# FACTORS INFLUENCING EMPLOYEE RETENTION AND GROWING CHALLENGES IN IT COMPANIES: A REVIEW

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**Abstract**
India's IT sector has been one of the country's most successful industries. Exporting and local market prospects have been opened up by the remarkable development and expansion of our economy. “Employee retention is a critical and ongoing endeavour for every company, particularly in skill-based jobs. It has become one of the most common issues in keeping skilled personnel in the IT field, as well as the most difficult job in convincing IT staff that it is their obligation to create a positive work environment”. The present study therefore aimed at “identifying the factors influencing the retention of employees, the growing challenge and role of HR in employee retention in IT sector”.

**Keywords:** Retention, Employees, IT, Attrition.

## Introduction

A company's ability to retain people is critical, particularly in the case of a skill-based workforce. To retain knowleagable people and make IT company employees know that it is their job to establish a favourable work environment has become one of the most common and difficult difficulties in the IT business. It is essential for IT organisations to focus on retention since they cannot afford to lose their vital personnel owing to poor economic circumstances, market competition, and a lack of the proper talent. It would cost them a lot of money to re-train and grow their workforce and team if they lost their best and brightest employees. As a result, effective rules and techniques for keeping personnel were needed.

## Retention of Employees

Efforts to keep workers in a company's employment are known as "employee retention." Employee turnover, training expenditures, and loss of talent are the primary concerns of companies in a corporate environment. Employers may enhance employee retention and reduce the related costs of high turnover by incorporating lessons learnt from important organisational behaviour principles.

Many top executives are frustrated because they believe that costly attempts to solve the issue have mostly failed. HR systems and procedures have received a great deal of attention in the boardroom during the last decade, thanks to significant investments made by companies. However commendable and important these actions may have been, they have been ill-advised and ineffective at the very worst. More and more firms are ignoring the importance of managing people as a long-term strategic issue that requires significant resources and attention from the highest levels of management. In a recent McKinsey poll, a number of multinational companies pointed out the problems that CEOs face, such as thinking only about the short term, not having enough coordination between business divisions, bad line management, and not knowing what the role of human resources experts is.

People of different sexes, ages, and nationalities want to work for (and stay with) companies for a variety of reasons, and executives must understand that their talent strategies can't just focus on the best performers. HR also needs additional capabilities and encouragement to develop effective solutions for these issues.

**Growing Retention Challenges**

It is becoming more difficult to retain employees due to demographic shifts, globalisation, and the increase of knowledge workers. The problem has been exacerbated by corporations themselves. There is an abundance of youthful talent in developing economies, whereas the developed world is grappling with declining birth rates and growing retirement rates. As a matter of fact, they graduate more than twice as many university-educated professionals as the industrialised world does. Many companies have been eagerly pursuing this new supply of talent, but the new demographic tidal wave will not be simple to ride. Personnel managers of multinational corporations in developing countries, such as China, Hungary, India, and Malaysia, believe that engineering and general management job applicants have a broad range of skills and experience. Most of the time, people had trouble with their English skills, their education, and their culture. For example, they didn't know how to work as a team and didn't want to take the lead or do things on their own.

**The Challenge of Demographics**

Generation Y, those born after 1980, provide a unique demographic issue since their worldviews have been influenced by a variety of influences, including the Internet, information overload, and overbearing parents. Professionals in human resources (HR) argue that younger workers have greater expectations than their more senior counterparts when it comes to work-life balance, job significance, and professional autonomy. People in this group regard their professional lives as a series of two-to three-year chapters and are willing to change professions if their expectations are not realized. Therefore, organisations run the danger of high turnover if they don't meet their goals. Because of this, a big part of the American workforce, 13% of the Gen Y workforce, is seen as much harder to manage than the generations before it.

**Global Challenge**

Globalization presents additional obstacles for businesses as they grow into new markets. Organizations must have CEOs that are willing and able to operate in nations like Brazil, China, India, and Russia in order to prosper. Talented locals with an international mindset are also needed, who understand the demands of an increasing middle class and local business practises.

**The Challenge of the Knowledge Worker**

Finally, the fastest-growing talent pool in most firms is made up of knowledge workers, who each have their own set of needs and preferences. More than half of the 137 million employees in the United States fall into this category, according to a McKinsey estimate, and a single corporation may employ more than 100,000 of them. In contrast to other employees, those in the knowledge professions make more money and need less supervision. Knowledge-intensive organisations in the same sector perform differently, which shows that some fail to generate value from this newly increased workforce. The technology that helps people do their jobs has made it easier and faster to share information, which has increased the need for employees who can make a big difference.

Executives are largely to blame for the present state of affairs when it comes to attracting and retaining top people. It's true that investors and shareholders are mostly to blame for the focus on short-term results. When new goods take off, managers tend to hire more sales and marketing staff in a reactionary, knee-jerk way. Distraction from long-term challenges such as finding and developing top talent is a hallmark of "short-termism" in management. Managers may attempt to boost short-term profits by reducing discretionary spending on employee development since these costs are expensed rather than capitalised. As a result, executives' attention and focus shift from long-term goals to short-term concerns. This creates a cycle of short-termism that reinforces itself.

It's common for businesses to concentrate on HR systems and procedures instead of the root of the problem, which is the minds of the people who work there. Talent management is hindered by a person's mental habits. This hasn't been helped at all by the decreasing effect of HR and the scarcity of bright individuals ready to serve in this capacity.

There has been a dramatic shift in the way firms think about their personnel challenges over the last decade. Others urgently need to start working on these problems, while others are already wrestling with them. More than one-third of U.S. businesses, for example, have done nothing to address the ageing workforce. Successful personnel strategies are built on solid systems and procedures for attracting, developing, and keeping people. A review of the previous decade reveals that organisations must do much more than just rely on a steady supply of well-qualified employees. An increasing focus on workforce planning and talent management in company strategy is justified by demographics, globalisation, and the nature of knowledge labour, which present long-term concerns. For more than a decade now, McKinsey has been making the argument that companies should focus on recruiting and retaining their best employees—the top 20% or so of managers. High performers were twice as likely as ordinary ones to enhance operational productivity and boost sales and profits at the time of the study. Because of this, they said, top performers made up to 40% more money than average employees.

Although the effect of elite talent on corporate success hasn't been diminished, businesses can't afford to overlook the contributions of other workers, especially in light of the rise of knowledge work. In recent years, a number of writers have correctly stressed the important contributions made by B players (competent, stable workers), who make up the bulk of any workforce. Aviva, insurance company makes this commitment apparent by managing "the essential many" instead of risking alienating the majority of its employees by concentrating just on highfliers. Additionally, research on social capital has shown the benefits of diversity and inclusion: top talent performs better when part of diverse internal networks. When these social networks are missing or removed, productivity declines. Strong networks have been shown to aid in the retention of young Gen Y workers who may be fickle. As a result, businesses must meet the requirements of employees at all levels. Unsung groups, including front-line workers, technical experts, and even the indirect workforce, such as those working for suppliers, contractors, and joint-venture partners, are frequently as crucial to total success as A-players. According to previous research, a lack of emphasis on the rest of the team's morale may have a negative impact on the team's overall performance. Thinking of the workforce as a collection of knowledge-creating or -applying talent sectors is a more inclusive strategy. We know of a firm that provides the same training and development opportunities for its local joint venture partners' workers as it does for its own. In this way, all of the company's employees help the company reach its goals.

**Why is it necessary to retain employees?**

For any organization and especially knowledge based industry like IT, human resources are essential in taking it to the next level. It is very expensive and time consuming to ramp up the new joiners on the learning curve. Further, the need for employee retention can be observed from the following dimensions.

- Employee turnover costs

Employee attrition costs the company both in tangible and intangible. Primarily, an employee who has stayed with a company brings with them experience in handling issues typical of the line of business which takes time and money to inculcate in a new employee. Also, employee attrition would mean investing money on new recruitments to find a replacement which is another burden on the company.

Studies by American Management Association (AMA) report that the employee turnover costs can range between 25 to 250 per cent of annual salary of the exiting employee. In line with the above study we can safely conclude that the replacement costs will be huge and at the higher end of the cost range if the employee leaving the organization happens to be a manager, senior executive or a highly successful sales person.

There are number of variables that contribute to the turnover cost. Some of them are hard to quantify in terms of a value. Some are hard to pinpoint. For example it is very difficult to quantify the cost of lost customers and contacts, cost of lost knowledge etc in the context of an employee turnover. Some of the most important factors that influence employee turnover costs are as below:

- Advertising costs for the new positions.
- The preliminary costs associated with evaluating and work on the job requirements.
- The cost to review candidates, conduct interviews to select the right candidate.
- Referral bonus, agency fee if any.
- Sign on bonus, relocation costs if any.
- Background screening costs and mandatory pre-joining medical costs.
- Excess salary paid to the new joiner to do the job of the person leaving.
- Lost productivity during the transition.
- Cost of training new employees.

Organizations tend to overlook some of these factors and the costs associated with them as some of them are not quantifiable and as such there is no cash outflow that can be observed. Employee retention would help organizations to curb these turnover costs and thereby not impacting the bottom-line.

**Factors influencing the employee retention**

Several studies have identified number of factors which influences the employee retention. The common factors from these studies are given below:

- Job Satisfaction: It refers to the contentment experienced by the employee in doing a job and thereby discharging his responsibilities.
- Compensation: It refers to the monetary value to the employees for the work they do. Compensation would help in the employees improved living standards and thereby keeping his morale high.
- Supervision: More often people leave jobs or retain in the present job not because of the organizations but because of their supervisors/managers.
- The Job Itself: An employee would feel comfortable when he is aware of what is expected of him and has a clear idea of his roles and responsibilities. Through the job the employee should be able to identify his individual goals in line with the organizational goals.
- Job Security: One of the most important factors that would influence an employee to retain with an organization is the job security. How well the organization can create a confidence in the employee with regard to his employment continuation would help them retain with the company and increase their productivity.
- Career Advancement: Employees should be able to see their career path and the chances of their promotion for them to be loyal to the organization. One of the major factors that would influence and employee to retain with the organization is to align his career growth with that of the organization.
- The Organization Itself: The performance of an organization, the growth prospects, the leadership to take the organization to the next level, the openness with which it communicates with the employees, the trust factor etc are some of the factors that would influence employees to retain with the company.
- The Team: To be successful as an individual and to contribute for the growth of the organization, the employees relationship with other team members of the team, including his manager, his peers and people who report to him- all influence an employee retention.
- Work Life balance: One of the contemporary management issues the present corporate world is facing is Stress management. Organizations should provide work life balance to the employees to balance their work, family and personal interests.

**Is employee turnover harmful all the time?**

Employee turnover, whether high or low, may be harmful to any company since organisations need certain attrition in order to avoid stagnation. Adding new employees might provide the company with fresh perspectives and new ways of thinking. Controlled attrition isn't necessarily a negative thing. Which attrition is good for the company and which is bad for the company is a question that must be answered by the organisation.

**Good Attrition**: The phrase "good attrition" refers to the departure of employees who are less productive than their peers. This implies that workers who would normally be fired by their employers are seen as beneficial to the company.

**Bad attrition**: The phrase "bad attrition" refers to the departure of highly productive personnel who have a significant impact on the company's success.

**As a result of market demand**: Employers often respond to market-driven attrition by increasing pay, providing better benefits, relocating or relocating to a new region or lowering recruiting criteria.

**Workload or stress-driven:** On the ability to carry out the task at hand. In this case, not enough of the proper individuals are in place.

**Process-oriented:** Organisational or job-design-related variables. According to Price Waterhouse Coopers' worldwide head for assurance and business advisory services, Frank Brown, "in good markets or poor, there are always possibilities for high performers" in particular sectors and companies (PWC).

While wage increases are difficult to come by in a weakening economy, many businesses are turning to creative solutions to keep their most valuable workers. This shows that money isn't the only factor in a company's connection with its customers. Various training programmes for organisational growth have generated a great deal of attention from researchers. Training programmes are essential in today's quickly changing technology era if you want to stay on top of the ever-evolving systems and procedures.

**HR's Importance in the IT/ITES Industry**

This group of workers is highly sought after and has a high turnover rate. IT workers are becoming more important to the long-term survival of most firms as they grow abroad and enhance their use of technology. Key staff are in high demand in this environment, making it difficult to keep them. HR departments spend a lot of time, effort, and money trying to figure out how to keep the most important people in the company.

In today's business world, employee churn is critical. Profitability suffers as a result, and it's an unavoidable element of conducting business. In certain circumstances, employee turnover may have a significant impact on the organization's ability to achieve its goals. Deliverables and customer service may suffer if a company loses a crucial employee. In this scenario, it is critical that firms maintain their key people if they are to go to the next level.

The ongoing annoyance of staff turnover is the most aggravating issue for companies. Employee turnover is frequently industry and economy dependent.Talented and competent personnel are the keys to a company's success. They are the ones who take the company to the next level. Human resource management is primarily concerned with retaining highly qualified employees in this situation. Organizations that have a committed and efficient workforce that is aligned with their values and aims should be celebrated. During times of organisational upheaval, it's all too common for employers to try to keep top performers and executives by offering them bonuses and other financial perks. In most cases, the money isn't wisely spent. It was observed that in most situations, many of the beneficiaries would have remained in their current location regardless; others have worries that money alone can't resolve. Also, focusing only on high-fliers could cause companies to forget about "average" workers who are still important to the success of the company.

Companies that combine, restructure, and reorganise in order to take advantage of new strategic possibilities when the economy improves may benefit from an approach to employee retention that is both better and less expensive. To begin, the process begins by identifying all of the company's most important and vulnerable employees. Individualized financial and non-financial incentives are then presented to these individuals. Following this strategy, an industrial company in Europe recently underwent a restructuring that used just 25% of the funds that had been allocated to a more extensive cash-based programme.

In order to retain their best employees, firms must focus on the following issues:

**Track out the "hidden gems."**

During times of significant organisational change, HR and line managers must collaborate to identify those individuals whose retention is critical. Businesses often make the mistake of filling critical roles with the typical suspects: high-potential individuals and senior leaders. Fewer than 1% of companies look for under-the-radar performers who might be critical to the transformation initiative's success and long-term business objectives. For example, a product-development manager in an acquired company's research and development function who is approaching retirement age and is no longer on the company's "high potentials" list but is critical to maintaining a healthy product pipeline, or a key financial accountant responsible for consolidating the acquired company's next financial report. Employee retention might be crucial even if their performance and career prospects are below average. This is because of their institutional knowledge, personal connections, or technical skills. It's possible for HR and line managers to start prioritising groups and people for targeted retention strategies after they've developed a meaningful and more inclusive list of essential players (30 to 45 percent of all workers, on average). The idea is to look at each individual from two perspectives: the effect on the company of his or her leaving, given the emphasis of the change effort and the role he or she plays in it, and the possibility that the employee in question will go.

**Mindsets are important**

A heterogeneous group of critical workers is unlikely to be persuaded to remain by retention packages that are designed to accommodate all employees. Instead, businesses should use retention strategies that are customised to the mindsets and motivations of individual workers. (as well as to the express nature of the changes involved). Retention packages should be supplemented by specific employee requirements rather than relying only on typical incentives (such as bonuses). Retention is more than just money. The importance of financial incentives in employee retention cannot be overstated, yet money alone is not enough. When it comes to motivating employees, a manager's praise, attention from top executives, regular promotions, and the opportunity to lead projects are generally more beneficial than cash.

**HR's role in the retention of employees**

Specialised career paths might also pay dividends in the search for new employees. Human resources (HR) are currently the focus of attention for organisations. Recruiting, training, remuneration, and performance management were all top priorities for HR professionals a decade ago, and they still are now. In the past, as in the present, it has been assumed that human resources should exert influence over corporate strategy and offer the heads and line managers of specific business units reliable and proactive advice and assistance. Only human resources can transform a firm's business plan into a specific personnel strategy, such as how many employees the company needs, where they are needed, and what skills they should possess. As a result of this reduction in HR leaders' reputation and influence, several

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important competencies have not been developed. McKinsey found that 58% of all line managers thought HR didn't have the resources to make staffing strategies that fit with a company's business goals. However, only 25% of HR experts who were interviewed agreed with this assessment.

It is time for HR executives to broaden their scope and better serve those at the bottom of the organisation. Employee value propositions may be created and defined by HR departments with a greater understanding of segmentation and internal marketing. Last but not least, HR departments should broaden their business understanding.

Research by McKinsey on the War for Talent stressed the necessity of building a strong commitment to talent across the whole business, from the top to the bottom. As a result, managers frequently succumb to short-term demands and fail to integrate a personnel strategy into the broader plan of the organisation. Their most recent work highlights their conviction in the relevance of this "soft side." Leaders must believe that people matter and that they have a responsibility to improve their workers' skills and nurture their careers. They also have a responsibility to ensure that their teams perform well. This means that human resources (HR) professionals will require more training in interpreting company demands into talent initiatives. We've found that high-performing firms continually instil the mindset and culture necessary to successfully manage their workforces. In fact, one of the most important aspects of a company's employee value proposition is reinforced when it has a strong people culture.

Now that demographic, economic, and technological developments are increasing the pressure, businesses must consider talent management as a business priority and top executives must devote substantial effort to developing strategies that recruit, motivate, and retain people. For this strategy to work, it needs to find and develop talent at all levels, create multiple employee value propositions to attract and keep a wide range of employees, and improve the role and skills of human resources.

**Conclusion**

It is expected that the Indian IT/ITES business will continue to develop over the next several years, thanks to the country's rising economy and the fact that it is the preferred outsourcing destination for the Western world. Customers should be the primary focus of the industry's attention. One way for companies to provide excellent and on-time service to their customers is by retaining their core workers. Key personnel must be retained by all businesses in light of the above, and appropriate retention strategies must be created to do so. Thus, the importance of staff retention cannot be overstated.

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