

## Chapter 6.20

# Employee Turnover in the Business Process Outsourcing Industry in India

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### ABSTRACT

In this chapter, we explore the problem of high turnover in the high-tech BPO sector in India, where relatively well-educated employees are performing a variety of primarily low skill, low cost jobs. We highlight the various approaches employers are taking to solve the turnover problem. As we will argue, some of these strategies are fairly traditional, focusing on various instrumental incentives to promote employee retention, while some others are new and rather radical, particularly the articulation of an organizational and work culture tailor-made for the particular demographic profile of BPO employees: young, upper middle class, well-educated graduates. Based on anecdotal evidence and interviews with industry personnel, we sense some ambiguity regarding the effectiveness of these strategies. We argue that this ambiguity is a function of (a) the recent and rapid growth of the industry and the fact that firms are experimenting with

a whole variety of retention strategies, and (b) the inability of firms to develop an integrated organizational culture that permits a focus on both longer term organizational performance, as well as retention.

### INTRODUCTION

The IT (information technology) industry in India (commonly referred to as the outsourcing industry) is touted as being crucial to the country's economy. The industry has grown its revenues tenfold in the past decade, from U.S.\$ 4.8 billion in 1997-98 to U.S.\$ 47.8 billion in 2006-07. While it currently (2006) contributes only 5.4% of India's GDP, this figure is expected to rise to 12.3% by 2012 (NASSCOM, 2007). Thus, the IT industry is expected to be a key driver of India's economic development via its contribution to GDP growth, employment growth, and poverty alleviation (Srinivasan, 2006).

There are three main segments in the IT industry: IT services and software, business process outsourcing (BPO), and hardware (NASSCOM, 2005). Though IT services and software accounts for the bulk of the industry at present, this segment has matured to some extent. On the contrary, the BPO sector is newer and is experiencing explosive growth. Projections indicate that the BPO sector will substantially overtake the software sector in value by 2012, other things being equal (Knowledge@Wharton, 2004b). And it is the BPO industry that has earned India the reputation of being the outsourcing capital of the world. Further, consolidation in the industry has resulted in several large software firms (e.g., Infosys, Wipro, and IBM) starting or buying out BPO units, thus blurring the distinction between software and BPO. We focus exclusively on the BPO sector in this chapter.

Although low costs and a seemingly endless supply of skilled human resources have been the key to India's leadership role in software and business process outsourcing, we argue in this chapter that continued growth of the BPO sector is contingent on it overcoming its biggest human resources problem (i.e., high turnover, which is posing a serious threat to growth and profitability in this sector<sup>a</sup>). Average turnover rates in the industry range from 25-40% (NASSCOM, 2005), imposing a significant cost on firms as they attempt to replace 40% of their employees per year in a very competitive labor market. Thus, despite possessing one of the world's largest supplies of skilled manpower, there is a desperate shortage of people in the industry.

Our goal in this chapter is modest, for example, to understand the causes and consequences of high turnover in the industry, and to document the variety of ways in which human resource departments in the BPO industry are attempting to address the critical issue of employee retention. In an industry where costs are a key source of comparative advantage, paying higher salaries to retain employees is self-defeating, as it threatens

the longer-term viability of the industry. As it is, salary growth rates of 15-20% a year over the last few years has resulted in the movement of BPO jobs from India to China and other locations. Thus, BPO firms have to find other means of employee retention.

This situation therefore presents an interesting case study of a unique management problem, for example, the management of relatively well-educated employees in the high-tech sector who are doing a variety of primarily low skill, low cost jobs (although there is a growing high skills based research process outsourcing sector in India as well). Our study, based on interviews and participant observation of the BPO industry in India during 2005-2006, suggests that employers are experimenting with a variety of strategies to combat the turnover problem. As we will argue, some of these strategies are fairly traditional, focusing on various instrumental incentives to promote employee retention, while some others are new and rather radical, particularly the articulation of an organizational and work culture tailor-made for the particular demographic profile of BPO employees: young, upper middle class, well-educated graduates.

In the next section, we provide a (very) brief overview of the BPO sector in India. Thereafter, we discuss the nature and causes of turnover in the industry. We then describe various human resource (HR) strategies that companies are implementing in attempts to retain their employees. In the final section (although we do not yet have clear empirical evidence on which of the HR strategies are successful), we discuss these initiatives against the broader research background of turnover and organizational culture.

## **THE BPO SECTOR IN INDIA**

There were various catalysts that led to the boom in business process outsourcing in India in the mid-1990s (see Dossani and Kenney, 2003 for

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