

# Unusually high attrition rate in tech mahindra



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This assignment will delve into the attrition rate of the Indian IT industry in general and for Tech Mahindra in specific. It would analyse the higher attrition rate for Tech Mahindra as compared to the entire industry average and try to find possible reasons for it, analysing with motivation theories, implications on the organisation due to it and suggestions which managers could implement in future to avoid this.

## **COMPANY HISTORY**

Tech Mahindra was created as a joint venture between British Telecom plc. and Mahindra & Mahindra group (\$7. 1 billion group) in 1986 under the name of Mahindra British Telecom - MBT, to provide telecom solutions to the British Telecom group. Later on it was renamed as Tech Mahindra as the M&M group bought majority shares in the Joint Venture, also to reflect the growth of the client base and diversification in various verticals to increase the breadth of its services, recently Tech Mahindra has acquired Satyam Computer Services, a leading global business and information technology services company (Techmahindra. com, 2011)

## **IT INDUSTRY ATTRITION RATE**

The Indian IT industry is majorly based on revenues from ITES[2]outsourcing from major industry players across the world. The industry average attrition rate is 18% and the average wage increase of 15% is also creating some margin pressure. The attrition rate for Tech Mahindra for 2009 was 18. 7% and for 2010 it was 20%, comparatively higher than the industry average, even more relevant for an organisation of headcount over 25, 000 (Hindu. com, 2009)

Impact on direct revenues because of attrition is though a bit subtle, yet replacing experienced employees with fresh graduates costs 8-10% more. Analysts at CLSA[3] estimate that for every 5% points of attrition reduces 150 bps from gross margin. Its other effects also include the recruitment and training cost and may even result in loss of business because of poor delivery against peer organisations in multi-vendor contracts (Indiainfoline.com, 2009)

## **TYPES OF ATTRITION**

Having analysed the impact of attrition, it's important for organisations to minimise it. There are two types of attrition, healthy attrition and unhealthy attrition. Healthy attrition is due to reasons of employee advancement like career change, further education, health and family reasons. Unhealthy attrition is mostly because the employee is forced to quit, reasons like no motivation to work, no promotions, politics in organisation etc. lead to unhealthy attrition.

## **REASONS FOR UNHEALTHY ATTRITION**

Various reasons, some due to the changing global IT scenario and few due to the financial crisis have led to hike in attrition rate. These include people centric industry, candidates opting for branded organizations, plenty of opportunities available - leading to low retention, Fast changing technologies, objectivity in evaluation of the skills, flexi hours, and demand supply gap existent in the IT manpower market etc.

## **DEMOTIVATION – A REASON FOR ATTRITION**

Amongst other reasons, the crux behind the high attrition rate of Tech Mahindra is the extreme demotivation of employees. There are multiple factors that tend to decrease the motivation of employees in the company, most of them are particularly relevant to the IT sector and outsourced services in India. There are many reasons which lead to demotivation of employees, various theories can provide an empirical judgement as to why these cause attrition and how to handle them.

Retention is the main concern of the organisation these days as they spend a lot of money and efforts to train employees and loss of competent employees could have adverse effect on the organisation profitability (Samuel and Chipunza, 2009). William and Werther (1996) explain that reward is what employees get in exchange for the contribution they give to the organisation. If employees perceive that they are inefficiently rewarded, it is more likely that they would leave, and replacing them might be costly and not readily available at times. According to F W Taylor, Employee gets motivated when they are paid high salary. This was traditional method of motivating employees in the business culture, which has been used for extrinsic motivation such as pay rises, bonuses, and promotions. This rational economic has been criticised and argued that employee value other things more than money. Kinnear and Sutherland (2001) assert that managers should not be fooled in believing that money does not matter any longer in retaining the employees.

This theory justifies the attrition due to less salary hikes – Employees expect to get good salary hikes, typically in the range of 15 – 30% annually. Due to <https://assignbuster.com/unusually-high-attrition-rate-in-tech-mahindra/>

various factors like recession, appreciation of Indian rupee etc., the organisation could not continue the usual trend of salary hikes, which is by far the most important factor in employee motivation.

A number of factors have been influential in explaining the reasons for employees leaving Tech Mahindra. These can be classified into intrinsic and extrinsic motivational factors. Herzberg argued that employees are motivated by internal factors rather than factors that are external to work. This theory focuses on factors responsible for job satisfaction and those for job dissatisfaction, and asserts that these are different. Herzberg labelled the satisfiers as motivators and dissatisfiers as hygiene factors. Hygiene factors should be tackled to avoid dissatisfaction but they do not themselves provide satisfaction. These factors cannot be assumed as opposites of each other. The converse of satisfaction is not dissatisfaction, rather it is no satisfaction. Conversely, the opposite of dissatisfaction is no dissatisfaction. The 'hygiene' factors are company policies, supervision, working conditions, peer - supervisor relations, money, status and security. Motivators are achievement, responsibility, challenging work, recognition for achievements, growth and development (Buchanan & Huczynski, 2010). As per Herzberg employees are only motivated by motivators or internal factors however employees are also influenced by salary, friendly work environment, which helps in retention of employees.

This theory pretty much explains the reasons for employee attrition due to no onsite opportunity. Onsite opportunity is another offshoot of the monetary factor, typically in ITES companies where most of the projects are outsourced by clients abroad. Typically employees get deputed at client locations e. g.

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US, UK, Europe, APCA. The earnings throughout the duration of deputation is over 5 times the normal earning in India, so obviously employees look forward to this opportunity. Ideally a company should depute its employees on a rotational basis, Tech Mahindra miserably failed in fulfilling this, as it did not strictly follow a rotational policy. To make things worse, other organisations were offering jobs directly at client sites, which lured the employees to switchover to other companies. Management should therefore consider both external and internal factor for employee retention strategy.

Adams (1965) equity theory says that employee seek to maintain balance between the effort they put in work and reward they get in return. Equity theory says that employee who perceives themselves as under rewarded will feel distress and may harm the organisation productivity (Prichard et al, 1972). Employee can react to this situation by quitting. Few of the reasons for attrition in Tech Mahindra are less salary hikes, no recognition of effort. When faced with inequity employees tend to make comparison with the employees in another company. If employees stay in company then they react by not working effectively and restricting output, which harms the organisation. This not about only monetary aspect, employees feel valued by organisational rewards and recognitions too. An apt example of this would be No appreciation awards, as it an integral part of employee motivation to regularly appreciate them for their work. These functions are formally embodied in the form of rewards and recognition. It's important for the managers to constantly motivate employees by giving recognition awards to the right performers.

Employees' intention to continue in an organisation and stay committed to the work can be explained via the context of Abraham Maslow's hierarchy of needs theory. In Maslow's (1943) theory of motivation, there are five set of needs that satisfy individual and these include physiological, safety, social, esteem and self-actualisation needs. This model predicts that as employees satisfy their needs on one level, they progress to the needs of next level as motivation for their behaviour. Only the unsatisfied needs influence the employee's behaviour, not the satisfied needs. Hall and Nougaim (1968) found that higher needs are perceived to be the most vital to employee as they advance in career. However, the inability of the Tech Mahindra to satisfy the lower level needs of its employees mostly through industry competitive remuneration, friendly working conditions and possibly job security might have combined which resulted in the high rate of attrition.

A practical example of this would be professional growth opportunities in Tech Mahindra as few employees are caught in the wrong technology, and cannot change projects due to their dependency on projects, harming their professional career growth which increases demotivation and attrition.

Not giving salary hike is one of the reasons but this only this reason is not sufficient to justify attrition rate. As other companies were also not giving hike due to recession. This claim agrees with both Herzberg's and Maslow's theories of motivation, which propose that salary and other relevant financial benefits satisfy only the lower level needs of an employee, but employees are motivated and satisfied only when higher needs are met. Hay (1999), Dess et al. (2008) state that monetary benefits cannot be ignored, but money should not act as the primary mechanism to attract and retain talent

because employees who come only for money will leave to an organisation offering more money. This also means that money may not motivate certain category of employees like those in managerial level; they might get demotivated due to other factors.

Internal Politics in organisation is one of such factors. Internal politics of organisation refers to promoting a non-deserving candidate to higher position due to personal contacts and vested interests, demotivating other deserving candidates. At times promotions are hierarchical and not competency based, which again creates an ideology of non-performance.

William and Werther (1996) assert that employee attrition is accelerated when employees are not satisfied with the reward system in an organisation. This is represented in the model of the consequence of reward dissatisfaction by Lawler (1991) in William and Werther (1996) as shown in Figure 1. The outcome of unfair rewarding system is dissatisfaction as shown in Figure 1 which affects employee's productivity and their quality of life. The desire for excessive rewards might have negative impact on an employee's performance as it might lead to reduced performance which also hampers the company's production targets.

An Organisation's work culture is a well explained example for this theory as work culture should be friendly and not extra competitive. An extra competitive work environment raises the importance of recognition and reward system in an organisation thus raising doubts about the negative effects of desire for excessive rewards, causing further attrition



Job satisfaction can be explained as the positive attitude and emotion towards one's job and work environment (Locke, 1978). The positive feeling in an employee results from their perception of the extent to which their jobs complement and support achieving their personal goal. Job dissatisfaction is not only the main reason for employees quitting the job rather even the anticipation of it in a particular organisation has discouraged others from joining the organisation. Satisfied employees are more likely to reduce attrition in an organisation (Pierce et al, 1991). Though job satisfaction of employee is difficult to judge, but manager can increase motivation and efficiency is through their leadership. Maximum performance can be achieved by assigning leader who are both task and relationship oriented (Gratton et al, 2007).

Potential Leadership problems in a team can be a major reason for attrition, this is due to various reasons like managers are not well trained in handling team, motivating them and becoming good leaders, which leads to demotivation and further attrition.

Fusilier & Durlabhji (2001) emphasizes on the importance of an individual's values. Employees should be involved in companies' internal matters. This would make them feel valuable.

Another reason for increase in attrition is HR policies for e. g. companies like Amdocs which have very relaxed HR policies like no dress code, flexible timings, work at home, home pick and drop by cab which motivates employees to stick to the same company. In Tech Mahindra such policies are missing, so employees don't stay long.

## **FEEDBACK FROM ONSITE MANAGER OF TECH MAHINDRA**

Reflecting upon the findings of the above report on various reasons on high attrition rate of Tech Mahindra, Ashutosh Mishra (Manger, Change Management, Tech Mahindra, Milton Keynes, U. K.) asserts that there are various factors which are responsible for the attrition, which the entire IT industry is facing. He also suggests that the reasons mentioned were adequately dealt with the companies code of conduct e. g. the salary hike and promotions in yearly appraisals are in line with the companies policy of a bell shaped curve in which few employees are rated the best and few the worst based on their performances. Onsite opportunities are as per requirements and on a fixed rotational basis. Appreciation rewards are given quarterly based on employees performance in the previous quarter to the best 1% employees, possibly in a rotational pattern. Professional growth, as per him, is also possible in the same project, and releasing employees to different is not very easy as it has a lot of ramifications especially if core employees having high dependency are released, but they are working towards it. He disagrees with any internal politics and leadership issues. According to him a competitive work culture is not detrimental to the growth of the employee and organization; rather it is the need of the day. He signs off by saying that the “ company has been working towards containing the attrition rate by continuously investing in learning and development programs for associates, competitive compensation, creating a compelling work environment, empowering associates at all levels and a well-structured reward and recognition mechanism” (Ashutosh Mishra, 2011)

## **PITFALLS THAT MANAGERS SHOULD AVOID**

Based on the various reasons of attrition, associated motivation theories and feedback from manager of Tech Mahindra, following actions are suggested:

**Personal Attention** – Managers should give personal attention to each employee in their team and regularly conduct one on one meeting to sort any outstanding issues which might hamper employee's growth

**Constant Motivation** – managers should appreciate and motivate team members regularly to keep them motivated and committed towards the work.

**Regular team meetings** – Managers should conduct regular round table team meetings to enquire about any generic team issues and brief them about the future plan, this would give a perception that the employees are involved more in the day to day business.

**Briefing team pre/post salary hike/awards announcement** – managers should ensure that there are no hard feeling in the team by briefing them about the ways that salary hike/awards have been decided, this would keep the employee reasonably happy and motivated.

**Onsite opportunity and work culture** – Managers should consult team members and implement a strict rotational policy of onsite relocation and ensure that the work environment is not extra competitive maintaining equality amongst the team members.

## **CONCLUSION**

According to Samuel and Chipunza (2009), the main reason for retention is to prevent competent employees from leaving the organisation as this could have detrimental effects on productivity and profitability of the organisation. However, implementing retention policies has become a challenging task for managers and Human Resources in a hostile over competitive economic environment.

ITES company with the help of a balance of motivational theories; leadership concepts catalysed with a new communication system might be able to achieve these goals. They will see their attrition rate reducing effectively to possibly acceptable level.

Motivation procedures play a major role in retaining staff. However, motivation is not achieved with the same practices and procedures throughout the world. Each organization has to device its own motivation plan based on a balance between organizational and individual goals. The general conclusion is that in Indian IT companies the internal motivation factors appear to be more effective than the classical external ones.