Chapter VII

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
Employee Turnover in the Business Process Outsourcing Industry in India

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.