

INDIA EMPLOYEE TURNOVER STUDY

RESEARCH REPORT

JANUARY 2008

**PROF. LICHIA YIU, ED.D.
PROF. RAYMOND SANER, PH.D.**



Confederation of Indian Industry

A research study conducted by Centre for Socio-Eco-Nomic Development in partnership with Confederation of Indian Industry

About the Authors



Prof. Lichia Yiu, Ed.D.

President and Co-founder, Centre for Socio-Eco-Nomic Development (CSEND), and Visiting Professor, Organisational Diagnosis & Performance Management, National Taiwan University of Science & Technology.

Dr. Yiu has more than twenty years of consulting and teaching experience in management development and training, leadership development, cross-cultural communication and organisational change in Asia, North America, Western Europe, and Africa. She regularly consults transnational companies, UN Agencies, governments and non-governmental organisations on building internal capacities for transformation.



Prof. Raymond Saner, Ph.D.

Professor (Organisation and International Management), Basle University, and Co-founder of Centre for Socio-Eco-Nomic Development (CSEND)

Dr Saner has 25 years of experience as a trainer and consultant. He has worked as a consultant to the United Nations and its specialized agencies and other intergovernmental organizations as well as for multinational companies and enterprises in developed, developing and transition economies.

About CSEND

The Centre for Socio-Eco-Nomic Development (CSEND) is an independent, project-financed, non-profit R&D organisation, registered in Switzerland since 1993.

Specialising in organisational reform and institutional development world-wide, CSEND conducts research in the field of human capital development, quality of training and education, leadership, international negotiations, human resource management and national competitiveness. CSEND also works to promote constructive dialogue and collaborative relationships between government, private sector and civil society to promote sustainable development.

About CII

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the growth of industry in India, partnering industry and government alike through advisory and consultative processes.

CII is a non-government, not-for-profit, industry led and industry managed organisation, playing a proactive role in India's development process. Founded over 112 years ago, it is India's premier business association, with a direct membership of over 6500 organisations from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 90,000 companies from around 350 national and regional sectoral associations.

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Introduction

This survey was designed and implemented by CSEND for CII in October - November 2007. The purpose was to identify level and patterns of labour turnover in India.

Initial results were reported during the National Seminar on Employee Retention on 4th December 2007 in Delhi.

Research Objectives

- To assess how India's economic development has impacted voluntary employee job turnover
- To identify the key organisational factors contributing to voluntary employee job turnover in India
- To understand how key variables affect different behaviour patterns concerning employee turnover in India
- To describe the most frequently used HR instruments applied to reduce unwanted employee turnover in India

Definitions

In this survey, the term "employee turnover" is used. No distinction is made between white collar employees or blue collar employees.

While employee turnover can be caused by dismissal, destruction of jobs or individual choice, this survey primarily addresses the latter that is of voluntary nature. However data available from different countries and by different independent studies tend to define this term "employee turnover" differently.

An important distinction needs to be made between "employee turnover" versus "job turnover". *Employee (worker) turnover* reflects employees' transitions from one job to another. For instance, when an employee stops working at one company to either leave the labor market or takes a job at a different company. *Job turnover*, in contrast, reflects job creation and job destruction such as by a new software company opening up a new office in Silicon Valley and hiring ten employees.

If job turnover is high, then so will be worker turnover. Pries and Rogerson (2006) wrote,

"Worker turnover is necessarily larger than job turnover, since every instance of job turnover necessarily generates (at least) an equal amount of worker turnover".

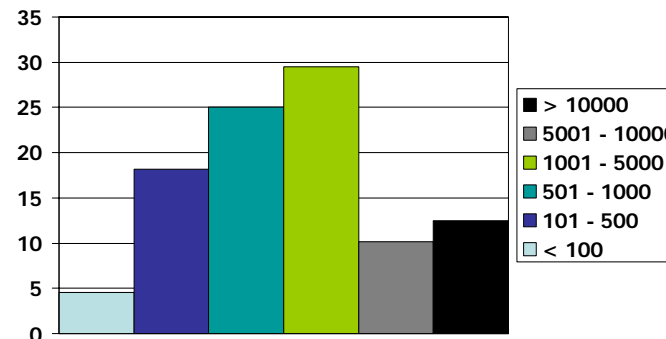
Survey Sample

- A total of 151 senior managers and executives responded to the survey administered online in October-November 2007
- The sample represents a broad cross section of industries, organisation size, and years in operation.
- 108 respondents provided company information concerning their functions, years of service in the current company and levels of responsibility.
- 23 questions were answered by the respondents.

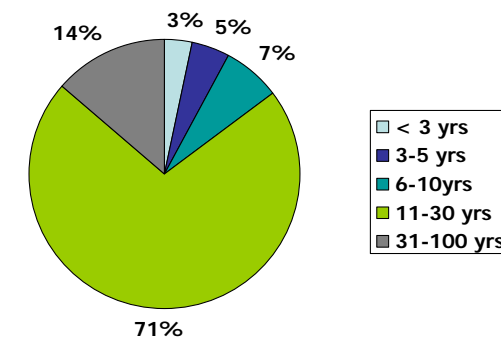
Industry	%
Manufacturing	34%
Engineering/Infrastructure	19%
Professional/Scientific/Technical/IT services	19%
Retailing	8%
Education Service	3%
Health Care	2%
Others	15%

(N=108 responses, with 44 no answers)

Size of Companies



Years in Operation



Individual Characteristics of Respondents

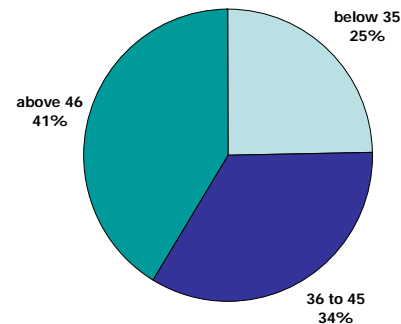
- A total of 88 senior managers and executives provided personal information related to their job.
- The sample represents a cross section of functions, years of service at the current company and age groups.
- Concerning the gender of the respondents, majority of them were male:

Male 80%
 Female 20%

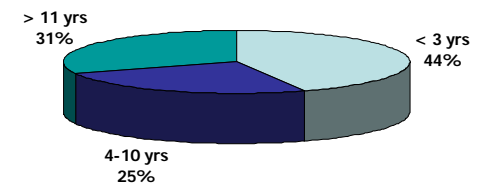
Function	%
Top Management	21%
Training	6%
Human Resources	64%
Finance and Control	3%
Quality Assurance & Control	1%
Evaluation	1%
Others	4%

(N=108)

Age Group



Years of Service



Employee Turnover Rates

- Employee turnover increased over the last years due to the strong growth of the Indian Economy. The impact of this economic buoyancy has affected all economic sector, including the traditional sectors.
- The employee turnover rate has also risen across all categories of employees in terms of their job mobility, regardless of professional qualifications. However, the low skilled employees show lower turnover rates and the same accounts for employees with more years of service in the same company.

Does Job Category Have Any Impact On Employee Turnover?

(Q9. What is the employee turnover rate in your company by personnel categories?)

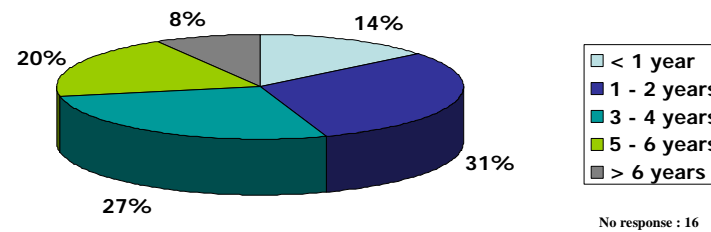
- Knowledge workers in today's India exhibited the highest tendency for voluntary job change across different categories of employees. 51% of the respondents indicated a turnover rate between 11% to 20% of knowledge workers (engineers, researchers, professionals) in their respective companies.
- Managerial staff was also high in regard to turnover. 51% of the respondents indicated a turnover rate between 6% to 15% of managerial staff in their respective company.
- Executive ranks were perceived as relatively stable. 57% of the respondents indicated a turnover rate below 5% of executive ranks in their respective company.
- Clerical and operational workers were reported to have increased turnover as well. 50% of the respondents indicated a turnover rate between 2% to 10% of this category of workers in their respective company.

Does Seniority Have Any Impact on Employee Turnover?

(Q10. What is the employee turnover rate in your company according to seniority?)

- Respondents indicated that years of employment in the company did make a difference regarding turnover.
- Respondents pointed out that the highest turnover occurs between 1-4 years of employment.

Perception on Where Most Attrition Happens in relations to Tenure



Major Causes for Employee Turnover

- Respondents identified the following causes as major contributors to the employee turnover in India (2007) out of 18 factors listed:

(Q1. What are the major causes for employee turnover in India today?)

Salary	78%
Career Advancement	65%
Relationship with Supervisor	48%
Recognition	41%
Job Content	40%
Economic Growth & Talent Competition	36%
Training & Development Opportunities	21%

At the national level, by order of perceived importance, the major factors which caused employee turnover in India in 2007:

(Q2. Ranking the top 5 reasons that are considered as the causes for employee turnover in India today.)

Ranking	Major Causes	%
1	Salary	85%
2	Career Advancement	71%
3	Relationship with Supervisor	50%
4	Economic Growth & Talent Competition	44%
5	Job Content	43%
6	Recognition	33%
7	Training & Development Opportunities	23%

Are Reasons for Employee Turnover in One’s Own Economic Sector Different Compared to the National Trend?

(Q3. Ranking the top 5 causes considered as the primary reasons for employee turn over in one’s own sector).

- Respondents ranked the major reasons for employee turnover in their economic sector in the following order:

Ranking	Major Causes	%
1	Salary	88%
2	Career Advancement	82%
3	Relationship with Supervisor	48%
3	Economic Growth & Talent Competition	48%
5	Job Content	41%
6	Recognition	29%
7	Locality of Work	25%

Convergent View on the Major Causes of Employment Turnover

- “Salary”, “career development” and “relationship with Supervisor” were consistently ranked as the KEY factors that contributed to the current employee turnover in the Indian companies.
- Economic growth and ensuing talent competition, according to the respondents of this survey, seemed to exasperate some of the underlying human resource issues. These factors however could not fully explain the reasons why Indian employees are moving from one job to the next.
- The relationship with the direct supervisor was consistently identified as one of the top three reasons for turnover, pointing out difficulties regarding leadership amongst today’s managerial class of India.

Major Interventions Used To Ascertain Employee Retention

- Respondents identified the areas of intervention that companies took in order to stem the unwanted employee turnover. Top of the list was salary increase. The second was career advancement which again had salary implications.

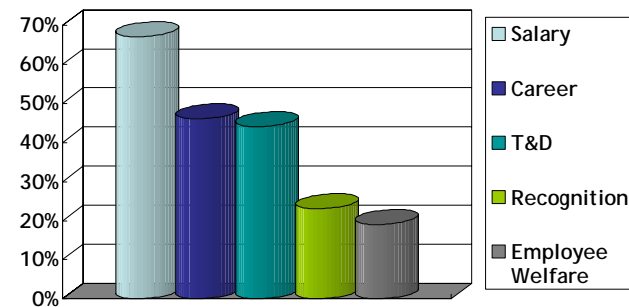
(Q6. In what areas has your company undertaken actions to counter unwanted employee turnover? Ranking the five most frequent areas of intervention)

Salary Increase	80%
Career advancement	73%
Recognition	63%
Training & Development	57%
Human Resource Policy & Rules	45%

The Most Effective Measures Used in One's Own Company

(Q8. What have been the most effective interventions used by your company to counter unwanted employee turnover?)

Most Effective Mitigation Strategies



What Additional Measures Need to be Taken in the Future?

- Respondents felt more actions were needed in the following areas:

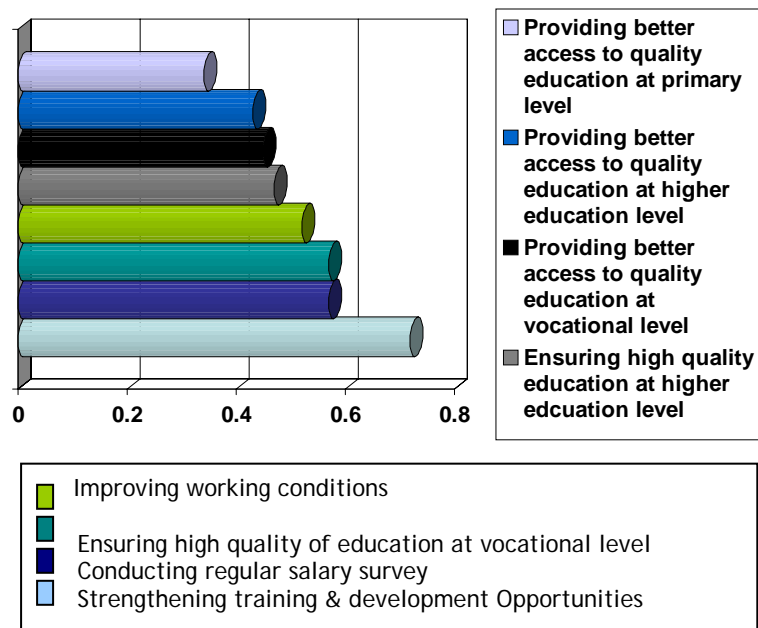
Salary Increase	47%
Career Advancement	45%
Training & Development	34%
Recognition	29%
Participation in Decision Making	20%

What Does The Indian Government Need To Do to Mitigate the Talent Crunch?

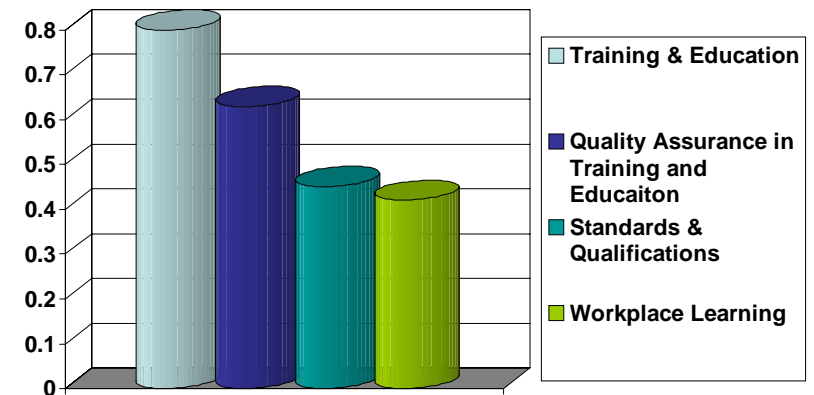
- Respondents pointed out that training and education were some of the major measures needed in order to achieve more efficient and effective functioning of the labour market in India.

At the National Level, Major Policy Actions Are Needed To Enlarge the National Talent Pool.

Government Interventions Needed



Where to Focus



Future Trends

- Respondents indicated that employee turnover will continue to increase over the next 5 to 10 years, compared with current situation.

(Q13. Do you agree with the statement, "compared with current circumstances, employee turnover will decrease in the next 5-10 years

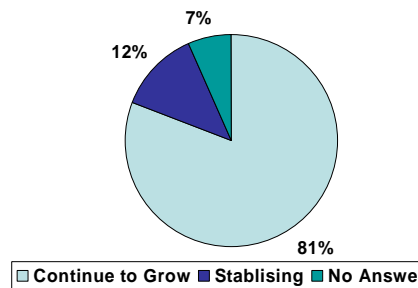
Disagree 65%
 Agree 35%

- A large majority of respondents anticipate that there will not be a sufficient increase in numbers of graduates of tertiary education and hence the competition for talents in the coming years will not be eased but will rather increase.

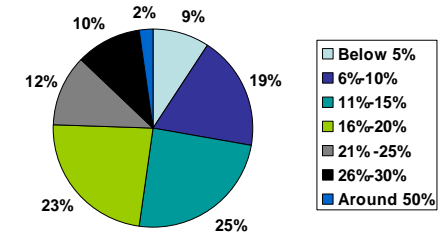
For 2008-2012

- More than 70% of the respondents (62 out of 89) predicted that the employee turnover rate in their respective sectors will be higher than 15% for the next five years.

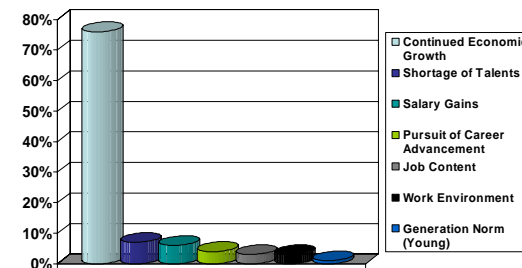
Turnover Rate:
 Future Trend 2008-2012



Estimated Turnover Rate: 2008-2012



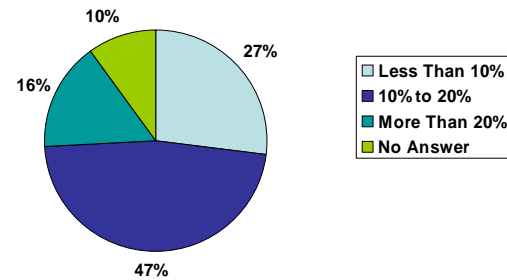
Turnover Rate:
 Reasons for Current Trend to Continue
 (2008-2012)



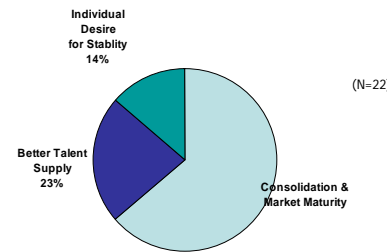
Beyond 2012

- More than 50% of the respondents projected that the turnover rate will remain above 15% during the next six to ten years. A small group of respondents thought a higher turnover rate at 40% to 50% will occur within the next decade.
- Respondents based their projection regarding future trend of employee turnover on their expectation of strong economic growth over the next 5 to 10 years.
- External market conditions and chronic talent shortage remained the explanatory factors causing relatively high turnover rate over the next decade.

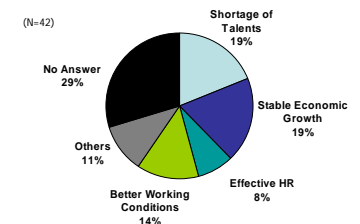
Turnover Rate:
Three Future Scenarios
(2012-2017)



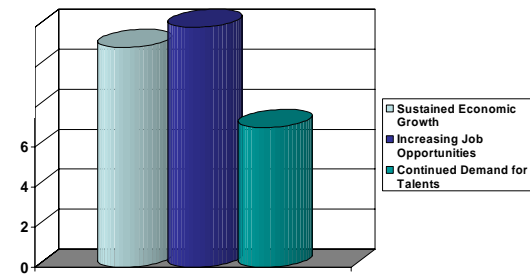
Turnover Rate:
Reasons for Possible Decline
(2013 - 2017)



Turnover:
Reasons for Stablising at Current Rate
(2013 - 2017)



Turnover Rate:
Reason for Increase
(2013-2017)



Reflections and Looking Ahead

The findings from this CII-CSEND online survey support the general perception that employee attraction and retention will remain at on the top of the list of critical tasks to be undertaken by the HR function in India for years to come. "Talent War" will continue to rage leading to an escalation of salary inflation, potentially reducing the ratio of salary to productivity and resulting in narrower profit margins and reduced competitiveness of Indian industries in the world market.

Enlarging the National Talent Pool

The current talent shortage is a reflection of the general shortage of skilled labour and talent supply across skill levels indicating a mismatch of supply and demand. This phenomenon calls for urgent interventions which go beyond the mandate of Indian companies or single company's effort in using smart recruitment strategy to catch potential employees while they are still in the schools. System (macro) level realignments at national level are necessary in order to sustain more productive and competitive factor conditions in India of which human capital remains the most critical of today's business environment.

Nuanced Approach In Responding to the Needs of Employees

Monetary incentives, training, career development opportunities have been used as the main employee retention strategies by most of the companies in India. A non-discriminatory use of these measures would only increase the operational costs and erode the company's competitive edge and India's comparative advantage.

A more nuanced approach needs to be considered that would couple the operational requirements of the company with the needs of the employees. Taking the internal investment in skill and talent development as an example, efforts are needed to ensure such investment which adds to individual competence and at the same time increases corporate productivity so as to avoid the "bench warmer" phenomenon. The bench warmers cause inflation of salary and other negative secondary ramifications, such as perceived lack of "equity" by existing staff.

Addressing Different Psychological Makeup of Younger Generations of Employees

Additional measures to stem the exodus can be envisaged within corporate boundaries in the area of improving the psychological engagement of the employees.

Efforts could for instance be made to strengthen the attractiveness of the work climate and psychological environment in order to retain existing staff and to attract high quality new recruits. These soft working environment issues are largely influenced by the quality of leadership and supervisory (coaching) relationship between the supervisors and their direct reports.

It is common belief that technical experts will automatically become good managers and leaders. However, feedback from companies indicate that they often do not make this transition from being a technical expert to becoming a successful manager.

The current trend to cope with the talent crunch by offering fast track promotion could further exasperate the situation. The upcoming young “leaders” with their limited development of emotional intelligence in leading and managing an increasingly demanding workforce could lead to more turnover since their leadership style might be inappropriate and ineffective causing their staff to leave the respective company.

Strengthening corporate working conditions and HR responses to the human capital issues requires investments in human capital development which goes beyond developing technical competence but rather requires focusing also on personal development and maturity for the junior managers.

Research in other Asian countries found that younger generations growing up in more affluent circumstances and when employment opportunities are more abundant tend to prefer a less authoritarian leadership approach. This could also be true for India. Therefore effective leadership development is not only good for the junior managers but also for the more senior managers who are faced with increasingly more self-confident and more demanding subordinates.

Monetary Enticement Is Necessary, Not Sufficient

These are some of the potential remedies for employee turnover problems of the present and challenges of the future for India's companies in general and HR practitioners in specific. Employee turnover is a symptom pointing at underlying labour market imbalances and inadequate responses by enterprises afflicted by unwanted high employee turnover. High employee turnover is a serious business problem which cannot be simply smothered by salary increases and other costly extrinsic incentives alone.

Attracting well qualified professionals and retaining highly skilled employees in times of tight labour market conditions requires ingenuity and case by case solutions which go beyond the across the board and often indiscriminant use of financial incentives especially since this strategy is used by all the competitors as well.

The causal link that higher attrition leads to higher compensation packages and to higher operational expenses, needs to be mitigated. If not, the alarmingly high attrition rate could eventually erode India's comparative advantage in the global market, and could also erode the company's ability in riding the phenomenal growth in the domestic market.

