Abstract

The broad objective of this research is to identify the root causes of attrition and retention in BPOs, analyzing the level of employee motivation, satisfaction and involvement, generate a model for maximizing sustenance of employees in the organization and come up with concrete recommendations, which will eventually be valuable to the organizations to retain their employees for a long term.

1. Objective

It is clear from the review of BPO research that solutions are required to some specific problems of practical importance in the field of escalating attrition and retention in BPOs. The broad objective of this paper is to identify the root causes of attrition and retention in BPOs, analyzing the level of employee motivation, satisfaction and involvement, generate a model for maximizing sustenance of employees in the organization and come up with concrete recommendations, which will eventually be valuable to the organizations to retain their employees for a long term. The specific objectives of this paper are:

- To identify and rank the factors of attrition in BPOs based on accumulative literature review and secondary data.
- To develop a regression model for escalating the stay of employees in BPOs and give recommendations for the same.
- To assess the existing level of employee motivation and validate the model by studying the impact of recommendations on a small patch.

2. Introduction

The last decade saw an upheaval in the growth and development of the Indian economy, which was accompanied by the revolution in the technological front and a radical change in the way businesses were done. Instead of being the jack-of-all-trades, the smart organizations have now redefined the way of working and now aim at being the master of their core business. Outsourcing the non-core processes in order to concentrate on the core ones is how the companies prefer to work now. BPO has become the obvious strategic choice of the phenomenal lifestyles seem to flash the mind in a jiffy. That’s just the start. One reads it again, contemplates over it, dives into the unveiled afflictions, and gives it a second thought and companies looking at the visible profits of cost reduction while improving the quality of service, increasing shareholder value etc. With the whirlpool of opportunities the Indian Business Process Outsourcing sector seems to be on a happy ride. It has emerged rapidly, and its exports have grown from $565 million in 2000 to about $7.3 billion in 2005. With the boat steaming ahead in the global markets, India has already become the most privileged destination. Hence such an eternal inventory of opportunities simply showcases a phenomenon, which is no less than the renaissance for our Indian markets.

Attrition in BPOs has terrible effects on the organization. The high attrition costs increases the costs to the organization considerably. They have to combat the amount of disruption due to unplanned exits. The more the people leave an organization, the more it is a drain on the company’s resources like recruitment expenses, training and orientation resources and the time. The high attrition rate also affects the productivity of the organization. Therefore, it is extremely important to curb attrition not only for an individual firm but also for the industry as a whole. Many researchers have worked enormously on the IT & BPO sector, citing its challenges, issues, and...
opportunities in and around employee performance, employee satisfaction, employee turnover etc.

3. Literature Review

Grossman and Helpman’s (2005: 135) statement, “We live in an age of outsourcing,” clearly designates that outsourcing has now become an acknowledged, accepted and established business strategy. One of the most familiar forms of outsourcing is business process outsourcing BPO, i.e., transferring the operational ownership of one or more of the firm’s business processes to an external supplier that, in turn, administers the processes according to some predefined metrics (Ghosh and Scott, 2005; Stone, 2004). BPO or Business Process Outsourcing thus refers to the rearrangement of entire business functions to some other service providers, primarily in low cost locations. The service provider may be either self-owned or a third party. This relocation or transferring of business processes to an external provider is essentially to accomplish increased shareholder value.

Some of the general services provided by the BPOs are Receivables and Payables, Inventory Management, Order Processing, Cash flow Analysis, Reconciliation, Data Entry, Payroll Processing, QuickBooks Accounting, Financial Statement Preparation and Accounting Services. Some of the web based services include live online sales and order entry, E-commerce transaction support, Live online enquiry handling, Web Design/Development.

Reduced international trade barriers and improved telecommunication and IT capability over the past decade has led to a situation where organizations across the world are increasingly interlinked with each other. This has resulted in intense global competition, challenging business managers across the world to find ways to reduce the cost of conducting business and accessing global resources in meeting the need of global markets. In such a context, the reorganization of business models to leverage benefits of outsourcing and focus on core competencies has become a key strategy pursued by large corporations across the world. BPO service-providers are expected to provide a wide spectrum of benefits to their customers, ranging from having greater expertise in the outsourced processes, lower costs achieved through economies of scale, scalability and the ability to absorb cyclicity of loads.

- Demand-Supply Equations

According to market analysis firm Gartner, the global outsourcing market in 2000 was approximately $119 bn and will touch $234 bn by the end of 2005. The market is expected to grow to about $310 bn by the end of 2008. Contribution from the North American continent stands at about 59% of the total market, with Europe contributing about 27% and Asia-Pac region (including Japan) contributing the remaining portion of the market. In terms of vertical contribution, the financial services industry contributes approximately 17% of the total market size, followed by the Telecom sector (16%), Consumer Goods and Services (15%), Manufacturing (9%) and the rest by the Information Technology sector.

Global BPO Market by Industry

![Figure: 1]

The BPO market can be broadly broken down into three areas of functional operations:

i. Business administration (falling under G&A expense costs)

ii. Supply chain management (COGS), and

iii. Sales, marketing and customer care

(Selling and marketing costs)

India has emerged as one of the bright stars in the global Business Process Outsourcing market and has maintained its global competitiveness by offering the best combination of cost, quality and scalability. The growth rates of the Indian BPO-ITES industry have been 59%, 45.3% and 44.4% in years 2002-03, 03-04 and 04-05 with revenues of over $3.9 billion in FY 2003-04 and expected to touch $5.7 bn in FY 2004-05.
• BPO in India

Currently the sector employs approximately 2,45,100 people and another 94,500 jobs are expected to be added in the current financial year. There are over 400 ITES-BPO companies operating in the Indian market, including captive units (of both MNCs and Indian companies) and third-party services providers.

In terms of markets, the US continues to be the main consumer of India’s ITES-BPO services (with a 66% share of the market), followed by Western Europe (including the UK), which accounted for 20% of export revenues. In terms of functional service offerings, Customer Care and Support services contributed approximately 34% of the industry’s revenues with the other leading service lines including Finance (with a contribution of 22%), Administration (13%) and Content Development (19%). The global financial services vertical remained the largest user of Indian ITES-BPO services, followed by telecom, healthcare and airline segments. Captive units continued to dominate the ITES-BPO industry, accounting for over 65 percent of the value of the work off shored to India.

4. Research Methodology

The methodology deployed for this survey consisted of primary research, with insights being captured through questionnaires and face-to-face discussions with senior management of participant organizations. Inputs from potential customers to this industry have also been collated, with respect to their key concerns while considering outsourcing to India. The analysis was further supplemented by PwC knowledge-bases and published data to validate trends and best practices, emerging from primary sources. Our analysis and findings are based on consensus findings from the survey and are supported by quantitative and qualitative inputs from the respondents. The data presented in this report is based on information received from the respondents and has been collated to represent an industry trend.

The general intent of this descriptive study was threefold. Therefore a systematic and organized methodology was obtained for the research study. A survey design was used to obtain the required information. The population for this study comprised of employees working in various BPOs in the National Capital Region. A sample size of 250 was chosen for this study. Simple random sampling technique was used to gather data from the respondents, because of which respondents diverged from every age group, gender, organization, marital status etc. but were restricted only to low and middle level employees, where the attrition is highest. The questionnaire was intricately designed to tap the demographic variables including age, education, gender, marital status, and tenure of the respondents. It also gathered information about the factors responsible for attrition, the factors that can be employed to retain the employees in a BPO, their overall level of satisfaction, motivation, involvement and life interest and work compatibility. Main data collection began in the month of July 2011. Statistical Package for the Social Sciences (SPSS) version 17.0 was religiously used for the statistical analyses.

• Primary Data Analysis

A questionnaire was intricately designed to tap the factors responsible for attrition, the factors that are expected to be present in a specific job for retention. The instrument was divided into 4 parts. The first part gathered information about the personal profile of the respondents which included their age, gender, education, marital status, and tenure. Part II consisted of questions about their reasons for change or probable change in their jobs. Part III aimed at knowing what according to the respondents is important for their sustenance in an organization. And last of all, Part IV was about their overall perception of the work which included their level of satisfaction, level of motivation, level of involvement and level of life interest and work compatibility.

• Secondary Data Analysis

In order to gain a deeper understanding about the phenomenon of high attrition, and identification of the factors behind it, a lot of literature on BPO, particularly what got published during 2004 and 2005 was studied in detail. Major causal factors for high attrition in Indian BPO industry identified in this study were based on qualitative research using secondary data. These were compared with causal factors for attrition identified through personal interview with a number of BPO employees in the
NCR. There was a close similarity between the two results, authenticating the qualitative research on causal agents for attrition identified in this study. The study ranked low perceived value and monotonous work as number one factor attrition. Rank two was shared by high salary expectation and unusual working hours. Next factor was disillusioned employees; rank four was shared by stress and burnout, pressure to perform on metrics, and lack of motivation. Finally rank five was jointly shared by lack of security and social interaction.

<table>
<thead>
<tr>
<th>Causal Agents / Factors</th>
<th>Score (on 1) (Rank)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Higher Salary Expectation</td>
<td>0.7 (Rank-II)</td>
</tr>
<tr>
<td>Lack of Security</td>
<td>0.3 (Rank-V)</td>
</tr>
<tr>
<td>Lack of Social Interaction</td>
<td>0.3 (Rank-V)</td>
</tr>
<tr>
<td>Monotonous Work</td>
<td>0.8 (Rank-I)</td>
</tr>
<tr>
<td>Unusual Working Hours</td>
<td>0.7 (Rank-II)</td>
</tr>
<tr>
<td>Pressure to perform on Metrics</td>
<td>0.5 (Rank-IV)</td>
</tr>
<tr>
<td>Low Perceived Value</td>
<td>0.8 (Rank-I)</td>
</tr>
<tr>
<td>Disillusioned Employees</td>
<td>0.6 (Rank-III)</td>
</tr>
<tr>
<td>Stress and Burnout</td>
<td>0.5 (Rank-IV)</td>
</tr>
<tr>
<td>Lack of Motivation</td>
<td>0.5 (Rank-IV)</td>
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Table 1: Summary of ranks from secondary study

5. Growth of BPO industry

- **Company Owned Units Pioneered BPO in India**

Company owned units such as American Express, General Electric (GE), Citibank, and AOL etc. triggered the trend of outsourcing back office operations and call centre services to India.

Since then several banks, insurance companies, airlines and manufacturing companies have set up back office service centers in India.

- **Venture Funded New Companies**

Over the last few years, a number of experienced professionals have set up start-up operations in India. Generally such start-ups have been funded by venture capital funds.

- **Leading IT Services Companies enter BPO**

Given the magnitude of such opportunity, natural synergies with the software services business and the ability to leverage their high-end physical infrastructure and management bandwidth, most large IT services companies have ventured into ITES.

Consolidation of the market with the smaller players merging with each other/ larger companies for economies of scale

- **Domain / Industry Specialized BPO’s**

Niche players in industry verticals or specific business processes have setup BPO businesses. Many of these players have had vast experience in the domestic market and are now offering offshore BPO services

Generalized large BPO players are now focusing on “verticalizing” their competencies and structures

<table>
<thead>
<tr>
<th>Industry Structure</th>
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<tbody>
<tr>
<td>MNC subsidiaries</td>
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<td>------------------</td>
</tr>
<tr>
<td>GE</td>
</tr>
<tr>
<td>British Airways</td>
</tr>
<tr>
<td>eServe, HSBC,</td>
</tr>
<tr>
<td>Scope, AmEx</td>
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<tr>
<td>Hewlett Packard</td>
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</table>

Table 2
Size and Growth of BPO in India

The growth in the BPO sector of India in 2004 was mainly due to the demands from the two segments – BFSI and telecommunications. There were low telecom costs for the leased lines and 400 companies were part of the BPO sector of India. The companies that were involved included third parties, Indian companies and MNC. Growth of BPO sector in India has been truly impressive in recent years, but things can get even better, according to market analysts. India stands out already as a market leader as far as BPOs are concerned and so India also attracts huge foreign investments which are extremely essential since the Indian economy is expected to have an unprecedented growth in the years to come.

Growth of BPO Sector in India during the first half of 2007 was showing a moderate trend of growth which is registered at 14%. Five years ago, the growth in this sector was quite low due to less contracts but the situation is worse now. However, the growth of the BPO sector is expected to improve.

The BPO and KPO sectors in India have been showing some positive signs with demands from western countries increasing manifold due to the availability of cost-effective labour in India, which is highly skilled and also fluent in English. The BPOs in India are focused on increasing the growth through change in pricing techniques. Pricing in a BPO is supposed to be based on the value added to the business. So a remarkable change is in store as the BPOs in India work towards their full potential.

Of course, the big boom in the BPO industry in 2003 had generated a lot of employment opportunities and continues even today. Nevertheless, Indian BPO sector is facing competition from countries like Philippines, Mexico, Malaysia, China, and Canada. The expected growth of this sector in 2003 was 25%. Nations like the United States and Europe are showing great interest in increasing their investments in the Indian BPO sector.

India has an edge over other countries as we consider the following:

- Tech savvy professionals
- Cost effectiveness
- Superior competency
- Business risk mitigation
- 24 hour service
- Economy of scale

The trends in growth of the BPO sector in India are as follows:

- 2003 - USD 2.8 billion
- 2004 - USD 3.9 billion
- 2005 - USD 5.7 billion

According to studies conducted by NASSCOM and leading business Intelligence Company, McKinsey & Co. the Indian IT/BPO segment is expected to employ over 1.1 million Indians by the year 2008. Market research shows that in terms of job creation, the ITES-BPO industry is growing at over 50 percent. In the financial year 2003-2004, ITES-BPO companies were the largest recruiters in the IT/ITES sector, adding a total of about 70,000 jobs.

An estimated 70,000 new Jobs expected in 2005 in the field of ITES. Plus there will be additional hiring to replace industry attrition that is around 25%. On the other hand BPO and outsourcing services would generate around 1, 25,000 new Jobs in 2005. McKinsey & Co. predicts global market for IT-enabled services to be over $140 billion by 2008. In that the opportunity for India will be around $ 17 Billion.
Domestic Indian BPO Industry has seen a spurt in the recent years growing at a 33% CAGR.

The Domestic Indian BPO industry grew from a USD 660 Million to a USD 1.18 Billion industry.

EBITA margins for domestic BPO stood at a double digit Percent figure.

Billing rates are less compared to offshore segment – Most Indian BPOs (especially call centers) are engaged throughout the night hours (for offshore clients), leaving the facility empty for the day.

1. This enabled them to be leveraged during the day for domestic markets in India.

Financial, banking, and telecom companies are leading the domestic BPO wave:

1. BFSI sector companies – UK’s largest banking firm
2. Telecom majors- almost all major mobile & landline telephony provider

6. Factors responsible for attrition and retention of employees in BPO

Hackman & Oldham (1976) proposed the Job Characteristics Model, which is widely used as a framework to study how particular job characteristics impact on job outcomes, including job satisfaction. The model states that there are five core job characteristics (skill variety, task identity, task significance, autonomy, and feedback) which impact three critical psychological states (experienced meaningfulness, experienced responsibility for outcomes, and knowledge of the actual results), in turn influencing work outcomes (job satisfaction, absenteeism, work motivation, etc). The basic hypothesis of this research that employee motivation, employee satisfaction, employee involvement, and life interest and work compatibility lead to prolonged sustenance is an extension of this model with minor modifications in it. It is proposed that the Job Characteristics model is modified by redefining job dimensions as growth prospects, accountability, sense of accomplishment, self-esteem, job security, interpersonal relationships, working conditions, by extending organizational outcomes as satisfied, motivated, involved and retained employees. Figure 1 is the modified Hackman and Oldham’s Job Characteristics model which has been taken as the base to study the research questions pertaining to this research. The new model is also designed to be of use as a management tool and must therefore be simple and flexible enough to be of use to the management of an organization. Typical management questions would involve the likely motivational impact of job redesign, such as increasing employees’ level of control and responsibility over their work behaviour or introducing a scheme whereby employees participate in certain management decisions. The model should therefore allow managers to manipulate a host of job characteristics and investigate the likely effects upon the motivation, performance and sustenance of the workforce. This study aimed at exploring the dimensions of attrition and retention. Based on our ground work; initial survey and personal interviews held with the BPO employees, it was found that factors that contribute to attrition are quite different from the factors that contribute to retention.
Figure: Modified version of Hackman and Oldham’s Job Characteristics Model

Based on the Hackman and Oldham’s Job Characteristics Model and the modifications made to it, a clearer and more lucid pictorial framework of the model is given in Figure 5 and 6. Figure 5 clearly illustrates the basic constructs of the attrition model: personal characteristics, negative job characteristics (job dimensions), and the final resultant as attrition. Figure 6 illustrates constructs of retention model i.e. personal characteristics, intrinsic job dimensions and the resulting level of satisfaction, motivation and involvement (work outcomes) and the final result i.e. retained employees (organizational outcomes).

7. Result and Analysis

- Regression Model for retention

The dependent variable was sustenance in an organization, and the independent variables were personal characteristics viz. age, gender, education, marital status, and retention factors viz. motivation factors, extrinsic factors, involvement factors, and life interest and job compatibility factors. All these eight factors were put in the model as independent variables and willingness to continue in the organization was put as the dependent variable. Intrinsic motivation factors, employee involvement factors, age and education are the main determinants of retention. The value of multiple R is 0.60 and the value of r square is 0.36 in the equation. It states that 36% of the retention in a BPO is explained by these factors. An employee’s sustenance in an organization can be rightfully explained by these factors.
Involvement vis-à-vis Intrinsic Motivation: Effect on employee retention

- Model Validation

For the final validation of the regression model, a small patch test was done on a sample of 50 employees in Intelnet Private Ltd. Few concrete recommendations were made to the process manager of this BPO and he was asked to stringently apply these recommendations. The employees chosen for this study were the ones who had said they would leave the organization if they were offered work with the same pay elsewhere. Data which was collected, after three months of implementation, was analyzed statistically. The response scores were put in the regression equation as derived from the fourth objective and the resultant willingness to stay in the organization was calculated. The comparison with their original scores clearly revealed that there was an escalation...
in the scores. Also, the predicted scores and the actual scores of the willingness to continue in the organization was put under correlation. Finally, employees were classified under four broad categories based on their level of involvement and motivation viz. detached, disgruntled, strugglers and stars.

8. Conclusion

The regression model for the retention of employees in a BPO explains two important factors i.e. intrinsic motivation factors and involvement factors. This result is robustly analogous with all the prevalent and established theories of motivation viz. Herzberg’s theory, Maslow’s theory, Alderfer’s Theory, McClelland’s Theory. According to all these theories, the higher order needs revolve around self esteem, or self-actualization in one way or the other. According to Maslow’s theory, the higher-level needs are self-esteem and self-actualization. Only when one need is satisfied, another higher-level need emerges and motivates the person to do something to satisfy it. A satisfied need is no longer a motivator. Only the next level of needs in the hierarchy will act as motivators. Once a level of needs has been satisfied they no longer act as motivators and the individual then directs attention towards the next level of needs in the hierarchy. Herzberg draws a parallel with Maslow’s theory but with a subtle difference. According to his theory, motivator factors are factors that are intrinsic to the job, such as the content of the work itself and the availability of opportunities for responsibility, advancement and recognition for achievement. The motivator factors, which Herzberg described as “complex factors leading to this sense of personal growth and self-actualization”, would then be able to act on that employee and increase job satisfaction and productivity. Thus, according to this theory, in order to motivate workers towards higher productivity, it is important to ensure that the motivators are utilized to arouse the instinct of the employees. Herzberg’s motivator and hygiene factors can be mapped onto Maslow’s hierarchy of needs with the motivator factors corresponding to the higher order needs of ego and self-actualization.

Next, according to Alderfer’s ERG theory, growth needs involve the intrinsic desire for personal development and include the intrinsic element of Maslow’s esteem category as well as self-actualization needs. Finally according to McClelland’s theory, people with a high achievement need have a compelling drive to succeed. They strive for personal achievement rather than rewards and have a desire to do something better or more efficiently than it has been done before. They seek situations where they can attain personal responsibility for finding solutions to problems, where they can receive rapid feedback on their performance so they can tell easily whether they are improving or not, and where they can set moderately challenging goals.

9. Recommendations

Organizations should have a proactive retention strategy which helps in reducing employee turnover. Retention plan strategies should be different for different level of employees, because their roles are different; their needs are different; what motivates them are different and what makes them leave are also different. Based on the study it has been seen that dimensions of satisfaction and motivation are significantly different for employees on the basis of age, gender, marital status and education. Then, the regression model revealed that intrinsic motivation and involvement factors, as well as age and education level contribute to the sustenance of employees in the organization. Thus based on the findings, it can be said if the employees are motivated and involved in the work they can be retained. The ease of retention would depend on their degree of motivation and involvement. It is desirable to plan employee retention strategy by an organization, which should cover following aspects:

- Reciprocity is the key. Employees are investors in the company and expect a return on investment. The return can be in the form of recognition, empowerment and authority.
- Retention must be part of the organization’s DNA. Successful organizations have woven retention and engagement deeply into their structure.
- Loyalty is never given. Loyalty must be earned; even satisfied employees sometimes leave. Therefore, develop sense of loyalty among the employees.
- Organizations must be seen as employers of choice. One has to compete on compensation and benefits, but win on culture, learning and development.
- Stars include more than just the top 10% - or 1%! Stars are people at any level who sustain in the organization and bring value to it.
Each generation of employees has different reasons for staying. For the first time in modern history, there are varied generations working side-by-side in most companies of this industry. Generational differences continue to pose new challenges to today’s employers. Thus, retaining them needs a generation-centric approach.

- Mentor widely and in both directions. Build learning relationships in all directions and hold all partners responsible for the success.

- Train intelligently. Provide on-going retention training in manageable bites – make it a continuous effort and find ways to size the retention plan to the specific demographics of the organization.

- Create a development culture. “Career development is the right thing for the organization (identifying and developing future leaders), the right thing for the employee (creating a development environment), and a key retention component.”

- Recognize managers who keep employees. Meaningful recognition remains a potent energizer for employees and managers alike.

10. References