Attrition leads to Employee Turnover Costs-
A Study of Indian Software Industry

Abstract

Companies who believe in zero attrition rates only fool themselves. It is difficult to accept when organizations say they have zero attrition rates. Companies may have healthier turnover rates, however, there is no such thing as zero attrition. There are other such facts about turnover, about which most of us are not aware. Zero attrition is not desirable mainly because of two reasons. Firstly, if all employees continue to stay in the same organization, most of them will be at the top of their pay scale which will result in excessive manpower costs. Secondly, new employees bring new ideas, approaches, abilities & attitudes which can keep the organization from becoming stagnant. In this paper we are trying to study different causes of Attrition in the organizations and its impact on the turnover costs of the employee in particular to the Software Industry. We have uses some of the Employee turnover cost models for calculating the costs associated to it.

H.B.Gochhayat
Assistant Professor
Srusti Academy of Management
Bhubaneswar

N.S.Nanda
Assistant Professor
Srusti Academy of Management
Bhubaneswar

Introduction

The attrition rate has always been a sensitive issue for all organizations. Calculating employee turnover rate is not that simple as it seems to be. No common formula can be used by all the organizations. A formula had to be devised keeping in view the nature of the business and different job functions. Moreover, calculating attrition rate is not only about devising a mathematical formula. It also has to take into account the root of the problem by going back to the hiring stage.

Attrition rate: There is no standard formula to calculate the attrition rate of a company. This is because of certain factors as:

- The employee base changes each month. So if a company has 1,000 employees in April 2009 and 2,000 in March 2010, then they may take their base as 2,000 or as 1,500 (average for the year). If the number of employees who left is 300, then the attrition figure could be 15 percent or 20 percent depending on what base you take.
- Many firms may not include attrition of freshers who leave because of higher studies or within three months of joining.
- In some cases, attrition of poor performers may also not be treated as attrition. Calculating attrition rate:

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Attrition rates can be calculated using a simple formula:

Attrition =(No. of employees who left in the year / average employees in the year) x 100

Thus, if the company had 1,000 employees in April 2009, 2,000 in March 2010, and 300 quit in the year, then the average employee strength is 1,500 and attrition is 100 x (300/1500) = 20 percent. Besides this, there are various other types of attrition that should be taken into account. These are:

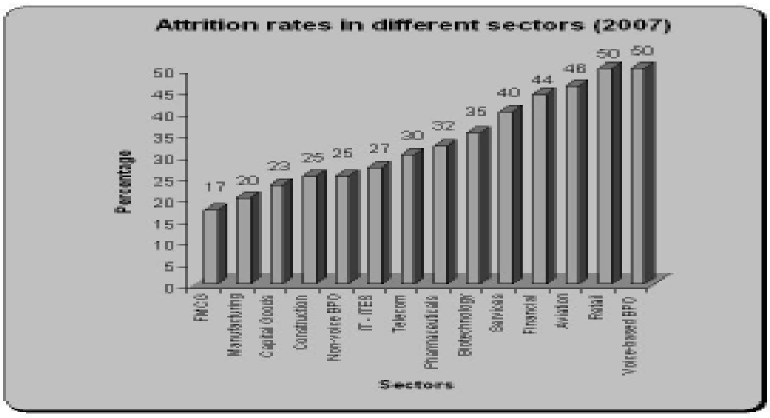
- Fresher attrition that tells the number of freshers who left the organization within one year. It tells how many are using the company as a springboard or a launch pad.
- Infant mortality that is the percentage of people who left the organization within one year. This indicates the ease with which people adapt to the company.
- Critical resource attrition which tell the attrition in terms of key personnel like senior executives leaving the organization.
- Low performance attrition: It tells the attrition of those who left due to poor performance.

Cost Associated with Attrition

We need to understand the different costs associated to the Attrition of any organization which can be described as given below.

Recruitment Cost	Training and development cost	Administration Cost
• Time spent on sourcing replacement • Time spent on recruitment and selection • Travel expenses, if any • Re-location costs, if any n Training / ramp-up time • Background/reference screening	• Training materials • Technology • Employee benefits • Trainers' Time	• Set up communication systems • Add employees to the HR system • Set up the new hire's workspace • Set up ID-cards, access cards, etc.

Attrition Rate in Different Sectors in India



Comparative study on Indian Software Industry

Inspite of being IT giants, these 4 companies are facing high attrition rates. They are facing problems in retaining their employees irrespective of the fact that they are providing an attractive compensation packages to their employees. TCS, Infosys and Wipro faced high attrition rate as compared to Satyam.

The attrition rate of Wipro is 16.2% during the last quarter of 2006-07. On annual basis, the attrition rate of Wipro BPO was 48 %. The main reasons being told are the odd working hours and the higher studies. Wipro's attrition rate is the highest in the industry.

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Attrition rate for Satyam for the period January-March 2007 was 15.7%. It has declined to 14.9%

Models of Employee Turnover

Over the years there have been thousands of research articles exploring the various aspects of turnover, and in due course several models of employee turnover have been promulgated. The first model and by far the one attaining most attention from researcher, was put forward in 1958 by March & Simon. After this model there have been several efforts to extend the concept. Since 1958 the following models of employee turnover have been published.

- March and Simon (1958) Process Model of Turnover
- Porter & Steers (1973) Met Expectations Model
- Price (1977) Causal Model of Turnover
- Mobley (1977) Intermediate Linkages Model
- Hom and Griffeth (1991) Alternative Linkages Model of Turnover
- Whitmore (1979) Inverse Gaussian Model for Labour Turnover
- Steers and Mowday (1981) Turnover Model
- Sheridan & Abelson (1983) Cusp Catastrophe Model of Employee Turnover
- Jackofsky (1984) Integrated Process Model
- Lee et al. (1991) Unfolding Model of Voluntary Employee Turnover
- Aquino et al. (1997) Referent Cognitions Model
- Mitchell & Lee (2001) Job Embeddedness Model

After analyzing all of these models we have come a basic model for calculating the Employee turnover cost any organization, which is mentioned below:

Employee turnover cost for Overall Software Industry with the following Information

Average No. of Employee	1,50,000
Total no.of Employee leaving the organization in the last 12 months(2009-10)	5,000
Annual salary(average)	4,00,000/p.a
Benefit Percentage	25%
Expected length of vacancy	15 days
Expected Separation Costs Per Employee	8,082
Expected Net Vacancy Costs/Savings Per Employee	3,082
Estimated Replacement Costs Per Employee	35,000

Estimated Turnover Cost Per Employee 46,164
Estimated Annual Turnover Cost 230,820,000
Employee turnover cost for Infosys with the following Information

Average No. of Employee	35,000
Total no.of Employee leaving the organization in the last 12 months(2009-10)	1200
Annual salary(average)	5,00,000/p.a
Benefit Percentage	30%
Expected length of vacancy	14 days
Expected Separation Costs Per Employee	10,240
Expected Net Vacancy Costs/Savings Per Employee	3,740
Estimated Replacement Costs Per Employee	45,400

Estimated Turnover Cost Per Employee 59,480
Estimated Annual Turnover Cost 71,376,000
Employee turnover cost for TCS with the following Information

Average No. of Employee	28,000
Total no.of Employee leaving the organization in the last 12 months (2009-10)	800
Annual salary(average)	5,50,000/p
Benefit Percentage	35%
Expected length of vacancy	10 days
Expected Separation Costs Per Employee	10,476
Expected Net Vacancy Costs/Savings Per Employee	3,051
Estimated Replacement Costs Per Employee	51,975

Estimated Turnover Cost Per Employee 65,502
Estimated Annual Turnover Cost 52,401,600
Employee turnover cost for Satyam with the following Information

Average No. of Employee	40,000
Total no.of Employee leaving the organization in the last 12 months(2009-10)	9000
Annual salary(average)	3,75,000/p.a
Benefit Percentage	24%
Expected length of vacancy	30 days
Expected Separation Costs Per Employee	10,383
Expected Net Vacancy Costs/Savings Per Employee	5,733
Estimated Replacement Costs Per Employee	32,550

Estimated Turnover Cost Per Employee 48,666

Estimated Annual Turnover Cost 437,994,000

Calculation of Employee Turnover by Month

To calculate monthly employee turnover rates, divide the number of employee separations in one month by the average number of active employees at the worksite during the same period. We'll say we have one site of operations.

$$\textbf{Monthly turnover rate} = \frac{\textit{Number of separations during the month}}{\textit{Average number of employees during the month}} \times 100$$

For example, let's say we lose four employees out of 200.

$$m = \frac{4}{200} \times 100 \qquad m = 2\% \text{ Monthly Employee Turnover Rate}$$

That gives us an employee turnover rate of two percent. What if we repeated this employee turnover calculation to highlight the turnover rate just in the new hires, not in the whole company, over the course of a year?

What Can Employee Turnover Calculations Tell You About Your Organization?

For instance, what questions were asked when the employee was hired? Did the questions relate to the job? If not, they may have set up the application for the job to be quite different than the job really is. If so, why was that done?

- Did those who sorted applicants by their responses understand what skills the job required? Did they end up looking for or finding the wrong things?
- Did the employee get an orientation? Was the employee made to feel comfortable in the organization after the orientation? Why or why not?
- How did the employee's supervisor interact with the employee?
- How did the existing workforce interact with the new employee? With acceptance and assistance, or with a cold shoulder? How did the supervisor react to that? Did the supervisor take any steps in response to the workforce interaction with the new employee?

Some ways may be explored to reduce the employee turnover in the software industry which are given below:

- Hire the best candidate.
- Welcome new employees. Customize your induction program for new employees according to the requirements. Same induction program can not be applied to all the candidates. Make them feel welcomed.

- Produce quality managers who can really manage employees well.
- Provide employees with work schedules that are flexible enough to suit their needs.
- Don't be too demanding. You re hiring human beings who have their own life and family commitments. Respect them.
- Provide career counseling and development.
- Discuss your future plans regarding the candidate with the candidate. Let them know that the management is interested in retaining them and cares for them.
- Take proper feedback from employees regarding their grievances.
- Remember your ex-employees. They can be of help in future. It is also a part of employee retention.

Conclusion

Continual training and reinforcement develops a work force that is competent, consistent, competitive, effective and efficient. Beginning on the first day of work, providing the individual with the necessary skills to perform their job is important. Before the first day, it is important the interview and hiring process expose new hires to an explanation of the company, so individuals know whether the job is their best choice. Networking and strategizing within the company provides ongoing performance management and helps build relationships among co-workers. It is also important to motivate employees to focus on customer success, profitable growth and the company well-being . Employers can keep their employees informed and involved by including them in future plans, new purchases, policy changes, as well as introducing new employees to the employees who have gone above and beyond in meetings. Early engagement and engagement along the way, shows employees they are valuable through information or recognition rewards, making them feel included.

When companies hire the best people, new talent hired and veterans are enabled to reach company goals, maximizing the investment of each employee. Taking the time to listen to employees and making them feel involved will create loyalty, in turn reducing turnover allowing for growth.

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