

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE & MANAGEMENT

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COST OPTIMIZATION THROUGH 'INTERNAL TALENT RETENTION STRATEGIES': AN ANALYTICAL STUDY**DR. SONALI DHARMADHIKARI****ASSOCIATE PROFESSOR****BHARATI VIDYAPEETH UNIVERSITY INSTITUTE OF MANAGEMENT & ENTREPRENEURSHIP DEVELOPMENT
PUNE****ABSTRACT**

In the current post globalized era, managing business has become very challenging. Globalization is the process of integration of Human Resources, Goods, Finance, Knowledge and Culture across the world. Talent Management is the need of an hour. The organization must have a well defined Talent Management process consisting of recruiting, training, managing, supporting and compensating the human resources acquired. It refers to the anticipation of required human capital the organization needs at the time then setting a plan to meet those needs. It is observed that in many employment categories, particularly high skilled areas such as IT, Software Development, Electrical Engineering, Accounting and Finance, the labour turnover is very high. Retention is a challenge faced by many of the world's most admired companies. Organizations are accelerating their internal talent retention strategies. Against this background, the present research paper focuses on cost effectiveness of "Internal Talent Retention" as a strategy of "Talent Management". The objective of research paper is to study the costs involved in Retention of employees Vs. Hiring. The research paper also covers analytical study of cost effectiveness of "Internal Talent Retention" as a strategy and explores the factors affecting attrition. After analyzing the data, the researcher would give suggestions to the corporates to make Retention strategy more effective. The proposed research work is "Exploratory" in nature. The Secondary Data would be collected from authentic sources like reference books on Talent Management, HR policy of selected companies, journals, articles and websites etc. The Primary Data would be collected by survey method through unstructured questionnaire from selected corporates. The Primary data and Secondary data would be analyzed to arrive at conclusions and suggestions. The analysis of costs of attrition led the researcher to conclude that retention emerges as a cost effective tool, talent strategy is strongly tilted towards the old paradigm of "Grow from within, internal talent retention strategy not only saves the cost but also encourages long term loyalty and hiring becomes costlier than retention. To sum up, strategy should seek In-House talent to grow thereby avoiding recruitment costs would be beneficial in the long term.

KEYWORDS

Cost optimization, Internal talent retention, Attrition, Hiring.

INTRODUCTION

Managing business has become very challenging in the current post globalized era. Globalization is the process of integration of Human Resources, Goods, Finance, Knowledge and Culture across the world. As a result of globalization, every firm has witnessed business alterations. This has disturbed harmony between the demand and supply of talent. **Possessing and retaining the best talent is the heart of success in future.**

As indicated by Randstad, India's latest global Workmonitor survey 2012, Indian employers will have trouble finding highly qualified people and this trend is set to continue for the next three years. (Source: *The Times of India*, Ascent Dec 12, 2012) Thus, Talent Management is the need of an hour.

Peter Drucker coined the term knowledge society and knowledge worker to signify the changing times from brick and mortar to human capital. "Talent Management" has become one of the most important strategies in Corporate HR. The organization must have a well defined Talent Management process consisting of recruiting, training, managing, supporting and compensating the human resources acquired. It refers to the anticipation of required human capital the organization needs at the time then setting a plan to meet those needs.

It is observed that in many employment categories, particularly high skilled areas such as IT, Software Development, Electrical Engineering, Accounting and Finance, the labour turnover is very high. Retention is a challenge faced by many of the world's most admired companies. Organizations are accelerating their internal talent retention strategies.

REVIEW OF LITERATURE

The researcher has gone through literature related to challenge of internal talent retention and strategies developed by corporates to face this challenge. The following is the summary of literature reviewed.

THE WAR FOR TALENT INTENSIFIES

A predicted 'Talent Crunch' has resulted in 65% scarcity in finding highly qualified people in India with no sign of abatement insight.

With the entry of MNCs, there is high increase in demand for the right talent. The technological advancements have accelerated the market shifts, which in turn have driven the companies to seek highly qualified professionals with enhanced skills.

Thus, possession and retention of internal talent has become a big challenge for corporates.

➤ 'New Banks will Intensify Fight for Capital and Talent' Romesh Sobti, Chief Executive, IndusInd Bank (Source: *Economic Times*, 4th Feb, 2013)

New banks are likely to fight for Capital and Talent in the next 18 months. To face global slowdown, banking sector has to fight for talent and develop good strategies of Talent management in future.

➤ 'India Inc is definitely well-prepared to tackle the challenges of the talent crunch head on. However, this is an uphill battle, and not one that can be won easily or resolved quickly. To counter the challenges of a shrinking talent pool, companies and HR teams need to innovate and evolve continuously.' Anand Talwar, Sr. VP Talent Management, ITC Infotech. (Source: *Ascent* 12th Dec, 2012).

Thus, to face the demand supply gap challenge, corporates need to develop strategy of Internal Talent Retention.

➤ 'As a result of Globalization, every firm, irrespective of the industry it operates in had witnessed business alterations. This has disturbed the harmony between the demand and supply of talent. Increased competition has engulfed the companies in the race of winning the war of talent as possessing the best talent is the heart of success in future. The increase in demand for talented and skilled personnel is also correlated with the rapid economic growth and industrialization in India. The technological advancements have accelerated the market shifts, which in turn have driven the companies to seek highly qualified professionals with enhanced skills.' YPS Kanwar, CPO Trident Ltd. while showing the concerns about the widening gap between availability and demand for talent.

After reviewing the available literature, it is observed that the literature focuses on importance of Internal Talent retention strategy. But cost optimization angle is not covered in literature review. The present research paper focuses on Costing aspect of internal talent vs. hiring talent from outside.

IMPORTANCE OF STUDY

Sustainable management and stakeholder value creation through its valuable human resources has become a big challenge for corporate entities.

Cost optimization is emerging as a new model of sustainable management and stakeholder value creation without compromising on quality. Cost optimization is a wider term than cost cutting. Internal Talent retention is one of the area to achieve cost optimization. The present research paper attempts to study analytically about cost determination and cost effectiveness of Internal talent retention strategies.

STATEMENT OF PROBLEM

After reviewing the literature, the researcher collected data on the problem of attrition.

INDUSTRY WISE ATTRITION

Among 11 surveyed industries IT & ITES Sector is having maximum attrition 23%, Followed by Banking & Financial Services with 18%, Healthcare (12%), FMCG (11%), Automobile & Manufacturing (12%).

TABLE I: INDUSTRY WISE ATTRITION RATE

Industry wise Attrition		
Sl. No.	Industries / Sector	Q1, 2011-12
1	IT & ITES	23%
2	FMCG	11%
3	HealthCare	12%
4	Banking & Financial Services	18%
5	Automobile & Manufacturing	11%
6	Telecom	8%
7	Business Services	5%
8	Real Estate	9%
9	Other	3%

(Source: Economic Times)

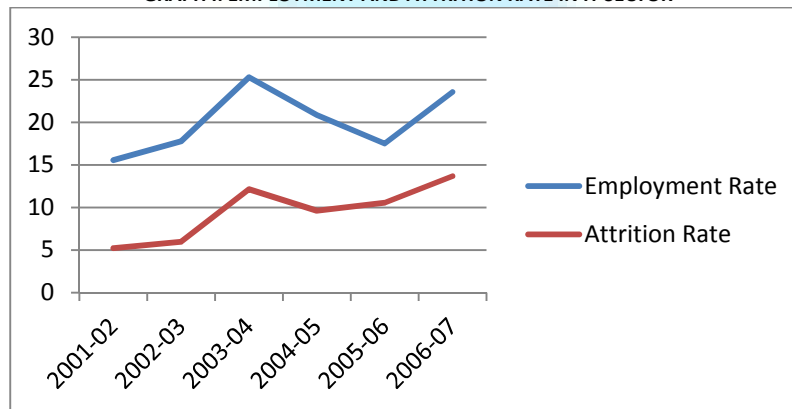
From the above table, it is observed that IT & ITES sector is having highest attrition rate. So the researcher collected the data on Employment and Attrition rate in IT Sector.

TABLE II: EMPLOYMENT AND ATTRITION RATE IN IT SECTOR

Year	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07
Employment Rate	15.55	17.78	25.3	20.84	17.5	23.57
Attrition Rate	5.23	5.97	12.13	9.63	10.57	13.67

(Source: NASSCOM Strategic Review Report)

GRAPH I: EMPLOYMENT AND ATTRITION RATE IN IT SECTOR



(Source: NASSCOM Strategic Review Report)

This is evident from the table and chart indicating the increasing trend in employment rate and the cause of concern is that during the same period increasing rate in attrition rate is also observed.

Hence, the Research Problem under consideration is to undertake a comparative study of costs involved in Retention of employees Vs. Hiring and to analyze cost optimization of Internal Talent Retention. The research paper attempts to explore various ways and means to reduce attrition rate and strengthen internal talent retention.

OBJECTIVES

Against this background, the present research paper focuses on cost effectiveness of "Internal Talent Retention" as a strategy of "Talent Management". The objective of the research paper is to study methods of calculating the costs of attrition and to make the comparison of the costs involved in Retention of employees Vs. Hiring. The research paper also covers analytical study of cost effectiveness of "Internal Talent Retention" as a strategy and explores the factors affecting attrition. After analyzing the data, the researcher would give suggestions to the corporates to make Retention strategy more effective.

RESEARCH METHODOLOGY

The proposed research work is "Exploratory" in nature. The Secondary Data would be collected from authentic sources like reference books on Talent Management, HR policy of selected companies, journals, articles and websites etc. The Primary Data would be collected by survey method through unstructured questionnaire from selected corporates. The Primary data and Secondary data would be analyzed to arrive at conclusions and suggestions.

ORGANIZATION OF THE RESEARCH PAPER

The research paper would be organized in three parts. In the initial part, the researcher would study methods of calculating the costs of attrition and would make the comparative study of the costs involved in Retention of employees Vs. Hiring. In the second part, the analytical study of cost effectiveness of "Internal Talent Retention" as a strategy would be carried out and exploration would be done of the factors affecting attrition. In the concluding part, after analyzing the data, the findings, conclusions would be covered and the researcher would give suggestions to the corporates to make Retention strategy more effective.

TEXT OF RESEARCH PAPER**INTERNAL TALENT RETENTION STRATEGY:****➤ IMPORTANCE OF INTELLECTUAL CAPITAL AND HARNESSING INTELLECTUAL CAPITAL**

Retention is the converse of turnover. High turnover rate is a big challenge the corporates have to face. The retention of good employees matter due to many reasons. There is growing importance of intellectual capital i.e. collective knowledge and skills that the employees of an organization possess.

During today's globalized era, Intellectual capital is what defines a company's competitive edge. Today's successful business wins with innovative new ideas and top notch products and services - all of which originate from the talented employees. E.g. network engineers, Marketing analysts, Technical designers etc.

Whenever such employees leave the company, the company loses their hard won knowledge and acquired skills. Whenever these employees join competitors, the loss is compounded.

In our knowledge society, intellectual capital of an enterprise will be the determinant factor of its success. It should be nurtured and deployed fruitfully which will be recipe of success for any commercial venture. According to Leif Edvinsson of Skandia AFS, the world's first Intellectual Capital Director the intellectual capital of an organization is located in its Human Capital, Structural Capital and Customer Capital. Synergy of these generates wealth of an organization.

Human capital is the collective knowledge and skills that the employees of an organization possess. The individual intellect, various innovative ideas, creativity, available with employees is Human Capital. The Management has to develop strategies so that the available capital is utilized for the growth of the enterprise. The culture of knowledge sharing and cross-fertilization of ideas will help any organization. The organizational systems and processes devised and used for sharing the Human Capital is its Structural capital.

The management's role is to ensure that the knowledge of individuals in the group is utilized for the team's benefit and eventually to the maximization of wealth of organization.

➤ RETENTION & CUSTOMER SATISFACTION:

It goes without saying that customer satisfaction is one of the most important factors in business survival and growth. This is another reason that retention is so critical. The trust any organization enjoys with its customers is a big non tangible asset for the organization.

Satisfied, talented, loyal employees with their work and their company are more likely to create satisfied, loyal customers.

Negative employee attitudes and behaviors adversely affect the satisfaction of customers. High employee turnover reduces customer satisfaction. There is a strong link between employees' attitude and customer satisfaction. Employees' attachment predicts customer attachment.

➤ EMPLOYEE RETENTION STRATEGIES FOR A HIGH PERFORMANCE ENVIRONMENT

All high performance environments share a serious devotion to results.

They're competitive, stressful workplaces where mediocrity is disdained and failure intolerable. Moreover, individuals who thrive in these environments tend to be "A" players with intense ambition. And they are always on the lookout for greener pastures.

How can high-performing employers better retain these critical employees?

The challenge is often how companies approach retention — reactively. Retention issues are ignored until the company suspects an employee might bail, at which point it's addressed by offering the employee some kind of enticement to stay, and then it's back to business as usual.

This approach might work in the short-run, but does nothing to cultivate longer-term loyalty.

A better approach is to address retention proactively, as a strategic issue. There are two thought leaders in talent management strategy to discuss how to do this in high performance environments. Based on our conversation, here are five things any organization can do to proactively combat turnover.

HIRE RETAINABLE EMPLOYEES

The first thing leading organizations are doing to curtail employee turnover is a focus on "hiring retainable employees." There are some obvious indicators of a candidates' ability to deliver consistently (e.g. three to five years' tenure in a similar role). Background, skills or personality characteristics should be studied to identify retainable employees.

PLAN CAREER OF EMPLOYEES

While managing people in a high performance environment, career of employees should be focused. The policy of training and development should be framed to retain the talent the company has. The facilities should be provided to the employees so that they'll succeed in the role for which they are hired. Best-practice organizations work to help individuals plan to stay with the organization — to plan their careers with the organization. The key is to guide the employees in mapping out how they can attain their career goals within the company.

Every employee is motivated by different things, and retention strategies thus need to be tailored down to the individual level. The retention strategies should be made personal i.e. after considering the motivational factors of each individual employee. It is observed that non monetary motivational factors are having more motivational impact than monetary gains e.g. challenging work, personal and professional growth opportunities, work/life balance, and workplace flexibility.

If underperformance is found in some employees, the employer has to find out the root cause. The employer may uncover trends in underperformance. Are employees bored with the work? Are people burning out after six months? This kind of feedback is vital to the refined people process that supports success and curtails turnover

The manager should create a positive environment for an employee as it is observed that the main reason of attrition is behavior of the boss, whatever the company values have to be executed by the managers.

CALCULATION OF THE COSTS OF ATTRITION, COSTS INVOLVED IN RETENTION OF EMPLOYEES VS. HIRING**➤ COST OF ATTRITION**

Labour Turnover of an organization is the change in the labour force during a specified period measured against a suitable index. The rate of labour turnover in an industry depends upon several factors such as nature of the industry, its size, location and composition of labour force. Increasing labour turnover is a double edged malady. It reduces the productivity of labour and results in high cost.

The cost of Attrition of the company must be calculated. The following are the costs of attrition. The cost of attrition may be analyzed under two broad headings:

PREVENTIVE COSTS

- i) Personnel administration: The part of personnel department's cost i.e. preventive costs refers to all those items of expenditure which are incurred in order to keep the employees satisfied and thus to act as discouragement against leaving employment, efforts of personnel manager in maintaining good relationship between management and staff.
- ii) Cost of medical services provided to the employees
- iii) Cost of welfare activities and schemes provided to the employees

REPLACEMENT COSTS

- i) Loss of productivity due to delay in appointing new employees.
- ii) Employment Department's Expenses: Direct expenses including the out-of-pocket costs recruiting, interviewing and training of new employees.
- iii) In a tight labor market, replacements may require a higher salary.
- iv) Induction and training of new workers: The employee has to be inducted properly and training has to be given before he is put on his assigned work. The initial period of training is unproductive. The increase in cost on training as well as cost of productive time lost.
- v) Intangible costs, such as the effect on workload, morale and customer satisfaction. Psychological impact on survivors, loss of client relationship, impact on competitive edge etc.
- vi) Opportunity costs, including lost knowledge and the work that remains incomplete till the replacement is done.

Retention of high performing employees has become more challenging for managers as this category of employees frequently move from one job to another as they are being attracted by more than one organization at a time.

MEASURING EMPLOYEE ATTRITION COST

Exit interview (One Hour: Preparation, interview, follow up) _____

Cost of termination time _____

Cost spent in administrative procedures _____

Increased unemployment (based on the Department of Labor) _____

Cost of vacancy

Cost of substitution

Job advertising _____

Pre-employment administration _____

Cost of new hires' interviews _____

Staff cost _____

Cost of training

Stationary cost (Books, training manuals, etc.) _____

Formal training sessions (Class room, lab, etc) _____

Informal training (Mentors, etc.) _____

Employee performance differential

Difference in performance (Productivity, learning, etc.) _____

TOTAL TURNOVER COST PER EMPLOYEE _____

MEASURING EMPLOYEE TURNOVER

Most organisations simply track their crude turnover rates on a month by month or year by year basis. The formula is simply:

Total number of leavers over period / Average total number employed over period x 100

The total figure includes all leavers, even people who left involuntarily due to dismissal, redundancy or retirement. It also makes no distinction between functional (that is, beneficial) turnover and that which is dysfunctional. Crude turnover figures are used by the entire major employee turnover surveys, including the annual CIPD and CBI surveys, as they are necessary for effective benchmarking purposes. However, it is also useful to calculate a separate figure for voluntary turnover and to consider some of the more complex employee turnover indices, which take account of characteristics such as seniority and experience.

MEASURING EMPLOYEE RETENTION

A stability index indicates the retention rate of experienced employees. Like turnover rates, this can be used across an organization as a whole or for a particular part of it. The usual calculation for the stability index is:

Number of leavers with more than one year's service / Total number of staff in post one year ago x 100

After comparing costs of attrition and retention, it can be concluded that retention emerges as a cost effective tool. It is observed that the talent strategy of companies is tilted towards "Grow from within".

ATTRITION

A reduction in the number of employees through retirement, resignation or death refers to attrition. In the best of worlds, employees would love their jobs, like their coworkers, work hard for their employers, get paid well for their work, have ample chances for the advancement, and the flexible schedules so they could attend to personal or family needs as and when necessary. But then there's the real world in which employees do leave. Attrition measures the amount of recurring revenue lost during a particular time frame, expressed on a monthly/annualized basis.

PRIMARY TYPES OF ATTRITION

VOLUNTARY – initiated by the employee (e.g., resignation, retirement, transfer). Can occur due to employees' dissatisfaction, better opportunities, economic considerations, life changes, etc.

INVOLUNTARY – initiated by TSA (termination, removal). Some level of involuntary attrition is necessary and signifies management of poor performance (e.g., termination during initial probationary period)

Attrition is a phenomenon affecting any business organization in the industry. Over the past few years, organizations have taken an increased interest in aligning their HR practices to their business goals. Managing a highly discerning and independent workforce has thrown up exciting challenges. Attrition is a dynamic that impacts business performance in more ways than the usually perceived Human Resource development angle. It is an issue which gives rise to questions like Organizational health, morale and motivation and leads up to very tangible aspects such as shareholder return and value.

Low perceived value stands out as the most significant factor for attrition. Increased dissatisfaction leads to reduced motivation, which in turn results in lowered efficiency. When the efficiency is lowered, employees are not able to deliver their expected output which results in their leaving the job. When employees quit, the perceived value is further lowered.

While organizations lament the challenges that they have to constantly encounter as a consequence of employee turnover, the truth is that all attrition is actually not detrimental for an organization. Some attrition is indeed desirable and necessary for organizational growth and development. There are some people who have a negative and demoralizing influence on the work culture and team spirit. It benefits the organization when these employees leave. The cost of attrition can be computed with recruitment cost, productivity loss till replacement, training cost and cost of new hire and loss of sales. The business impact of good and bad attrition can be felt in both tangible and intangible ways. The tangible aspects are: -

- Loss of knowledge capital
- Delay in execution of projects / assignments
- Loss of production
- Increasing cost of recruitment

On the intangible front, it would result in: -

- Impact on employer brand
- Burden and burn-out on existing employees
- Internal information and knowledge is being shared outside
- Existing team also gets de-focused / de-motivated for sometime

FACTORS AFFECTING ATTRITION

There are various factors that affect an individual's decision to leave a job. While an employee's leaving the job is considered attrition by one organization, it is looked at as talent acquisition by the new organization and to the individual it means a career move, economic growth and enhanced quality of life etc. Hence, what is a problem for one may be an opportunity for another? There can be various reasons for people leaving their current jobs:

CAREER ASPIRATIONS: It is but natural in a growing society and growing economy that employees at all levels aspire to build their career.

COMPARISONS AND EQUITY CONSIDERATIONS: Comparisons with peers or classmates from the same college, batch, age group, organization, first job, city, etc. are numerous dimensions on which similarities can be picked up and compared. Individuals today are flooded with such comparisons. Business magazines, compensation surveys by consultants and MNC companies have only aggravated this situation and enhanced comparisons.

PARENTAL AND FAMILY MOBILITY: Need for being close with the family, spouse, children, parents etc. at different stages of one's life to fulfill different types of affiliation needs prompt a few people to leave their jobs and move from one city to another.

PERSONALITY FACTORS: Some people have a high need for variety. They get bored and fatigued easily. They waste others time discussing organizational politics and polluting the atmosphere. Some people are constantly searching and seeking. Some may have a different motivation or value profile which may not be matched by the current job or the company and hence the decision to leave.

JOB RELATED FACTORS: These factors may be intrinsic and job related or extrinsic and job related. Intrinsic factors are the factors related to the characteristic of the job. These are in plenty in BPOs where the work conditions (night work, work at odd hours, the nature of clients to deal with, etc) pose difficulties. Extrinsic factors are factors like role clarity, independence and autonomy, bad boss, wrong chemistry of the team, work conditions that can be changed easily, lack of respect shown to the individuals, etc. A large number of the extrinsic factors can be controlled.

ECONOMIC FACTORS: this deal with the aspirations in relation to salary and perks, housing, quality of living, need for savings etc.

RESULT AND FINDINGS

➤ STEPS TO REDUCE ATTRITION

- 1) Focus on Exit-interviews
- 2) Compliment and Thanking employees for their valuable contribution. Recognize and celebrate their success.
- 3) Setting up a feedback mechanism to maintain consistency in performance and high motivation levels.
- 4) Give them job security
- 5) Providing opportunities of learning by constantly upgrading the skills of employees
- 6) Paying attention to employees personal needs and participation
- 7) Communicate goals, roles and responsibilities so that people know what is expected from them.
- 8) Feeling valued by their managers or superior in the workplace is a key to high employee motivation and morale.
- 9) Treat the employees well & provide a dignity of job.

RECOMMENDATIONS AND SUGGESTIONS TO THE CORPORATES TO MAKE RETENTION STRATEGY MORE EFFECTIVE

After analysis of Secondary data and Primary data collected through unstructured questionnaire from corporates, the conclusions can be drawn as follows:

- i) The modern world organizations in order to retain their employees consider it necessary to be more altruistic for people in their organization and these altruistic concerns that took the form of human relation approach is the need of the hour for retention as Companies get lots of tangible and intangible benefits of employee retention.
- ii) The corporate should weigh the cost incurred not really in monetary terms but in terms of per employee productivity. Even though monetary cost of hiring employee may be lower in case of recruitment but when it comes to productivity per labour hour, the opportunity cost is observed to be on higher side.
- iii) To avoid higher recruitment costs, the organizations are accelerating their talent retention strategies which would increase the stickiness of employees to their jobs for longer terms.
- iv) The Talent Retention strategies should be based on following parameters:
 - a) Adequate share in profits through allotment of share and ownership to employees over and above salary that increases the feeling of belongingness.
 - b) Career prospects path
 - c) Appeal to Innovative skills development
 - d) Appeal to Creativity
 - e) Altruistic concerns that leads to attachment and dedication to the organization.
 - f) Flexible working hours, Work from home culture
 - g) Training to develop soft skills set as well as domain skills
 - h) Measurement of loyalty quotient and suitable award.
 - i) Promoting team culture
 - j) Fragmentation of hierarchy

CONCLUSION

Taking into consideration the organization transformation witnessed in the twenty first century, concept of retention has gained significance and has become a matter of serious concern particularly for IT sector and sectors where highly skilled employees are required.

The traditional notion of retention needs to be relooked into and corporate of today should develop some such strategies which would retain the employees at least for reasonably long period. The reasonable period would differ sector wise. However, dedication of an employee to a single organization should be considered as a reasonable retention period and accordingly strategies be evolved. One cannot deny a fact that in today's changed environment which is full of competition, retention is certainly going to be major challenge for the modern world organizations.

LIMITATIONS

Psychological, social factors cannot be measured to know the reasons of attrition.

There are some hidden costs involved which cannot be measured which are not considered in the present research work.

SCOPE FOR FURTHER RESEARCH

The area of research covered in the present research paper can be further explored. Industry wise study can be carried out to know reasons of Attrition, Measurement of costs involved in hiring.

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