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India: An Attractive BPO Destination Marred By Alarming Attrition

Insights into the Causes, Impact and Mitigation Actions

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The Indian business process outsourcing (BPO) industry is increasingly perceived as facing a major challenge in retaining employees. To remain the leader in global outsourcing (offshoring), service providers must work at micro and macro levels to manage attrition and other ills of the industry to ensure that the country retains its share of business. Learn about the causes, impacts and mitigation actions for stemming the attrition tide in the offshoring hotbed of India along with a suggested industry-standard technique to accurately gauge attrition.

EXECUTIVE SUMMARY

An alarmingly high attrition level is hurting the India-based business process outsourcing (BPO) industry and is negatively impacting both its demand (buyers/clients) and supply (service provider) sides.

The topic of attrition is receiving daily media attention, and the complexity of the issue can be confusing to businesses that are interested in investigating offshoring work to India. This paper examines the varied and often complex causes of attrition in the context of the rapidly growing Indian offshoring industry and also suggests how some industry participants are attempting to proactively address this problem that threatens the long-term sustainability of India as an offshore destination. Based on industry research, we also provide insight into the likely scenario in the next few years. The focus of this comprehensive insight is limited to BPO attrition in the Indian context. (Though there are commonalities between attrition in the IT and BPO industries, the nuances are unique enough to warrant a separate analysis.)

Finally, in an effort to encourage service providers and buyers in reversing attrition, we present suggestions for quantifying attrition levels and for consistently measuring rates over time so that apples-to-apples comparisons of attrition rates may be made by all interested parties when planning and evaluating employee retention measures.

BACKGROUND

The Indian BPO industry is increasingly perceived as facing a major challenge in retaining employees. The challenge is widespread and complex and is major cause for concern among clients and service providers alike. This has raised doubts about whether the Indian BPO industry can satisfy clients for the long term and sustain the considerable growth rate it is currently experiencing. BPO clients increasingly perceive that:

- Attrition is a serious issue that Indian service providers face in the delivery of services.
- The rate of attrition seems to be increasing (or at least not leveling out or declining) despite the efforts of service providers.
- Assuming current and projected industry growth rates, the predicted shortage of available resources in India in a few years, according to the 2006 NASSCOM-McKinsey report, will further exacerbate the problem.

There is an urgent need to know the true prognosis for the future. Will the situation continue to worsen, or will interested parties be able to reverse the trend during the next few years?



THE INDUSTRY CONTEXT OF ATTRITION

Offshore services in the BPO space have grown tremendously (approximately 50 percent per annum) during the last three years, which is indicative of a sector that is still evolving and of its future potential for growth. Sustaining this growth is a high priority for service providers and the Indian economy, but attrition as a consequence of such growth must be addressed as a priority.

In general, attrition levels have increased during the last two to three years, and currently the numbers quoted by various service providers in the public domain range from 40 to 75 percent (annualized).

The lower end of the scale would typically be associated with non-voice (transaction processing) type of work, with the upper median representing voice-related work. Such alarming attrition levels are affecting the ability to deliver to expected and contracted service levels, and, hence, customer satisfaction. To make matters worse, there is no industry standard in the method used to compute attrition, so there is little transparency into the situation behind the numbers quoted.

THE IMPACT OF ATTRITION

Attrition is negatively impacting BPO clients in numerous ways, most notably with regard to:

- Inconsistent delivery of expected service levels
- Loss of client-specific knowledge and experience
- Greater resistance to offshoring in the broader client organization
- Potentially greater investment in training the service provider staff

This is validated by the following typical customer comments:

“How can we think of growing further, when we are struggling with the delivery of the existing scope at offshore?”

“What rationale do we use to advocate sending more work to India, when there is much noise in the system about the existing service levels?”

“We would have to give you (existing service provider) more time to stabilize existing operations and hence delay the planned ramp-ups.”

“What’s going on at the offshore center? We lost several of our star performers on the team during the last few weeks, including the ones who got trained on-site that required significant investments.”

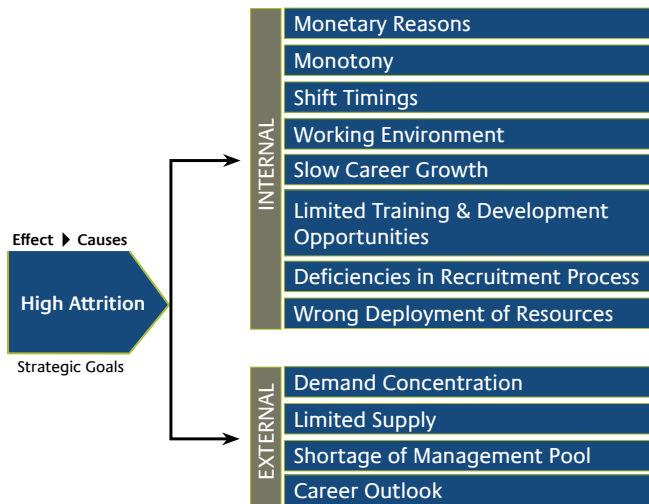
High levels of attrition are also adversely affecting India-based service providers’ business in these key areas:

- Delivery of service levels and customer satisfaction
- Higher investment in recruiting and training employees
- Slowdown of planned ramp-ups of existing accounts
- Loss of productivity from experienced and well-trained staff
- The ability to deliver process improvements leveraging experienced staff (process improvements practically become a luxury when basic service levels are not being met)
- Management distraction — excessive time and attention being spent on managing attrition and resultant customer issues



CAUSES OF ATTRITION

Attrition is a consequence of a variety of factors that can be classified broadly into internal (to the service provider) and external (industry-level or macro-level) factors.



Internal Factors

Service providers face an array of career-related, work environment and cultural concerns that are attributable to increased attrition levels:

Monetary considerations. The expectations of employees in this industry have grown exponentially due to the strong demand in the marketplace. A number of people who leave do so because they have been offered a higher salary. In the current BPO climate, it is easy for employees to find positions that leverage their experience and pay better.

Slow career growth for internal talent. Employees with prior relevant experience are a precious commodity in today's fast growing market. Therefore,

it is not unusual for fast-growing companies to fill new jobs with external applicants who have prior relevant experience with other companies, bringing them in at one level higher than their current level or providing them a new role with greater responsibilities. This contributes to the perception by "passed over" internal talent that career growth is slow in the current organization, which results in further attrition.

Monotony. In general, BPO work (especially work that has been offshored) has been repetitive, mechanical, service-level-driven and involves high transaction volumes. Younger recruits find it monotonous once they have mastered the process.

Shift timings. The majority of the work offshored to India has typically been from the United States (though share from Europe is growing) necessitating night-shift work due to time zone differentials. The proportion of employees who can work during the Indian work-day is low. Continuous night shifts affect the health of some, while others just cannot adjust to them. As a result of cultural and social factors, some women employees leave because they are not able to convince their families of the need to work nights.

Working environment. Attrition due to the work environment is typically due to a lack of trust in the fairness of the system, issues around safety and care of employees, effectiveness of the channels to address employee grievances, accessibility of the senior management team and other related environmental issues.



Limited training and development opportunities. Though not one of the top reasons for attrition increases, the lack of ample opportunities to learn new skills or undergo training or further education is occasionally cited as a reason for leaving.

Deficiencies in the recruitment process. To ensure that they rapidly meet high demand levels, service providers are not always able to hire resources with the right skills and experience when and where they are needed.

Mismatched resources. Resources who are put on assignments that are not in line with their skills or career aspirations may leave if they are not rotated to a favorable assignment soon enough.

External factors

There are several “environmental factors” outside the immediate control of service providers and clients that also must be considered and strategically addressed to reverse attrition:

Concentration of demand for talent. Most service providers are located in five to six large Indian cities (known as “Tier 1” cities), which has led to excessive concentration of demand and competition for resources in these geographies.

Limited talent pool supply. While there is an abundant supply of educated people, the supply of an employable pool is less so. Basic minimum skills required by the BPO sector to service developed markets include the ability to speak and write English fluently and to understand the processes and domain of the client. The quality of education in smaller towns and cities is not of the required standard, rendering even some educated people unemployable.

Shortage of management pool. The supply of supervisory and management talent is relatively limited because it requires prior experience. Given the pace at which jobs are created in this market, it is difficult to find management staff with the optimal experience levels.

Career outlook. The workforce entering the BPO sector is very young and sometimes immature (entry-level graduates with a three-year college degree are only 21 or 22 years old). Many of this younger population are not sure what they want to achieve in their careers and represent flight risks.



ATTRITION MANAGEMENT MEASURES

Given the alarming rate of attrition and its consequences, service providers are taking individual and collective steps to counter the trend. There is a need to take a comprehensive look at what may be done in the short- and long-term.

Attrition may be addressed by service providers in two principal ways:

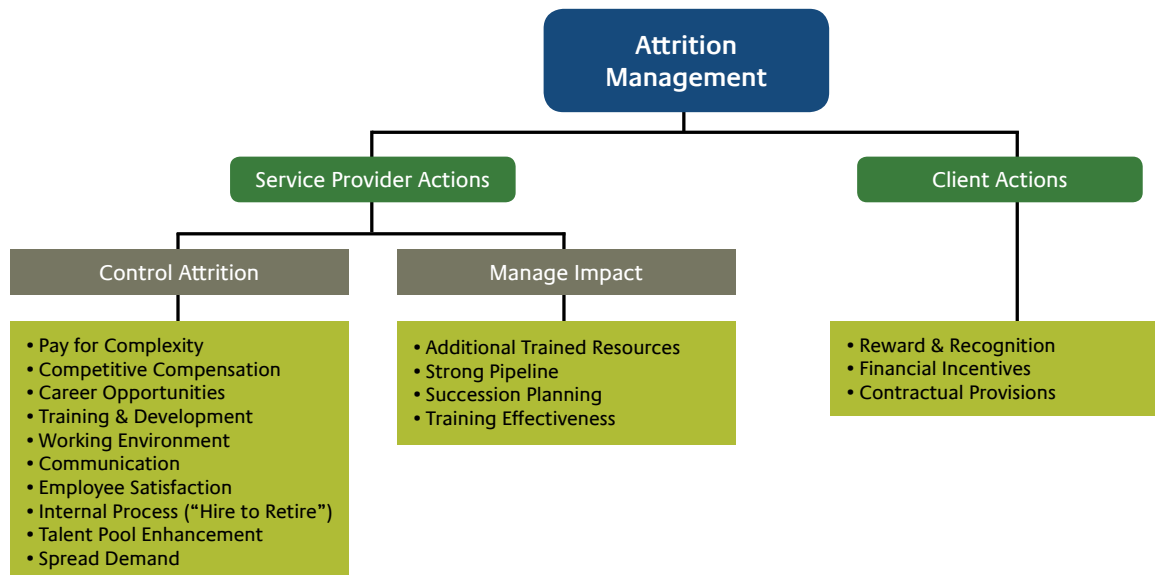
- 1) Actions to control attrition
- 2) Actions to manage impact

Further, while the primary responsibility lies with the service provider, clients may also help stabilize the situation by taking the initiative to enhance the environment at offshore centers.

Short-term actions

Pay for complexity: The current standard practice is to pay associates based on vintage, tenure, (length of service), organization level and/or shift timings. Most work is treated at par for determining compensation, meaning that all job profiles of the same level — whether Human Resources, Finance & Accounting or any other process work — are compensated at same level. The only compensation differentiation most companies make is between voice and non-voice work (voice work, which is more stressful, pays better because attrition in this area is relatively higher).

To stem the tide of attrition, an important measure for overcoming the issues of compensation and work-related stress is to institute the concept of “pay for complexity,” which recognizes that functions and processes vary in complexity and hence should be compensated differently. One way to incorporate this structure would be to adopt a job complexity grading process that uses a predefined set of criteria that may include factors such as shift timings, stringent service levels, process complexity learning curve and similar other factors to arrive at required compensation differentials that prevent demotivation.





Such a system would place different processes/ functions in “buckets” based on complexity, with extra allowances offered for more complex work. This helps in two ways — by ensuring that personnel facing more stress get more compensation and by allowing them to decide whether they would like to stay in that role or transfer to a less challenging environment. Though a seemingly viable concept, the challenge lies in implementing this “horses for courses” approach in a fair and objective manner.

Competitive compensation. The overall compensation and benefits package should be competitive at all levels for the service provider to maintain its declared market positioning. Techniques include setting a compensation positioning for the company and clear and rigorous communication of the same to employees to keep them informed. Using deferred income or bonuses that are payable at the end of the year aids in employee retention.

Career opportunities. Service providers should establish career paths and maintain standard guidelines for promotions and growth. Posting job openings internally provides employees opportunities for job rotation instead of looking outside the company for new and different roles.

Training and development. Employers should provide sufficient and meaningful training and development opportunities and link attendance at such programs to the performance management system. Further, it is helpful to provide advanced education opportunities (subsidized or free) to those aspiring to study further without having to lose their gainful employment.

Working environment. Providing and facilitating the right working environment is critical to retaining

employees given the nature of the work. This includes providing a safe and secure workplace to all employees and transparency and objectivity in performance management, compensation and promotion policies to build and maintain confidence.

Communication. Service providers have learned the importance of implementing a strong and effective communication program with employees. Nothing can substitute for frequent communications from top management on the state of the business, future business plans, promotion policies, fun in workplace programs and such. Experience has proven that there is no risk of over-communicating. Occasional face-to-face meetings combined with other methods of employee contact work well to keep employees connected to the organization and go a long way in building loyalty to the business.

Employee satisfaction. Employers should conduct employee feedback surveys periodically and should take the feedback from these surveys seriously. They should act on the feedback and demonstrate commitment by tracking initiatives for improvement through to completion.

Internal process (“hire-to-retain”). With improvements to recruitment and deployment, not only will the right skills be hired for the right job, but resources will also be deployed and trained appropriately.

Long-term actions

Actions required immediately that will have an impact in the medium to long term include those related to enhancing the supply pool of employable talent and reducing the concentration of demand in Tier I cities.



Talent pool enhancement. Service providers should work collectively at the industry level to enhance the quality and relevance of education. Some of these actions have already been initiated by Tier I service providers in India.

Alliances with universities/colleges/schools. Alliances should be formed with educational institutions to introduce relevant and quality content. Service providers must commit to investing time and money to provide content and teaching material to upgrade teaching skills in a “train-the-trainers” format.

Use of intermediaries to prepare the talent pool. Intermediaries could play a significant and important role in polishing the raw diamonds for this industry. This is also a great business opportunity for firms that specialize in training in specific domains and soft skills.

Specialized training firms will see increasing demand to act as intermediaries and perform the task of training fresh graduates to make them employable as well as helping potential recruits hone their skills in Finance & Accounting, Customer Service and “soft skills” — self confidence, interviewing skills, communication and presentation skills, Supply Chain Management, Financial Services and other functions. These intermediaries could work with service providers to ensure that what they teach is relevant and effective for end users.

Broaden resource allocation. As the industry continues to grow, it is important that the India-based industry evaluate setting up delivery centers in Tier II and Tier III cities. Some large players have already begun this process and more are likely to follow suit. For example, Genpact operates from Jaipur and now even Bhopal. Infosys BPO (formerly known as Progeon) is in the process of setting up a center in Jaipur, as well.

Service provider actions to manage the impact of attrition

Service providers may also institute mitigating actions such as these to minimize the impact of attrition:

Maintaining additional trained staff. Additional trained staff is a strong measure to help manage the impact of attrition to prevent disruption in service levels. One option is to train and maintain extra staff for specific processes. The need and size of such a team are a function of several variables, including:

- The learning curve of the process
- Lead time for a trained resource to gain the required knowledge to meet service levels
- Stringency of service levels
- Business-critical nature of the process to the customer
- Uniqueness of the skills and expertise required to perform the process
- Whether employees may be cross-trained on multiple related or unrelated processes over a period of time

To keep skills current, employees should be rotated into and out of process teams regularly. Further, the extra capacity created from additional employees could also be used for managing volume fluctuations, quality control and assurance work, training of new employees on the process and other such functions.

As an additional step, the entire team (including cross-trained and additional trained staff) could be tested periodically through random quizzes, repeatability and reproducibility tests (Six Sigma test for gauging consistency in knowledge) and similar skill measurement tools and programs. This will ensure that all employees have enough knowledge and consistency to deliver on the service levels.



Fortify the talent pipeline. Instituting hiring processes based on the expected attrition rate and anticipated demand will help maintain a strong pipeline of candidates. This will enable easy deployment on short notice and reduce the impact of attrition.

Succession planning for critical and management resources. Service providers positioning for long-term success realize that they are larger than the individuals they employ and manage the impact of a sudden unavailability of key personnel. They must ensure that there are sufficient and capable backup resources available for key positions and critical roles.

Effective training programs. Training programs that are self-certified, learning-based, deployed over the Web, modular and effective serve as good mitigants of attrition. These initiatives ensure that new employees learn the processes quickly and effectively, helping to shorten the learning curve and asking them more productive sooner.

Client actions to control attrition

Although a proactive client stance does not reduce the accountability of the service provider in delivering on its commitments, there are a number of steps that clients may consider to help reduce and manage attrition levels with their service providers:

Reward and recognition programs. Clients may introduce and sponsor reward and recognition programs to boost the morale of those working on their engagement at the service provider. These could be in the form of monetary or non-monetary awards distributed by client personnel.

Financial incentives. Financial incentives may be provided to service providers or their personnel. These may be structured in many ways, such as providing loyalty bonuses to employees for working on the engagement for a certain duration or increasing the billing rate for highly valued employees or for those who have worked longer.

Contractual provisions. Certain contractual provisions may be used by clients to ensure that they achieve transparency and offer enough incentives for the service provider to manage attrition:

- Define attrition in the contract and ensure that the service provider delivers a report on attrition periodically — measured and presented per client defined requirements.
- Add attrition targets to the list of service levels — this could be just a key performance measure (without monetary penalties) or a critical service level (with monetary penalties) as required by the context of the situation.
- Ask for client references to verify the actual delivery track record of the service provider in controlling attrition and managing its impact.
- Discourage hiring or assigning employees who have less than one year of experience with previous employers or on another client engagement.
- Ensure that the service provider is disciplined in keeping the client process documentation current at all times — preferably through the deployment of Knowledge Management tools.



HOW SHOULD ATTRITION BE COMPUTED?

The need to ensure transparency and consistency in attrition measurement and reporting cannot be overemphasized. Based on our extensive experience as sourcing advisors, we recommend the following:

Attrition should be measured by the number of attrite personnel as a percentage of the employee base. Further, this may be annualized by multiplying by 12 and then dividing by the number of months for which attrition is measured.

Despite using the same definition, there are numerous variants in attrition interpretation and application. Following is TPI's point of view on some of the most common of these methods:

- The employee base should include all personnel (including contractors, temporary employees, retainers and others) who are assigned to work on a specific client engagement.
- Number of attrite personnel should include all personnel (including contractors, temporary employees, retainers and others) who have left the services of a specific client during the period of measurement regardless of the reason (voluntary or involuntary).

While involuntary attrition may be considered beneficial, it can reflect on some other processes, such as recruitment and deployment. If there is a need to understand voluntary attrition only, it may be done as the next level of attrition classification; for example, when there might be a need to understand the reasons for employee exits.

- Early attrition should be included in calculating the attrition for the client once someone has been assigned to work on the client engagement. This is regardless of how early or new they are in the service provider organization because all kinds of attrition have a reason and hence may help clarify issues in another corner of the business. Of course, it is well understood that the impact of early departures is generally far less than the loss of experienced and trained employees, but this is not a reason in itself to exclude them from measurement.
- As a matter of further detail, attrition may be reviewed from different perspectives — by reason of exit, gender, length of service or length of assignment to the current client engagement (also referred as vintage, or tenure), location of the delivery center and other factors.

Attrition will become a comparable, reliable and consistent metric if adopted by all service providers as defined above in the form of an industry standard and will serve everyone well in understanding the phenomenon apart from meaningful comparisons.



WHAT IS THE FUTURE OF BPO IN INDIA?

To comment on the future talent pool in India, we performed a “what-if” sensitivity analysis on the base numbers from the 2006 NASSCOM-McKinsey report to predict the incremental supply/demand scenario by 2010.

As noted in the chart below, we predict that the BPO industry will face a talent crunch by 2010 in the likely scenario of growth in both supply and demand. However, it may not be severe unless the demand continues unabated over the next few years.

Potential Shortage in the Talent Pool

Demand Growth	Talent Pool Growth			
	5%	10%	15%	20%
25%	-95	64	223	381
30%	-197	-38	120	279
35%	-324	-165	-6	152
40%	-479	-320	-162	-3

Source: 2006 NASSCOM-McKinsey report

Figures inside the table are numbers in thousands

NOTE: Talent pool growth is based on multiplier output of total graduate pool output, willingness to work in the BPO industry and the appropriate employability factor.

Here are several possible scenarios:

- If demand grows at more than 40 percent per annum from the current base, there is a strong possibility of a talent pool crunch by 2010.
- If the pool grows by less than 10 percent per annum, there will most likely be supply shortage regardless of the pace at which demand grows.
- If demand grows by less than 30 percent per annum, supply should not be a significant constraint except if pool growth is less than five percent per annum.
- If we look at a more plausible scenario of demand growth of 30 percent and pool growth of 10 percent, the analysis suggests a relatively minor shortage of approximately 38,000 people, which is by no means alarming.



COMPETITION TO INDIA AS THE DESTINATION OF CHOICE

Constant media coverage around attrition rates leads to the inevitable question of whether India can sustain its reputation as the offshoring destination of choice.

Based on the industry data we have tracked and reported in the “TPI Index Insider”, we believe that India will face increased competition in the next few years from other countries offering similar services at competitive cost-value equations. We believe, though, that except for language and cultural affinity factors, this competition will be restricted to low-end services.

With its demonstrated ability to scale, India should be able to maintain its position as the pre-eminent offshoring destination during the next three to five years, as few other emerging competitive nations will be able to match its scalability.

CONCLUSIONS

India is undoubtedly the leader in the global offshoring industry today, and it is likely to remain so for the foreseeable future. However, service providers need to work at the micro and macro levels to manage attrition and other ills of the industry to ensure that the country retains its fair share of the total global outsourcing (offshoring) business.

To re-cap, here are the primary causes and remedies of the high attrition rate in the India-based BPO marketplace:

- Attrition levels are high primarily due to strong demand in the marketplace, concentration of delivery centers in a few cities, the youthful workforce and some internal, process-related issues in service provider organizations arising from rapid growth.
- Service providers are taking measures to control attrition, yet these need to be re-assessed comprehensively to determine their effectiveness in controlling attrition and managing its impact.
- Buyers of services may assuage the impact of attrition by offering the service provider meaningful financial incentives, recognition programs, on-site rotation to select employees and other such tactics.
- All industry participants should compute attrition in a standardized manner so that the information published by service providers is comparable on a like-to-like basis.
- A scenario analysis shows a talent crunch by 2010 that could turn severe if demand continues unabated.
- Attrition rates may come down, albeit slowly, with the efforts being made by service providers individually and collectively.

ABOUT THE AUTHOR: Dinesh Goel is an accomplished management consultant and sourcing professional who advises TPI's clients on Global Service Delivery (GSD) strategies. Having worked directly with a leading business process outsourcing (BPO) service provider, Dinesh brings extensive experience and specialization in Finance and Accounting when guiding clients on their business strategy, on operational re-engineering for efficiency improvements and on information technology (IT) implementations. Dinesh's sourcing knowledge derives from practical experience negotiating BPO contracts, leading contract transitions and implementations, managing outsourcing contracts and relationships and developing BPO tools and methodologies.

Prior to joining TPI, Dinesh worked with Infosys BPO in several senior executive roles. He led large transition programs, conducted operational assessments, negotiated BPO contracts (including establishing service levels) and managed transition programs in the areas of human resources and benefits administration for Tier I service providers. As a service deliver leader, Dinesh also managed the offshore delivery center operations for several clients, focusing primarily on Finance and Accounting operations including requisition-to-pay, order-to-cash, account-to-report, acquire-to-retire and more.

Working with Accenture's management consulting practice, Dinesh has collaborated with corporations across diverse industries to develop their business and IT strategy, assist in forming joint ventures/alliances, lead process re-engineering initiatives and implement IT packages. Dinesh is a qualified Chartered Accountant and Cost and Management Accountant. He holds a Bachelor of Commerce (Honours) degree from the Shri Ram College of Commerce, University of Delhi (Gold Medalist — ranked first in Delhi University).

ABOUT TPI: TPI is the founder and innovator for the sourcing advisory industry, and the largest sourcing advisory firm in the world. We are expert at a broad range of business support functions and related research methodologies. Utilizing deep functional domain expertise of accomplished industry experts who possess extensive practical experience, TPI collaboratively works with organizations to help them optimize their business operations through the best combination of insourcing, offshoring, shared services and outsourcing. For additional information, visit www.tpi.net.

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