Facing Global Competitiveness - The Retention Way

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ABSTRACT *In today's context, most of the Indian business organisations are facing a paradoxical problem so far as employment of their human resources is concerned. On the one hand, they are facing the problem of overstaffing and are busy to pruning the surplus staff through voluntary retirement and other schemes. On the other hand, they are facing the problem of employee turnover and are busy in developing retention strategies. Employee turnover (also known as employee attrition) is defined as the rate of change in the working personnel of an organisation during a specified period. It signifies the extent to which old employees leave and new employees enter into service in a given period. Against this background, a modest attempt has been made to pin point the necessity, factors and present strategies adopted to retain human capital. Further, the paper highlights about the importance of motivation to retain employees.*

Employee Retention – The Challenging Task

Employee retention is a method in which the employees are motivated to remain within the organization until the completion of a project or their retirement. It is beneficial for the organization as well as the employee. Attrition is another organization term which is number of employees who are leaving the organizing before finishing the project or their retirement. Employee retention and attrition is 'flip side' of each other. It is the time period during which an employee does the assigned task independently and starts adding value to the organization. As the employee is a matter of great concern for the organization(s), many organizations including IT industries are investing in the retention phase of employees. In the same way, for reducing the attrition rate good retention practices has to be adopted and performed. In today's scenario, attrition is one of the major challenges in IT industry globally as well as in India. 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. In any organization, the employee life cycle is divided into five parts: selection and hiring, induction and orientation, retention, ongoing performance management and career development given in Figure 1 (Dennis Costelle, 2006).

Source *Dennis Costelle, Leveraging the Employee Life Cycle, 2006*

Fig. – 1 : Employee Life Cycle

Why Retention is Necessary

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. 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. In such a scenario, the competitor's organization gets a competitive advantage. 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). Talent management is 'getting the right people with the right skill into the right job'. 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. At one extreme, organizations seek only long-term relationships with IT professionals under the assumption that organize-specific knowledge and commitment is valuable for obtaining productive contributions. At other side, companies are not concerned with employees and lead to short term relationship. Short term relationship leads to high attrition rate. This includes contractors under the assumption that their most pressing need is generic IT skills. 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).

Why Motivation is Important to Retain Employees

Before giving training to employees to retain them, it is very important to do need assessment before incurring any cost. First step to motivate the employees to identify the factors which can influence employees to stay back in an organization. Once factors are identified, it is easy to implement those factors to reduce the attrition rate. The three common theories concerning the motivation of employees through needs include Maslow's Hierarchy of Needs, The Human Resource Model and Herzberg Two Factor Theory.

According to Maslow's Theory, human needs include physiological need, safety needs, social needs, esteem and

self-actualization (1943). Various factors which influence the attrition rate include:

- Physiological Needs: Increment, Location Preference, Salary structure and Band change.
- Safety and Security Needs: Personnel Bonds, Ombud Process and Performance linked growth.
- Social Needs: Team building, Cultural events and Professional membership.
- Self-esteem: Reward and Recognition and Promotion.
- Self-actualization: Role/ Responsibility change and Job rotation.

A second theory of motivation concerning the needs of employees is the Human Resource Model. This seminal work challenges the traditional 'command and control' of management, to release the creativity and self-direction of the entire organization. McGregor (1960) is one of the first leadership gurus to profess a faith in the leadership abilities and effectiveness of common workers. One of his concepts was asking employees to help evaluate them, using well-known Theory X/Theory Y concept. While Theory X says workers have little ambition, treats are necessary to motivate employees; employees avoid work because they hate it, and avoid all responsibility; in Theory Y employees crave responsibility, dislike threats; work is as natural as rest, and want to satisfy their need for esteem and self-actualization. Theory X mangers view their employees as lazy and disobliging and thus, needing to be controlled through punishment and rewards in order for them to be productive (Pfeiffer and Ballew, 1991). On the other hand, Theory Y managers regard (Pfeiffer and Ballew, 1991) their employees as energetic, hardworking, creative employees who seek out responsibility. Its noticeable how Theory X centers on the two lower levels of Maslow's Hierarchy of Needs: physiological and security. Theory X managers are autocratic, while Theory Y managers are democratic. Theory Y managers will succeed more at having motivated employees. However, the Human Resource Model also has its shortcomings by providing little concrete basis for action.

Herzberg two-factor theory (1959) is taken as a background for the development of the questionnaires' to explain factors affecting the retention. Categories under the two-factor theory include: motivators or hygiene which will satisfy an employee to get retained. Hygiene is what which is only concerned with work environment and motivators makes job itself enriched. Motivation for employees includes having sense of achievement, recognition, advancement, responsibility and opportunities for personnel growth as given in Figure 2 Hygiene factors include organization policies, working conditions, supervision, interpersonal relations, money, status and security (Jordan, 2003).

Source Henzberg, Frederick, The motivation to work, 2011

Figure – 2 : Herzberg Theory and Maslow Hierarchy Model

Critical Factors for Retention of Employees

Employers realize various variables that determine an employee's stay at an organization. Employees are not motivated by hygiene factors like salaries alone (Kulshreshtha and Kumar, 2005). The rapid growth and entry of new players in the IT Industry have resulted in the poaching of employees in high numbers. To cope up with the high attrition these days Indian IT companies are planning promotions and hefty salary hikes to retain employees (Shruti Sabarwal and Pankaj Mishra, 2010).

Chin-Yao Tseng and Michlelle Wallace (2009) have identified nine factors for the retention of employees :
- financial compensation;
- training and development;
- promotion;
- recognition;
- challenging work;
- innovation and creativity;
- leadership style;
- autonomy; and
- job satisfaction.

Proper management and development of intangible assets is the key to their optimal performance and retention. Knowledge workers like many others, are less likely to be loyal over the long-term with the new employment paradigm (Child and Rodrigues, 2005). The factors related to compensation issues have the highest effect on attrition. It means that employers should be careful regarding setting compensation related policies and non-financial benefits. While salaries of the employees should be good relative to industry to retain more employees; motivation and employees satisfaction also be an integral part of the organization. Ten years ago IT professionals typically changed jobs twice during their working life-span, but today they are changing jobs more than five times over their career span (Cieri and Kramar, (2005). The Retention Strategy is used in Human Resource Management since it aims to keep top talent within an organization.

PRESENT STRATEGIES ADOPTED TO RETAIN HUMAN CAPITAL
1. Use of psychometric tests in selection procedure
2. Cash Incentives
3. Hiring of housewives and retired people
4. Higher education option
5. Recruiting from non-metro cities

Other Strategies Include
1. Personal healthcare (regular medical check-ups)
2. Loans
3. Performance based incentives
4. Wedding day gifts
5. Employee referral scheme
6. Regular get-together and cultural programmes
7. Group medi-claim insurance schemes
8. Recreation, Cafeteria, ATM, gymnasium
9. Corporate credit cards
10. Cellular Phones / Laptops
11. Employee Stock Opinion Plan

Conclusion
Technological changes have several implications for human resource management. Jobs and organisational structures will have to be redesigned. New compensation and incentive schemes need to be created. Changes will also be necessary in selection, training and evaluation practices. Technology is also forcing firms to be more competitive. Information technology requires flatter organisations. Human resource management plays a significant role in such changes. Hiring, training and retaining talent have become key challenges in the IT industry. No company can operate successfully without strong HR policies in place.

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