization overtime³.

Business process outsourcing is a management process in the globalized business context that has been well understood tried and tested by successful organizations across the world. Even in the face of stiff competition from other locations, India retains its position as the world's leading global sourcing destination for IT-BPO services with a share of 58 per cent in 2011. Service providers are effectively utilizing India's talent pool by designing large scale talent re-engineering initiatives and employee engagement activities. IT-BPO exports is expected to grow 11-14 per cent in FY2013, driven by proliferation of as-a-service model

around enterprise mobility, cloud and platform solutions, analytics offerings and social media⁴. Swadesin and Kalindi observed that BPO can lead to a world where the parent company is at one place and the work is being outsourced to various other countries while the output product or service is being sent to distant lands for delivery. Virtualization is not far from today but definitely the presence of human resources cannot be ruled out⁵.

Ironically, since its inception in spite of the tremendous growth potential of the sector, high employee attrition rate and the manpower crisis is dampening the growth of the sector. The BPO industry management is facing various challenges like the increased attrition rates and its implications, skill shortages, retaining the employees etc. The topic for this research study has been identified in this context.

Research Problem: Companies have realized that competitive advantage resides mostly in people and that finding and keeping good managers and employees is a strategic necessity. The major issue faced by BPO organizations located in the states of Karnataka and Kerala today is the increased employee attrition, which varies between 20%-50%. Employee Attrition (also known as labor turnover) is the rate at which people leave an organization. Michael Armstrong defines Employee Attrition as a normal flow of people out of an organization through retirement; career or job change, relocation, illness and so on⁶. The impact of employee attrition can be disruptive and costly. This research is designed to study the nature, state and the factors affecting high employee attrition in the BPO companies located in the states of

Karnataka and Kerala. Also, an attempt has been made to conduct an in depth study to identify the critical and non-critical factors affecting high employee attrition in the BPO sector of the above two states. The population of the study includes the employees working in the BPO sector organizations located in the states of Karnataka and Kerala.

Objectives of the study: i. To study the nature and state of high employee attrition in BPO sector companies located in the states of Karnataka and Kerala. ii. To identify the factors affecting high employee attrition in BPO Industry of Karnataka and Kerala states. iii. To identify the critical factors causing high employee attrition in the BPO sector organizations located in the states of Karnataka and Kerala. iv. To identify the non-critical factors causing high employee attrition in the BPO sector organizations located in the above states. v. To suggest innovative measures for reducing the high attrition in BPOs of Karnataka and Kerala states.

Literature Review: The dynamic nature of Human Resource Management in ITES (BPO) sector has inspired many researchers to study the various issues related to the high employee attrition in BPO industry. Anand et al. states that employee attrition reveals a company's internal power and weaknesses⁷. Vijay and Sekar found that the research studies focusing on capturing the perception of IT employees' knowledge about the ideal computer workstation arrangements and the optimal posture while working on computer is much limited in the literature⁸. Mohamed et. al. observed that, from an organizational perspective, the higher the intra organizational trust, the more satisfied and productive the employees tend to be⁹. New employee need to be constantly added, further costs in training them, getting them aligned to the company environment. Gupta reports that attrition is a burning problem for the promising industry of BPO, especially because it fails to tap the full utilization of the human resources and wastes much of its time, money and resources due to this¹⁰. Mike observed that Staff attrition (or turnover) represents significant costs to technology and business process outsourcing companies. High attrition rates drive up training costs, and increase human resources, recruiting, and productivity costs¹¹. *Khanna* gives an overview of the BPO industry and analyzes as to how attrition is the predominant challenge facing the industry¹². Agarwal feels that the challenge in the BPO industry is lack of discipline. BPO employees belong to a generation that does not like rules – they have had multiple choices from the time they were born, and the minute you hurt the dignity and self-respect of the people of this generation, they are bound to leave, which is probably the reason the attrition rate is so high, says Agarwal¹³. Kumar assessed that the present salary package in BPO industry is not as lucrative as compared to other industries⁹. *Radhika observes that 40% attrition happens in first 120 days of hiring*¹⁴.

Research Methodology

The present study is designed as a descriptive research design based on primary data and secondary data. The population of the

study includes the employees working in the BPO sector organizations in the states of Karnataka and Kerala. The respondents in the study included BPO employees from process analyst level to manager / division head level. The respondent's area of work includes financial accounting, customer services, human resource, application process, procurement and others.

Sample Design: The population of the study comes to 65000 BPO employees (approx.) selected from the states of Karnataka and Kerala. Out of this about 55000 (85%) employees belongs to Karnataka state and 10000 (15%) employees are from the state of Kerala. The sampling procedure adopted for the study is Quota sampling technique. A representative sample of 400 was taken from BPO companies located in the states of Karnataka and Kerala. A sample size of 400 respondents was fixed since a sample size of 400 gives a statistical accuracy of $\pm 5\%$ and is often considered as the most cost-effective sample size¹⁵. Out of the 400 respondents, 285(75%) were selected from employees working in different BPO areas located in Karnataka state and 115(25%) employees were selected from different areas of BPO companies located in Kerala state.

Among the 400 sample respondents, 240 (60%) of them were selected from process analyst (entry level) group, 100 (25%) were selected from senior-process analysts group, 30 (8%) of them were selected from team leaders category, 20 (5%) were chosen from supervisors group and 10 (2%) were selected from manager's group. Since employee attrition is the highest at the process analyst level (nearly 55%), 60% of the sample has been taken specifically from that group. Also by considering the 6 BPO areas, suitable sample respondents were taken.

Data Collection: A structured questionnaire is the main tool used for collecting quantitative primary data. The scaling techniques used in the development of questionnaire used in the study are: nominal scale, Likert type scale under interval scale, itemized rating and rank-order scale under ordinal scale and word association under disguised structured scale. For the primary data collection, a well-structured questionnaire has been developed and pre-testing of the questionnaire has been done by choosing 50 employees (respondents) from different levels of 5 BPO organizations on a random basis from Karnataka and Kerala states. Reliability analysis for the questionnaire used in the present study has been done with a sample of 50 respondents and found that the reliability is good. The secondary data related to the study have been collected from different sources including text books, articles published in journals, newspapers, periodicals National Association of Software Companies (NASSCOM) websites, McKinsey study reports, company websites, government's IT department sites doctoral research thesis and various other related sources.

Data Analysis: Reliability: A pilot study has been conducted for a sample of 50 respondents and reliability analysis (scale- split) is done. Three measures of reliability are given. The scale consists of 40 items, which measures the attitude of the respondents on a

Likert type five point scale. 50 respondents were selected for reliability analysis.

Table-1
Analysis of Factor Variables

Statistics for	Mean	S.D	No. of items
Part 1	59.9400	9.9476	20
Part 2	59.5200	11.9953	20
Scale	119.4600	20.1982	40

The scale items were divided into two parts (forms) each part containing 20 items selected randomly. The correlation between two forms was found to be 0.6919, indicating that the items between the two parts correlates well. Spearman-Brown and Guttman split-half reliabilities are used to find reliability coefficients of the scale by dividing the scale items into two halves in some random manner.

The correlation between forms is used to find the Spearman Brown reliability and the variances of sum scale and forms are used to find Guttman reliability. Cronbach's coefficient alpha (α) uses variances for the k individual items (40) and the variance for the sum of all items. In all, the reliability of the three statistics namely, Spearman-Brown, Guttman and Cronbach's alpha show that the reliability of scale constructed for the General Assessment is between 0.70 and 0.87, which makes the constructed scale fairly reliable. Therefore the scale reliability is good. Since it was found that the reliability of the scale was good, factor analysis was performed on all the 400 valid responses.

Personal Factors: The personal factors included in the study are gender, location, age, and designation, and qualification, area of work, salary, and global position. An analysis of the respondents based on gender, location, age, designation, qualification, area of work, salary, global position (national/multinational), experience in the present organization, salary per month, number of training programs attended, maximum number of hours worked strength factors and HRM Practices have been conducted using pie-charts, percentages graphs and bar diagrams. For the Statistical analysis of the data used in the present study, the major tools used includes: Factor Analysis, Multiple Regression analysis, pie-charts, averages, percentages graphs, bar diagrams and SPSS software packages.

Factor Analysis: Factor analysis is to find a method of summarizing the information contained in a number of original variables in to a smaller set of new composite dimensions (Factors) with minimum loss of information. The study identified 13 factors affecting high employee attrition in BPO industry through Factor Analysis as: Lack of integration and goal setting, work atmosphere, work and family conflict, food and relaxation, motivation and appreciation, work from home, dissatisfaction with salary and perks, maximum number of hours worked, occupational health problems, labour welfare and corporate governance, dissatisfaction with rewards and hikes,

miscellaneous-lack of transportation and talent, lack of work ethics.

Multiple Regression Analysis: Regression Analysis was applied to find the critical factors and non-critical factors or variables which might affect the attrition of the employees. For this, overall attrition score was considered as dependent variable. The other variables namely Gender (coded as 1-M, 0-F), Location (coded as 1-Karnataka, 0-Kerala), Global Position (1-National, 0-Multinational), Age of the respondent, Experience in the present organization, Salary per month, Number of training programs attended, Maximum number of hours worked, Strength factors and HRM Practices were selected as independent variables which might affect the dependent variable namely Overall Attrition Score.

The result of the regression analysis is given in table-3:

The multiple correlation co-efficient (R) value was found to be 0.423 which shows that there is moderate level of correlation between the dependent variable and the set of independent variables taken together. The F ratio value (8.500) shows that there is significant relationship between the overall attrition score and the set of independent variables. The R square value indicates that 17.9% of variation in the overall attrition score is explained by the set of independent variables included in the model.

Findings and Discussion: The findings from the multiple regression analysis are grouped under two headings as Critical factors and Non-Critical factors:

I. Critical Factors: i. Employee's salary: those who draw higher salary have higher levels of attrition than those who draw lesser salary. ii. Number of hours worked affect the attrition score positively: Those who work longer hours have higher level of attrition than those who work lesser hours. iii. Age of the employee has affected attrition significantly. For example, respondents in the older age group have lesser attitude towards attrition. iv. Global position-wise, multinational BPO employees are having higher level of attrition scores than national BPO employees. v. Gender-wise, males have more attrition tendency than females. vi. Location-wise, Karnataka respondents are found to have more attrition scores than Kerala employees.

II. Non-Critical factors: i. Experience of the employees in the present organization. ii. Number of training programs attended. iii. Strength factors (high standards of corporate governance, exciting growth opportunities, company's work value and ethics) affected attrition. Those who have given higher scores or ratings for strength factor have less attrition. iv. Human Resource Management practices affect the attrition scores. The employee's attitude towards attrition decreases when these variables are on the higher side. v. Among all these regression co-efficient, it is found that age, salary, strength factor, HRM practice significantly affect the attrition scores either at 1% or 5% level.

Table-2
Reliability coefficients

No. of Cases	50	No. of Items	40
20 Items in part 1		20 items in part 2	
Correlation between forms	0.6919	Equal-length Spearman-Brown	0.8179
Guttman Split-half	0.8095	Unequal-length Spearman-Brown	0.8179
Alpha for part 1	0.7513	Alpha for part 2	0.8676

Table-3
Dependent Variable: Overall Attrition Score

	Regression Coefficients (B)	Std. Error	t	Sig.
(Constant)	131.540	7.074		
Gender	.264	1.436	.184	Ns
Location	.413	1.773	.233	Ns
Global position	-.147	1.594	-.092	Ns
Age of the respondent	-2.766	1.343	-2.060	*
Experience in the present organization	-.450	.865	-.520	Ns
Salary per month	1.761	.861	2.045	*
No. of training programs attended	-1.318	.892	-1.478	Ns
Maximum no. of hours worked	1.506	1.197	1.259	Ns
Strength Factor Score	-1.942	.419	-4.633	**
Human Resource Management practice	-3.217	.854	-3.765	**

Table-4
R and F-Ratio values

R	R Square	F	Sig.
.423	.179	8.500	**

Conclusion

Business Process Outsourcing, commonly known as BPO, is one of the most booming sectors in the Indian industry. Since its inception, the Indian BPO industry has grown at a constant annual rate of 40-50 per cent and within a couple of years, India managed to secure the position of the most preferred and low cost destination for business process outsourcing. Ironically, in spite of the tremendous growth potential of the sector, attrition rate and the manpower crisis is dampening the growth of the sector. The human resource professionals of the BPO industry are facing various challenges like the attrition rates and its implications, skill shortages, retaining the employees etc. In order to implement successful business strategies to face these global challenges, organizations must ensure that they have the right people capable of delivering the strategy. The topic for this research study has been identified in this context. This study will be helpful to the management of BPOs located in Karnataka and Kerala states to focus on the critical factors identified in the study in addressing the employee attrition problem. In the study, the attrition factor, employee's salary has been emerged as the most critical factor affecting high attrition in the BPO companies. It further clarifies the need to pay immediate attention on introducing highly competitive salary packages in BPO sector organizations for addressing the high attrition problem. It is revealed that both in Karnataka and Kerala states, absence of good HRM practices is also one of the critical factors

causing high attrition. BPO management also has to ensure that their employees are paid enough for the work they do in the organization in which they are working.

BPO industry is one of the prominent sectors in both the states of Karnataka and Kerala which need to be protected from serious issues for its survival and growth! BPOs have a great scope in India. Around 5 years back, BPOs were just a means by which companies could save costs. Only a few activities were outsourced. But now BPOs are emerging as a management tool and focus is shifting from non-core processes to core processes. Business process outsourcing is considered as the inevitable next major source of innovation and competitive advantage.

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