An Empirical Analysis of Employee Retention in IT Sector

Abstract

Information Technology (IT) is the world's fastest growing economic activity. In India, IT industry has built up valuable brand equity for itself in the global markets. Retaining information technology employees has been a problem in many organizations for decades. Loss of valuable employees through attrition has led to the current shortage of skilled employees in the IT arena. This empirical study identifies and analyzes the causes of IT employee turnover and finds out the better retention strategies for reducing the high turnover of IT employees. The participants for this study were the IT professionals from Chennai and Trivandrum. The selection of respondents was based on the method of convenience sampling. Factor analysis result shows that the important retention factors are employees Personal Policies, Work -life Benefits, Employee Career Development programs and Employee Benefits.

Key Words: *Employee Retention, Employee Turnover*

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Introduction

IT industry in India includes software industry, information technology enabled service (ITES) and business process outsourcing (BPO) industry, deals with customer care, customer services, telemarketing, medical transcriptions, financial services, e-learning, etc. According to NASSCOM from the past two decades, the Indian IT/ITES and BPO industries has contributed significantly to Indian economic growth in terms of GDP, foreign exchange earnings and employment generation.

The IT professionals are the representatives of global economy and one of the main characteristics of IT workers is their high rate of mobility. This high turnover of IT workers can result in failure of IT projects and persistent high turnover can result in projects being delayed, late over budget or never completed (Coombs, 2009). Hence HR department has an important role in enabling IT organizations for combating employee turnover.

Today's IT industry provides for a high stressful, in this competitive business environment finding qualified , trained IT personals become huge challenge for many IT organizations; keeping them has become an even greater one. So IT organization must design appropriate retention strategies to retain their talented employees. Specifically, IT

organizations with well-designed orientation, training, career development, and motivation, compensation, feedback and evaluation prograrns will be successful at retaining their current internal workforce, and at recruiting new members.

There are several studies have been conducted for finding the reasons for IT employees turnover and found that the better way to manage employee turnover is; identify the reasons, why employee leaving the organization? And introduce better retention strategies.

Employee Turnover & Retention

Employee "Turnover and Retention", are the two terms widely used in current IT business environment. Employee retention is all about keeping good employees and is thus the opposite of turnover and it is generally refers to the loss of people from the workforce.

Why People leave their job (Turnover)

Employee turnover is a much studied phenomenon. In a human resources context, it refers to the characteristic of a given company; rate at which an employer gains and loses staff There are several reasons to leave people from one organization to another. Turnover generally refers to the loss of people from the workforce. Involuntary turnover refers to losses due to death, disability, downsizing or layoffs. Voluntary turnover measures losses resulting from voluntary separations.

Morrell and Arnold (2007) made a study about the employee turnover. The result indicated that the main reasons for employee turnover are lack of job satisfaction, no chance of promotion, lack of supervision, travel problems, lack of support and inflexibility of work hours.

Khan and Chathurvedi (2004) studied about managing attrition in the Indian Information Technology Industry. The finding suggested that, companies have started using a variety of retention tools such as ESOP and RSUs. They have also taken other initiatives like improving the work life balance of their employees, encouraging learning and developing a positive culture etc, to retrain employees

According to Perrin (2003), the top five concerns of employees who plan to leave their jobs were:

1.   Work load

2.   Insufficient support by management

3.   Concern about the future

4.   Lack of challenge

5.   Insufficient recognition.

Employee retention

Retention is the percentage of employees remaining in the organization (Jack J Phillips, 2008). There is no dearth of opportunities for a talented person. There are many organizations which are looking for such employees. If a person is not satisfied by the job he's doing, he may switch over to some other more suitable job. Hence in today's environment it becomes very important for organizations to retain their employees.

What is retention strategies meant? Is attracting, developing, motivating and retaining qualified employees through jobs that satisfy their needs. This strategy is need to link career opportunities, recognition and reward, and encourage employees to develop personal qualities as a mean of competitive differentiation.

Today's employees expect fair pay and benefits. But these are the not the main factors to keep them at the job once they are recruited. According to Borstorff and Marker (2007) health benefits, base pay and work life balance were the most important factors of employee retention.

According to Mohanty (2009), the best practices for increasing employee retention are; open communication, employee reward program, career development program, performance based bonus, recreation facilities and giving gifts at some occasions.

Score (2008) studied about IT staff management techniques for improved recruiting and retention. From the study he recommended some retention methods for retain IT employees;

- Hire the right people
- Provide good compensation
- Give proper motivation to technical staffs
- Provide good training
- Construct and execute career development plan
- Provide high quality work place and corporate atmosphere.
- Telecommuting
- Provision of day care services
- Provision of an on-premises health club
- Maintain supervisor/employee relations

Achoui and Mourad (2007) suggest that more effort should be done to improve retention by taking in consideration the many factors like better recruitment effort, review job content, compensation practices, leadership and supervision, career planning and development, alternative work schedule, working conditions, non work factors, team building, centralization, organization communication and commitment.

According to Ramlall (2004) ,most widely used retention practices are job analysis, recruitment and selection, compensation and benefits, career planning development, training and development, effective supervision and management, flexible working arrangement and exit interviews.

The past studies indicate that the employee retention is a complex construct, not just one variable and it is affected by several factors. In the IT organizational context, the main reason for leaving organization is dissatisfaction with their compensation. If the amount of pay which an IT employee receive for his job is about not equal to others doing similar work in other companies, it may be a cause of dissatisfaction. The other strategies that are designed by BPO and IT/ITES for providing benefits to the professionals includes Group medi claim insurance scheme, company leased accommodation, Recreation, Cafeteria, ATM, gym ell phone/ lap top, personal health care provision, educational benefits, performance based incentives, ESOP etc.

Objectives

1. To identify the reasons that employee leave.

2. To find out the best IT employee retention practices.

Methodology

The study conducted by using both primary and secondly data. Primary data were collected with the help of questionnaire. Secondary data collected from books, journals, and articles .The questionnaire is prepared based on review of literature and objectives of the study. The questionnaire consists of two parts. First part for to identify why employees are leaving, and second part was to identify the retention factors. The questionnaire was circulated among 220 IT professionals in Chennai and Kerala and which they are asked to rank the most important to least important as reasons for leaving IT Job in general and rate each of the retention strategies for its importance.

Study and Analysis

Demographic Profile of Employees

❑ Of the respondents male 61.4 % and female is 38.6 %.

❑ The majority of employees are project trainees (25.9%) followed by system administrator (19.1%), system analyst (16.4%) ,Technical assistant (8.2%),software developer, web designer (7.3%), project leader (6.4%), software development manager (5%) and programmers (4.5%).

❑ The majority respondents were aged 20-24 years (34.55%), 25-29 years (33.2%), 30-34 years (18.2%). 40-44years (5.9%), 35-39 years (4.1%) , 45-49 years (3.6%)and above 55 (0.5%).

❑ The majority has PG qualification (30%) followed by UG (19.1%), B-Tech holders (17.3%), MBA, MCA (11.4%), PhD (5.9%) M-Tech (3.2%) and diploma (1.8%).

❑ 56-8% of the respondents had (1-5) year experience in their job followed by 26.4 %(5-10 year), 10.5%(10-15 years) and 3.2% (15-20 and above 20 years).

Table:1 Employees View points on Reasons for leaving their job

REASON	RANKING
Work Stress	1
Opportunities elsewhere	2
Lack of Promotion/ Career Development	3
Management	4
Lack of Recognition	5
Work Life Balance	6
Work Environment	7
Flexibility of Working Hours	8
Salary	9
Lack of Training and Development	10

From the table 1, it can be seen that work stress has been rates as the most important factor for leaving their job followed by opportunities elsewhere, lack of promotion, management , lack of recognition, work life balance, flexibility of working hours, salary and lack of training and development.

Retention Strategies

Factor analysis is used to reduce data and summarize factors that are influencing employee retention.

Factor analysis with principle axis factoring method and varimax rotation was used to cluster the variables into several factors. These factors explain the respondent's opinion about the best

retention strategies. In order to control the number of factors extracted, a minimum Eigen value less than one were considered insignificant and were excluded.

Table 2

Component	Initial Eignvalues			Extraction Sums of Squired Loadings			Rotation Sums of Squired Loadings		
	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %	Total	% of variance	Cumulative %
1	4.759	31.726	31.726	4.759	31.726	31.726	2.885	19.230	19.230
2	2.136	14.238	45.964	2.136	2.136	45.964	2.521	16.809	36.039
3	1.405	9.363	55.327	1.405	1.405	55.327	2.025	13.500	49.539
4	1.098	7.320	62.647	1.098	1.098	62.647	1.966	13.109	62.647
5	.803	5.353	68.000						
6	.768	5.121	73.121						
7	.693	4.623	77.744						
8	.587	3.913	81.657						
9	.539	3.594	85.250						
10	.519	3.461	88.711						
11	.461	3.071	91.782						
12	.348	2.320	94.101						
13	.333	2.218	96.319						
14	.306	2.038	98.357						
15	.246	1.643	100.000						

Extraction Method: Principle Component Analysis

From the table 2, it can be seen that the four extracted factors explain 62.64% of the variance.

Table 3

	Components			
	1	2	3	4
Education & Training Opportunities	.579	.265	.310	.056
Flexible work Schedule	.745	-.089	.083	.098
Paid time off	.781	.056	.182	.248
Insurance benefits	.376	.152	.246	.589
Telecommuting opportunities	.394	.036	-.167	.748
ESOP	-.072	.241	.117	.826
Incentive pay/bonus	-.112	.451	.591	.427
Tuition Reimbursement	.230	-.109	.655	.122
Annual Performance appraisal	.335	.087	.769	-.059
Job rotation and new assignment	.564	.058	.417	.095
Retirement benefits	.546	.193	.442	-.139
Employee Assistance Program	-.007	.825	.094	.141
Wellness program	.039	.827	.134	.077
Onsite-day care	.249	.757	-.137	.121
Rewards and Recognition	.478	.396	.036	.186

Extraction Method: Principle Component Analysis

Rotation Method: Varimax with Kaiser Normalization
a.   Rotation converged in 10 iterations

On the basis of factor analysis, the 15 items (retention strategies) were categorized into 4 factors. The first factor relating to employees polices includes 7 items, the second factor relating to work life benefits includes 3 items, the third factor regarding employee development had 3 items and the fourth factor employee benefits also includes 3 items.

Factor.1 Personal Policies

- ❑ Education & Training Opportunities
- ❑ Flexible work Schedule
- ❑ Paid time off
- ❑ Job rotation and new assignment
- ❑ Retirement benefits
- ❑ Rewards and Recognition

Factor .2 Work -life Benefits

- ❑ Employee Assistance Program
- ❑ Wellness program
- ❑ Onsite-day care

Factor .3 Employee Career Development Programs

- ❑ Tuition Reimbursement
- ❑ Annual Performance appraisal
- ❑ Incentive pay/bonus

Factor .4 Employee Benefits

- ❑ Insurance benefits
- ❑ Telecommuting opportunities
- ❑ ESOP

Table 4: Reliability Coefficients of the Instruments

Factor	No .of Items	Cronbach's α
Personal Policies	6	0.7
Work -life Benefits	3	0.5
Employee Career Development Programs	3	0.6
Employee Benefits	3	0.7

As seen from the Table 4, the instruments used in this study were reliable, with coefficients ranging from 0.5 to 0.7, which exceeds the minimum acceptance level of 0.5.

Discussions

The ranking result showing that work stress has been rated as the most important factor for leaving the job followed by opportunities elsewhere, lack of promotion, management, and lack of recognition.

The job-stress can influence on employee performance. The low amount of work stress enables them to perform their jobs better. Jobs in IT industry have become a critical factor because they involve a set of stresses. Many IT employees feel that they are working harder, faster, and longer hours than ever before. This job-related employee stress can lead to lack of commitment to the corporation and poor productivity. Hence a HR manager needs to be aware of the top issues that are of concern to today's employees.

The factor analysis shows that the four retention factors employees believe to stay in organizations are their personal polices, work life benefits, employee career development programs and employee benefits.

Personal polices- Policies are formulated to achieve personal and organizational objectives and which reflect an organization's value system. Some of other policies are employment policies, promotion polices, polices on social responsibilities (Deb, 2009). These policies help in motivating employees. Also a motivated employee is satisfied with his job, more active and more likely to stay with the organization.

Work- life benefits-Employees have many different needs and may need something more than flexible schedules to deal with the personal needs that interfere with their work productivity. Hence successful companies know they can retain employees with work life benefits programs.

Employee Career development programs-Today's employees want to be able to grow in their career by improving skill set and experience in desired position. Employee development is a method to assess and develops employees in an organization. Career development programs can affect employee's performance, so they can have a big impact on employee retention. Performance appraisal can help employers and employees where employee development program is needed. Also management should encourage further development by introducing incentives for individuals.

Employee benefits-Companies provide their employees with a variety of benefits. Such benefits are an important component for attracting and retaining its employees. The benefits serve as incentives to the employees and encourage them to work harder for the organization. These also help in building up employee job satisfaction. A good benefits program not only increases retention and creates more dedicated workers; it generates higher productivity.

Conclusion

Employees are the core part of the business and therefore their retention is an important element of business strategy. If employees cannot be retained, the organization will have to invest more money for new recruitments and their training programs. Today's competitive business environment, the HR professionals need to make sure they understand why employees leaving their organizations. Also each and every organization should identify and assess the suitable retention factors for retain their skilled employees.

To increase retention, the study recommend that IT managers take action to design good retention strategies for employees Personal Policies, Work life Benefits, Employee Career Development and Employee Benefits. A well defined frame work of retention strategies benefits not only the employees but also for the organizations

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