

Attrition in the Indian BPO sector: Role of compensation and opportunity to advancement on employee's intention to quit

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Abstract

Human capital is the most crucial resource on which the BPO industry in India depends. However, it is plagued by this never ending problem of employee attrition. Whenever a well-trained and well-adapted employee leaves the organization, it creates a vacancy. The organization loses a skilled, trained, and essential resource. Consistent employee attrition not only leads to an increase in tangible cost but also includes an intangible or "hidden" cost associated with it.

Purpose: This study intends to study the impact of tangible factor like compensation and an intangible factor like opportunity for advancement on an employee's intention to quit.

Research Design: Employee intention to quit, employees satisfaction from compensation levels and opportunity for advancement were measured using 5-point Likert scale. Statistical techniques such as, correlation analysis, Principal component analysis, descriptive analysis etc were used for understanding the data and analysis.

Results: A study of the statistical output reveals that both compensation and opportunity for advancement factors play a significant role in influencing an employee's intention to quit. Although opportunity for advancement is a major factor which plays a more significant role than compensation.

Keywords: Employee attrition, Compensation, Opportunity for advancement.

Introduction

Employee attrition (Abassi et al., 2000), also called turnover is the rotation of workers around the labour market between firms, jobs and occupations and between the states of employment and unemployment. Further, Price (1977), defines attrition as "The ratio of the number of organizational members who have left during the period being considered divided by the average number of people in that organization during the period". Employee turnover takes place due to various reasons like retirement, resignation, sickness, death or for personal reasons. Factors that leads to an employee quitting an organisation can be varied ranging from higher pay expectation, lack of job security, lack of career advancement options to differences among co-workers etc.

Powered by revolutionary technologies and dramatically changing markets, the intense global competition is creating a turbulent atmosphere in which the Indian BPO (business process outsourcing) industry must operate and prosper. This competition is two-fold; new global industry participants on one side and the experienced domestic industry challengers on the other. This competition intensifies in the dynamic global markets, as the strategies of challenging firms are uncontrollable external forces, leaving the internal management of strategic assets as the only way to create sustained competitive advantage. Thus, the management and retention of internal strategic asset i.e., the human capital is of key strategic advantage to the BPO industry.

BPO industries are trying to retrospect in their human resource strategies and find ways to avert high rates of employee attrition. There is a dire need to

understand the reasons for an employee's attrition or his intention to quit an organisation in the first place. This study is aimed in this direction. This study focusses on the impact of tangible factor like compensation and an intangible factor like opportunity for advancement on an employee's intention to quit.

Objectives

The present study is carried out with the following objectives.

1. Statistically determining whether compensation is a significant variable in an employee's decision to Quit an organisation or not.
2. Statistically determining the significance of the variable, opportunity for advancement, in respect of an employee's intention to quit in BPO industry.

Review of Literature

Many researchers across the world has conducted research on the concept of employee attrition. Though its not possible to present all of them an attempt to present a few has been made here.

Porter LW, Steers RM, Mowday RT, Boulian PV (1974)

Porter LW, Steers RM, Mowday RT, Boulian PV (1974) provides a reports about the variations in organizational commitment and job satisfaction, as leading to subsequent attrition in a sample of psychiatric technician trainees. With the passage of time, organizational commitment measures proved to be a better predictor of turnover, and job satisfaction failed to predict turnover.

Mobley, W.H (1977)

Conducted a study on “intermediate linkages in the relationship between job satisfaction and employee turnover” he propounded that although it is clear that the relationship between job satisfaction and turnover is significant and consistent, it is not very strong. The author suggests that it is probable that other variables mediate the relationship between job satisfaction and the act of quitting. He found, the key variable is the concept of behavioural intentions. The model presented is one of the first to propose the role of intentions to quit in the turnover process.

Dalton, D.R., Todor, W.D., & Krackhardt, D.M (1982)

Conducted a study on “Turnover overstated: A functional taxonomy”, this article provides the perspective of attrition from a different angle. The researcher here said that attrition within limits is good for an organisation. The authors hold that recommendation for re-hire is an adequate proxy for “good” (functional versus dysfunctional) turnover.

Jackofsky, E.F (1984)

Conducted a study on “Turnover and job performance: An integrated process model” the key contribution of this article is the integration of job performance into predominant process models of turnover.

Ferris, G.R (1985)

The contributions of average exchange and leader-member exchange (LMX) to explaining variance in employee turnover were examined in an investigation designed to constructively replicate a study by Graen, Liden, and Hoel (1982).

Abelson, M.A (1987)

Conducted a study on “Examination of avoidable and unavoidable turnover” with the objective of study about turnover. Past research has suggested that workers leave either voluntarily or involuntarily. In this article, the author holds that this approach excludes some involuntary departures from analysis, while treating all people who leave voluntarily as being similar.

Dalton, Krackhardt, and Porter’s (1981) suggested taxonomy of avoidable and unavoidable turnover, this article examines whether the taxonomy aids in the analysis of turnover. The key finding from this research is that unavoidable departures and retentions did not significantly differ on four variables: Commitment, satisfaction, job tension, and withdrawal cognitions. These findings suggest that researchers should consider the circumstances of job quits when analyzing the causes of employee turnover.

Compensation

Compensation is the total amount of the monetary and non-monetary pay provided to an employee by an employer in return for work performed as required. It is basically a blend of money and in kind benefits given to an employee for the services he has rendered. Essentially, it's a combination of the value of one's pay,

bonuses, health insurance, and any other perk one may receive, such as free lunches, free events, and parking. Compensation also includes payments such as bonuses, profit sharing, overtime pay, recognition rewards and checks, and sales commission. Compensation can also include non-monetary perks such as a company-paid car, stock options in certain instances, company-paid housing, and other non-monetary, but taxable, income items. It's not in the best interests of an employer to have disgruntled, unhappy employees who feel they are underpaid. Thus, it implies that offering fair market compensation with generous benefits should help the employer get a thriving, contributing workforce in sync with the business aims and needs. But a number of studies have shown that compensation does not have a long-term motivational effect (Furnham, 2006). Nor does it necessarily increase productivity. However, it has also been observed that lack of adequate pay does lead to demotivation and employee leaving the organisation for better venues. Thus, if pay does not meet expectations or there is a disparity, employee motivation and performance is negatively affected and an employee shall not hesitate to quit if he gets another offer. To prove the same, we formulate the hypothesis:

H1: Employee's compensation, have a significant and inverse relation with an employee's intention to quit an organization.

Opportunity for Advancement

Career advancement is one of the most important elements for employee satisfaction and retention at a company. According to Victor Lipman of Forbes, clear opportunities for advancement are an “especially powerful” employee motivator. Many research works, in western countries, have shown a positive relation between opportunities for advancement and employee retention. Consequently we can say that, opportunities for advancement induces a person to perform better and contribute more towards organisational goals, lowering the degree of intention to quit. But does this hold true for the Indian BPO sector also, which has been plagued with huge amount of attrition. To determine the same, we formulate the hypothesis:

H2: Opportunity for advancement, have a significant and inverse relation with an employee's intention to quit an organization.

Research Methodology

Based on the hypothesis formulated a questionnaire was developed to gather data on employee's intention to quit. Employee's level of satisfaction from his compensation package and from the opportunities for advancement in the organisation were studied in conjunction with his intention to quit to establish the relationship between them. The questionnaire was split into three sections. Each section contained items measuring different variables. The items of the first section measured the demographic variables, like

gender, level in management hierarchy, qualification etc. the second section measured the independent variable that is the compensation and opportunity for advancement. The last section measure the dependent variable that being intention to quit. The instrument for each variable is developed based on the work of established researchers from previous studies. Items are measured using five-point Likert scales, with 1 representing strongly disagree to 5 representing strongly agree.

Further, the survey questionnaire was administered to a specific number of BPO companies. Interviews was conducted either face to face or online with the employees. Interviews with employees was conducted

with the intention to understand the significance of advancement opportunities and compensation with respect to the employees intention to quit.

The survey data, so collected was than processed and analysed using statistical techniques such as, correlation analysis, principal component analysis, descriptive analysis etc. The results were thus studied and inferences derived.

Descriptive Statistics: Demographics

The descriptive statistics and frequencies for demographics in the overall sample are shown in Table 1.

Table 1: Gender

	Frequency	Percent	Valid Percent	Cumulative Percent
Male	260	65.0	65.0	65.0
Female	140	35.0	35.0	100.0
Total	400	100.0	100.0	

Of the total of 400 respondents, the sample has 65 percent male (260) and 35 percent female (140) respondents. In the early stages of BPO industry the females to male ratio was very low. Although the number of females, in the BPO industry has increased over the years, but still they do not stand equal to the population of men. As per a survey on gender inclusivity conducted

by HR consulting firm Mercer and IT association, Nasscom. The number of women working in the IT-BPO sector grew 60 percent in the last two years. The Nasscom survey further, mentioned that India has the largest number of working women in any single country in the world, which can be partly attributed to the growth of the IT-BPO industry.

Table 2. Managerial Position

	Frequency	Percent	Valid Percent	Cumulative Percent
Junior Staff	272	68.0	68.0	68.0
Middle Management	92	23.0	23.0	91.0
Senior Management	36	9.0	9.0	100.0
Total	400	100.0	100.0	

Exploring the data on employees by their managerial position reveals that 68 percent of respondents are junior managers while the rest 32 percent are middle level or senior level managers. The expectations and aspirations of employees working at different levels of management hierarchy has been proved to be different in various previous research works. Thus, the factors leading to satisfaction and thus intention to quit may vary for different level of employees.

Exploring the sample on the basis of their educational qualification reveals that around 80% of the

sample size have a bachelor degree and are thus graduates in their respective fields. This outcome was expected as the Indian BPO relies heavily on direct recruitment of graduate or post graduate students from their respective colleges. Further, 20% are post graduates or have higher qualifications. Thus, all the respondents are mature adults above the age of 18, capable of forming informed judgment.

Descriptive Statistics: Variables

The descriptive statistics for each of the items in the questionnaire are shown below:

Table 3: Compensation

How satisfied am I with this aspect of my job: My pay and amount of work I do				
	Frequency	Percent	Valid Percent	Cumulative Percent
Not satisfied at all	36	9.0	9.0	9.0
Somewhat satisfied	176	44.0	44.0	53.0
Satisfied	144	36.0	36.0	89.0
Very satisfied	44	11.0	11.0	100.0
Total	400	100.0	100.0	

In Table 3, the factor “compensation” is measured. Here, the respondent determines his level of job satisfaction derived from the amount of compensation he get from his work. Examination of the data tells us that

out around 89% of the respondents are just satisfied or not very satisfied by their amount of compensation, only about 11% says they are happy with their pay.

Table 4: Advancement

How satisfied am I with this aspect of my job: The chances for advancement on this job				
	Frequency	Percent	Valid Percent	Cumulative Percent
Not satisfied at all	44	11.0	11.0	11.0
Somewhat satisfied	68	17.0	17.0	28.0
Satisfied	100	25.0	25.0	53.0
Very satisfied	172	43.0	43.0	96.0
Extremely satisfied	16	4.0	4.0	100.0
Total	400	100.0	100.0	

In Table 4, the factor “Advancement” is measured. Here, the respondent determines his level of job satisfaction derived from the opportunities one get for advancement on his job. Descriptives of the data shows that a 43% of the respondents are very satisfied with the opportunities for advancement, while around 44 respondents i.e. 11% feels the job does not make use of their abilities fully.

Pearson Product-Moment Correlation

The relationship between compensation and opportunity for advancement and the intention to quit was investigated using Pearson product-moment correlation coefficient.

Table 5: Correlation among the extrinsic and intrinsic job satisfaction and intention to quit

	QC_1. If I have my own way, I will be working for my current employer 12 months from now	QC_2. I frequently think of quitting my job	QC_3. I am planning to search for a new job in the next 12 months
Compensation (My pay and amount of work I do)	Pearson Correlation	.302	-.317
	Sig. (2-tailed)	0.000	0.000
	N	400	400
Advancement (Chances for advancement on this job)	Pearson Correlation	.469	-.502
	Sig. (2-tailed)	0.000	0.000
	N	400	400

Table 5, shows the Pearson Correlation amongst the variables compensation, opportunity for advancement and the intention to quit.

Result

As can be seen from the table 5 that compensation, opportunity for advancement have a p value less than .05. Thus, this result indicate that both compensation and opportunity for advancement have a significant influence on an employee’s intention to quit.

Inferences from Result: In this study, we are considering a 5% level of significance, thus if the p value i.e. the sig. (2 tailed) value for any independent variable (compensation and opportunity for advancement factors) is greater than .05 ($p > .05$), than that variable shall be considered to be having an insignificant influence on the dependent variable, i.e. intention to quit. As can be seen from the table 5 that compensation, opportunity for advancement have a p value less than .05. Thus, indicating that both compensation and opportunity for advancement have a significant influence on an employee’s Intention to quit. Therefore we can infer that, if compensation is not at par with the work involved or

in conjunction with colleagues at same level it may lead to an dissatisfied employee, who may plan to quit the organisation. Further, if there is a lack of opportunities for advancement an employee will feel stagnant and monotonous, and thus he may quit in search of better opportunities. However, it has been observed that compensation is more significant a factor for junior level employees, even with less opportunities of advancement, a good compensation holds them to the job. On the other hand at senior levels of managerial positions, opportunities of advancement becomes more significant factor, a little less compensation does not lead to attrition if there are enough growth opportunities. Thus, the results are seen to satisfy the Maslow need hierarchy theory also. At junior level there is a greater need for finance and compensation is observed to be a more driving factor in intention to quit, while at higher levels with self-actualisation needs, advancement has been observed to become a stronger factor for intention to quit.

Conclusion

The objective of this research is to determine, the impact of compensation and opportunity for advancement to an employee's intention to quit in an industry characterized by a high degree of voluntary attrition. A study of the statistical output reveals that both compensation and opportunity for advancement factors play a significant role in influencing a person's intention to quit. Although opportunity for advancement factor play a more significant role than compensation. According to Herzberg theory compensation is an extrinsic factor. Compensation is basically a non-dissatisfier, implying the non-existence or inequality in compensation would make an employee dissatisfied in the organisation and thus, he shall surely quit the organisation. But, suitable and equal pay will not necessarily motivate him to perform better. While, opportunity for advancement, will not only induce a person to stay but also motivate him to perform better.

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