A Study on causes & Control Techniques for Attrition Rate in Indian Industry

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Abstract
In today’s scenario, Attrition is one of the major problems companies are facing & this is not with any specific sector, but everywhere. There are some organizations specially belonging to IT, Telecom, and various other sectors which are facing high attrition rate. Due to high attrition rate, cost of the organisation increases due to training, development, socialization also affects productivity and other costs on the employees. Attrition rate is high basically in an organisation whose work is mostly dependent on knowledge workers like BPO, paramedical, aeronautics etc. Fair compensation alone does not guarantee employee loyalty, but offering below-market wages makes it much more likely that employees will look for work elsewhere.

Keywords: Attrition, Causes, Control Techniques

Introduction
Attrition is defined as reduction in the number of employees through retirement, resignation or death. The rate of shrinkage in size or number of employees is known as attrition. Employee attrition refers to the loss of employees through a number of circumstances, such as resignation and retirement. The cause of attrition may be either voluntary or involuntary, though employer-initiated events such as layoffs are not typically included in the definition. Each industry has its own standards for acceptable attrition rates, and these rates can also differ between skilled and unskilled positions. Due to the expenses associated with training new employees, any type of employee attrition is typically seen to have a monetary cost. It is also possible for a company to use employee attrition to its benefit in some circumstances, such as relying on it to control labor costs without issuing mass layoffs.

There are many different ways for a company to lose employees, most of which are typically taken into account to ensure that the organization is able to operate efficiently. Attrition refers to the loss of employees due to reasons other than firing and other employer-initiated events.
This means that an employer has no direct control over how many personnel are lost to employee attrition. Retirement is one major cause of employee attrition, and since people tend to retire around a specific age this is a factor that can be accounted and planned for. Other causes of employee attrition, such as personnel who quit due to prolonged illness, dissatisfaction with the company, or other reasons, can be more difficult to estimate.

The percentage of employees that leave a company in a given period of time due to attrition is sometimes referred to as the churn rate though that term can also include personnel who are fired. A high churn rate can adversely affect a company due to the costs of training new workers, though higher rates are often more acceptable for unskilled laborers than more highly skilled or trained workers. Churn rate is often lower in industries that employ highly skilled workers, and companies often use lucrative employment contracts and other tactics to prevent some forms of attrition.

There are also circumstances where employee attrition can be used to benefit a company. In some circumstances, it becomes necessary for a company to cut labor costs to remain profitable. One method of dealing with this type of issue is to lay off a number of workers, though this can present morale problems for the remaining employees. If the attrition rate is known, then simply not hiring new employees can present a long term method of dealing with the same problem. Since some employees will retire or resign over time through attrition, a hiring freeze can eventually result in fewer employees and a similar savings in labor costs.

**Objectives of the Study**

- To explore the causes for frequent job switching.
- To study the impact of attrition on the organization productivity.
- To study and find ways of managing and reducing attrition rate in Indian Industry.

**Causes of Attrition**

- Incorrect setting of expectation
- Business turmoil in the organization
- Compression of salary
- Perspective towards contact points in the organization - peers.
Leads to inferiority complex.
- Perspective towards immediate manager
- Feeling of lack of utilization
- Killing of creativity
- Personal ambition/reason - higher education, relocation etc
- Active poaching by competition
- Perspective towards work being done
- Perspective about the industry - let me move from systems to j2ee, from pure development to customer facing
- Lack of growth opportunity

**Techniques for Attrition Control**

Attrition has to do with the process of experiencing reduction due to circumstances that are considered standard and normal. There are a number of different types of attrition that occur in any business model, with employee attrition occurring due to both retirement and either staff cutbacks or voluntary resignation being one of the more common. Customer attrition can also occur, usually due to factors such as competition and the changing demographics around a retail location. In any scenario, the process of attrition control will seek to manage the reductions in a way that ensures minimum impact on the business.

One of the most important aspects of attrition Techniques is understanding why reductions are currently happening. With employee turnover, this normally focuses on doing a thorough evaluation of the working environment and the benefits provided to employees. The quality of that environment, as well as the wages, salaries, and other benefits, should be compared to what similar companies in the area have to offer. By taking steps to ensure the working environment is well organized, and that the benefits associated with each position are competitive, the attrition Techniques can help to increase employee satisfaction and move the business from a high turnover in employees to one that is considerably lower. Another factor that is crucial to attrition Techniques is looking closely at the corporate culture that prevails in the workplace. Management styles that tend to leave employees feeling underappreciated and undervalued will often lead to higher turnover rates as qualified individuals seek work
with other companies that seem to value them to a greater degree. Fostering a sense of teamwork among employees and encouraging management styles that actively encourage employees to provide input will often increase employee loyalty and reduce the chances that those employees will look for other jobs.

Attrition Techniques in terms of managing the turnover in customers also uses some of these same basic strategies. Customers who feel they matter to the business are more likely to remain loyal from one year to the next, resisting the lure of the competition. This can be accomplished by acknowledging customers in a number of ways, such as the option to participate in loyalty or reward plans, periodically making it a point to thank a customer for their business, and even ensuring that customers are treated warmly and respectfully whenever they make direct contact with a representative of the company. Taking customer complaints and concerns seriously, owning those complaints, and working with the customer to find a resolution that everyone can live with is also a key component in customer attrition control. Clients who feel brushed off or not taken seriously are much more likely to quietly find someone else who makes them feel more appreciated and valued.

**Literature Review:**

A CASE STUDY: Calculating Employee Attrition – The Silent Profit Killer! A study is about how attrition affect on organization profit. In times of economic restraint, many of our clients are constantly reviewing line by line expense items, efficiency drivers or strategies to enhance top line revenue growth. In my discussions with CEO’s and Human Resource leaders, it’s surprising how many of these talented people are focused on cutting expenses "to prosperity" on a range of traditional cost containment strategies (overtime, training, hiring freezes, etc) while not having a grasp on some obvious hidden costs that negatively impact an organization’s bottom line results: employee attrition.

While many of our clients are facing forced turnover due to the current economy, this type is generally not as frequent and can be typically managed in a controlled manner. However, traditional turnover (commonly referred as the revolving door syndrome) continues to be a challenge. In fact, in spite of 10% unemployment in most metropolitan centers in North
America, high turnover continues to exist and is usually symptomatic of deeper, organizational problems.

**Case Study-Major Retailer:**
A client in the technology sector oversees a well known and respected national chain of retail stores. He needed our help to dive deeper into some key operational issues in his business. Attrition in the retail sector has reduced in the past 18 months due to the general state of the economy in the US and Canada. However, my client’s “negative attrition” for frontline store sales associates (specific to those that resign or are fired from the organization) was trending up from 20% to 30% while positive attrition (turnover created due to internal promotions) was down from 25% to 15%. In spite of this client having elaborate metrics to monitor everything from shrink, inventory management and sales per square foot, they could not provide specific information on:
- The average cost of hiring one sales associate
- The cost of turning one sales associate

**Our Review**
While the Executive Team was focused on ways to drive incremental revenue generation and store efficiency, we suggested efforts be focused to reduce employee attrition by 15% in 3 months and create an ROI that would self fund the cost of process enhancements to further drive significant savings for this organization. This discussion was obviously well received, and the work commenced.

**Human Resources-The need to think outside of the Box**
Our first discussion started with the Human Resources Leader. She provided her “ball park” estimate for their current cost of hiring one associate and the cost of losing an associate. She assured us their attrition costs were quite low compared to the traditional retail sector. However, a closer examination concluded they did not have any material benchmark data, while her two comparators paid their associates 20% less.
It was also interesting to note that Store Managers had no accountability for employee attrition. While the Store Manager’s performance scorecard was quite robust measuring key performance metrics, employee attrition was noticeably absent. Several Store Managers we interviewed commented it was not fair to be judged on attrition because they did not
"control" employee variables ranging from compensation to career development. The HR leader commented her recruiters could not be accountable for attrition because they simply screened & short listed associates, while the Store Managers made all the hiring decisions. These sorts of internal competitive "dynamics" are common in many Companies. Fortunately, the new leader of this organization recognized the need to create a culture change where accountability across the organization was required. One of his first of many changes included the need to "silo bust" the organization.

**Cost of Hire**

One of our first reviews included the cost of hiring one sales associate. Our client's data confirmed it was $450. Our review indicated little resources were invested to modernize the Talent Acquisition process and we spent considerable time creating process flow maps and an activity based costing (ABC) approach that measured time and motion of all the various activities involved in hiring one sales associate.

If you are not familiar with calculating the cost of hire, review a number of “cost per hire calculator” tools available online for free. Segregate the hiring activities into categories such as sourcing and recruitment costs (money spent advertising, brochures, career fairs, agency use, applicant tracking system, recruiter salaries & benefits etc), then proceed to processing costs (activity & time spent focusing on reviewing resumes, phone screens, scoring applicants, communicating, arranging interviews), and time spent conducting interviews by both HR and the hiring Manager.

Once a hiring decision is made, additional softer costs including background and criminal checks, skill assessments, offer letter generation along with the supporting infrastructure costs such as identification card production, payroll set up were conducted.

Once we completed our analysis, we confirmed the cost of hiring one sales associate was actually 115% greater at $967 per hire. Based on 150 hires a year, the costs were $145,050 greater than their calculation of $67,500 – a difference of $77,550.

The key to this difference is a number of productivity enhancements were never implemented because the ROI originally presented by Human Resources was not significant to warrant new investments such as an Applicant Tracking System or an outsourced hiring model.
Cost of Turnover

This is where the fun began. Go online for any “cost of turnover calculator” and you will see why. Areas commonly not factored into the cost of turnover include:
- Cost of training, including materials and associated overhead costs,
- Learning & inefficiency - an associate typically takes 90 days to be at the maximum degree of productivity,
- Productivity loss – additional costs incurred while covering the vacant role include overtime. This review resulted in us creating a new metric called Time to Fill ratio.
- Revenue Loss – In a Sales role, attrition analysis revealed a number of high performing sales associate’s took up to a year to reach the sales generation of the previous employee that turned.
- Salary Savings – One of the only benefits of turnover is to ensure you don’t forget to deduct the salary savings you achieved while the position was vacant!

We focused exclusively on the hard costs of turning one sales associate and decided to focus on the reasons driving this cost later.

The reality is this company consistently underestimated the costs of employee attrition. Based on 150 turns per year, they positioned attrition as a $322,500 problem. Our review concluded it was a $1.8 million dollar problem.

Further, when I suggested to my client we could easily reduce this problem by 15% in the first year leveraging enhancements & technology to drive efficiencies with better informed hiring decisions, I was literally promising him a contribution savings of approximately $270,000.00!

Client Cost per Associate Turn $2,150 x 150 turns per year = $322,500.

Attrition rate in India:

Attrition rate is high basically in an organisation where work is mostly dependent on knowledge workers like BPO, paramedical, aeronautics etc. Attrition rate in India’s business process outsourcing (BPO) industry are about 7.8 percentage points higher than in other
industries, according to a report released by Hay Group, a global management consulting firm. The findings comes from a new report, BPO Special Sector Survey 2008, based on Hay Group's global online compensation and benefits database, Pay Net. It showed that in general, staff turnover in India is 15.7%, but at BPO companies, attrition is the countries highest at 23.5%, followed by communications 22% and retail 18%.

Conclusion:
A predictive and workable analysis entails creating multidisciplinary regression model and good data access and a skilled analyst to understand it. Deliberate discussions, detailed and in-depth analysis of data and feedback from multiple channels put together can bring a change in the direction of attrition graphs, but there is no denying that it is a challenging task and the road ahead is full of innovative strategies that have to be put together in order to deal with the same. There is need for organisations to start understanding employees in a better way and to create a more reliable and concrete relationship with their employees. The golden objective of achieving remarkably low attrition rates is possible, only few factors are to be taken care of and have to be dealt with somewhat emotional attitude. This certainly is an ambitious and rewarding endeavor for any organisation, but the strategies that flow from these analyzes often yield insights into your base capabilities that can dramatically transform entire attrition chaos if implemented in proper way.

Reference