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A Practitioner Perspective on Drivers of Employee Loyalty

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ABSTRACT

The aim of this practice-based paper is to provide some insight into the drivers of employee loyalty in the IT industry. This paper is the result of more than four years of industry experience in the area of human resources management with different IT companies based in Mumbai, India. The paper argues that although the HR professionals working in the IT industry are trying hard to formulate strategies in order to understand the psychology and loyalty of an IT professional, nothing seems to be working in their favor, including their strategy of perks and rewards to gain employee loyalty. The paper outlines and discusses the following four attitude-based important loyalty drivers: employee focus; development opportunities; job quality; and brand. The paper further discusses the following five experience-based factors driving employee loyalty: care and concern for employees; fairness at work; day-to-day satisfaction; feelings of accomplishment; and compensation/benefits. The paper concludes by suggesting that the role of a CEO or HR Manager is like that of a director of a movie or a choreographer of a stage show, where there is a defined role for each character, each participant. CEOs and HR Managers should take a closer look at their organisations and find out if he/she is doing his/her best effort to know their top talents and how to obtain their loyalty.

Keywords

Employee loyalty, practitioner, opinion, views, drivers, attitudinal, experience-based, IT industry.

INTRODUCTION

Although the HR professionals working in the IT industry are striving to formulate strategies in order to understand the psychology and loyalty of the IT professional, nothing seems to be working in their favor, including their strategy of perks and rewards to gain employee loyalty. There was a time when an employee worked for one company his entire life, retiring at the age of 65 with a gold watch as a parting gift. Now, most employees don't stay more than one year. The reported average attrition rate faced by Indian IT industry is around 16-17% (Seth, 2004) and in the IT-enabled services (ITeS) and BPO industry is around 30-35% (Phukan, 2003, BPOIndia.org). This suggests that the high attrition rate is the toughest concern for an HR manager in this industry (BPOIndia.org). For the purpose of this paper the term attrition means 'a reduction in the number of employees through retirement, resignation or death' and attrition rate refers to 'the rate of shrinkage in size or number' (BPOIndia.org). In our view, employee loyalty is almost as important as customer loyalty, as competent and highly educated employees are scarce and very valuable. Therefore, organisations need to take great care with how they manage their employees.

The percentage of employees who are truly loyal is very low. The characteristics of loyal employees include not seeking another job, as well as resisting offers from other employers. Loyal employees are distinguished from the employees who stick around only until a better job comes along. The truly loyal employees will go the extra mile to delight customers and are highly motivated at their work, but unfortunately for organisations they are very scarce. Why should organisations care about how loyal their employees are? One reason is that the reality is that keeping employees around for even an extra six months can save costs, as replacing someone usually costs about 1.5 times that person's salary when taking into account advertising, screening and downtime (Fleming and Hvass, 1998, Oh, 1996). It is much more cost-effective to retain an existing employee than to hire a replacement. Furthermore, employee loyalty is important for organisations because loyal employees

recommend their company as a good place to work to other prospective employees, do things above and beyond the call of duty and also contribute more to customer satisfaction and value creation for both customer and company (Fueglistaller et al., 2004). Customers' concerns come into play with new employees who don't have the same rapport with them. Customers also want to know that whoever takes care of their project will be the person who will give them the best experience, so organisations need to do the selling business again, this time for the newly hired employee.

In an increasingly competitive market, keeping employees loyal is challenging, but acquiring new knowledgeable talent is even more difficult and costly. Employee loyalty feedback and information can help companies understand how they can attract new employees, maintain the existing employees and develop those loyal relationships, and even identify and save employees who show signs that they may be departing.

All companies are focused on financial performance, but most companies focus on customer satisfaction rather than employee satisfaction. Customer turnover is far more risky, so they invest in it. What they are not seeing is the effect the employee turnover will have on customer loyalty. By keeping unsatisfied employees or the employees who are not loyal, the organisations are not just affecting the financial numbers and the targets but are also losing out on customer loyalty. It also spreads a bad name in the market. Under the pressure to grow quickly, the organisations should not forget their employees who are the ones who will give them achievements and the accomplishment of targets. Downsizing, outplacements, outsourcing, restructuring, reorganization, layoffs and firings, all these factors - however you name them - have an impact on employee motivation and commitment towards work, the effects of which can be devastating. In an unstable atmosphere the employees feel insecure, and then it is difficult to regain the lost loyalty and commitment of today's employees. Many companies are beginning to recognize this and understand that only the truly loyal workforce can lower costs. However, HR professionals are also realizing that investments such as just reward programme and pay cheques are not enough to retain employees. Organisations need to be more loyal to their employees by being more ethical, if they are to gain the benefit of their loyalty in return.

Employee commitment and loyalty has been the subject of extensive academic research (Saunders et al., 1992, Shepherd and Mathews, 2000, Silvestro, 2002). However, limited work has been undertaken to examine the extent to which such academic findings are compatible with the views of practitioners (Shepherd and Mathews, 2000). The findings of Shepherd and Mathews' (2000) study suggest clear disparity between the way academics and practitioners conceptualize and measure employee commitment. In order to reduce such gaps, this paper provides a practitioner's understanding of the drivers of employee loyalty in Indian IT sector organisations. Therefore, *the aim of this paper is to provide some insight towards the drivers of employee loyalty in the IT industry*. It is important to mention here that the discussion about various drivers of employee loyalty is based on one of the author's four years experience in the area of human resources management in the Indian IT industry. Therefore, discussion on loyalty drivers is solely based on the author's experience and views, which only presents one perspective and the views of others may agree or disagree with it. Therefore, this paper is likely to initiate discussion amongst interested readers on the topic of employee loyalty. The loyalty drivers discussed within this paper were gathered from recently published industry reports (Manpower, 2002, The Walker Loyalty Report, 2005).

Having introduced the topic of interest, this paper will now proceed to outline and discuss important attitude-based loyalty drivers, such as employee focus, development opportunities, job quality and brand. The paper further discusses the five experience-based factors driving employee loyalty: care and concern for employees; fairness at work; day-to-day satisfaction; feelings of accomplishment; and compensation in Section 3. Finally, a conclusion including the contributions and limitations to the research are provided in Section 4.

ATTITUDINAL LOYALTY DRIVERS

Employees who stay should not be confused with those who stay loyal. The truly loyal employees can be distinguished from those who stick around only until a better job comes their way, or from those who feel that they are with the company only because they may not get a better opportunity with another company. It is important for organisations to understand the attitude of their employees and also what the loyalty drivers are for their employees, as this knowledge will help them to attract and retain the best talent. It is true that organisations can be unethical while treating their employees well; the issue of workplace ethics has been in questions for many years and companies have to overcome this to gain loyalty. There are many employees who feel that their senior leaders are not ethical. Management also needs to consider other aspects such as a secure career, benefits, perks and communication. The battle for loyalty could be won by focusing on employees, making work a fun place, and offering education and ongoing learning. Many employees think that he/she means nothing to the company and it doesn't affect the company if he/she leaves at any time. In order to counter this, HR staff should make employees realise that each and every one of them is an asset to the company. They should get into the minds of the employee, understand their different problems, such as personal or financial issues, problems in the workplace or problems with colleagues, and they

should counsel them with different remedies to restrict thoughts of change. Loyalty is directly linked with the behaviour and attitude of employees. The truly loyal employee will recommend their company as a good place to work, and will act above and beyond the call of duty for their employer. Regarding employee's attitudes towards their work and workplaces, the top four drivers of loyalty (according to The Walker Loyalty Report, 2005) are:

Employee Focus

An employee-focused atmosphere within a company is key. Fundamental changes are taking place in work forces that may radically alter the way companies relate to their employees. Hiring and retaining good employees have become the chief concerns of nearly every company in the IT industry. All things being equal, you can attract, retain, and motivate the best and the brightest individuals by recognizing that what motivates one person might not motivate another. And non-monetary incentives can motivate as well as help to develop loyalty. For young people, it might be to look at flexible working hours in order to have long weekends, for others it might be flexible arrangements that allow for the care of aging adults, and for others it might be childcare. So the needs differ from employee to employee. Companies that understand what their employees want and need in the workplace and make a strategic decision to proactively fulfill them will become the dominant players in the market. According to the author's experience, employee focus can be gained through family orientation (i.e. by letting the employee know how important he/she and his/her family are to the organisation). By doing this, the employee will feel important and there should be a sense of belonging which helps develop confidence in the employee. He will then feel more secure, which leads to him becoming more loyal towards the company, and then he is more likely to contribute his maximum efforts towards the goals and targets of the company.

Development Opportunities

There is tremendous room for growth for companies in areas identified as driving employee loyalty, such as training and development. Your best employees, especially those whom you want to retain, seek frequent opportunities to learn and grow in their careers, knowledge and skill. They want to try new opportunities, sit on challenging committees, attend seminars and read and discuss books; otherwise they feel stagnate. A career-oriented, valued employee must experience growth opportunities within an organisation. Organisations should be "Learning Organisations" where the process of training or learning is continuous during the tenure of its employees. No short cuts or instant returns are feasible when dealing with humans. HR professionals should convey this message to top management. If we agree that training is an essential investment for any organisation, then the risk involved in training people is really not high and the cost or investment made in training is negligible. Another point is that we have not seen a single case where training is likely to lead to any negative returns or losses. Usually it leads to gains, sometimes these may not be tangible gains, but there definitely are never losses. Training is an investment and not an expense at all. It helps to look at training as a deliberate strategy, tuned with the vision, rather than as a bench-time activity or need-based activity. So companies have to invest in training and development to get the loyalty of their existing best talent, as well as attracting and retaining others.

Job Quality

The job should be well defined and the employees should know their responsibilities at work. As per our experience in most companies, the concept of empowerment is seen as management giving employees permission to follow policy. Today's most successful companies understand that, in order to revitalize commitment and loyalty, they must give employees freedom to succeed, which should be defined. There are companies that allow any employee up to \$1000 to do anything they must to rectify a customer complaint on the spot with no questions asked. This allows employees to use their good judgment according to the situation, so that they basically look out for responsibility for their job and feel a sense of authority. Managers need to communicate with each employee and clearly define what is expected of them. When expectations are not clear, employees may not be synchronized with their job's current demands and priorities. Setting expectations is not a one-off activity. Jobs change, priorities change, resources change. Managers need to revise and set new expectations throughout the year. The employees should be given freedom to fail and try again. After all, "We all reserve the rights to make mistakes and learn from them". The managers who fail and try again are far better than the managers who don't take risks and ultimately lose out on good opportunities.

The Corporate Brand

Employees today are really living in two worlds; in one world they want to be sure that they have a job, and in the other they are looking for better opportunities with a better brand name. Brand is one reason employees are always on the move. Competition globally is tough, and achieving a unique position and competitive advantage becomes more and more difficult and expensive, but the company needs to invest in it because brand speaks for itself. Organisations need to spend more time and allocate more resources for communicating the brand promise to employees. Employees play a critical role in influencing the company's image in the marketplace. A key part of the overall investment has to involve consistent communication with

employees. If a company isn't devoting time and resources to that objective as well, it is likely to see a gap between its desired brand strategy and effective implementation.

EXPERIENCE-BASED FACTORS DRIVING EMPLOYEE LOYALTY

Experience-based factors affecting loyalty drivers are the ones which the employee learns over a period of time and with experience. When it comes to employee's personal experiences of their workplaces, if they are positive they can help in developing loyalty and if not, the company needs to put in a lot of work to change the scene. As we have already seen in attitude-based loyalty drivers, these are the factors that drive loyalty and enable us to win over the situation. If an employee is on the job and he sees any unethical behaviour, his loyalty towards the organisation may take the back seat. This can occur in a number of ways, such as a disparity in the salary of two colleagues who both share the same qualification and experience, a biased reward system or through the unethical behaviour of senior leaders. All these will fail the employee and it will have an adverse effect on his/her loyalty. Regarding employee's experience of their work and workplaces, the top five drivers of loyalty (The Walker Loyalty Report, 2005) are:

Care and Concern for Employees

This can be shown by providing proper working conditions, policies and style of management. The more care and concern an employer shows for its employees, the more loyalty the employees show for the company. The employees only give their best efforts if they feel connected to the company, if they are in the loop and kept informed of all company-related issues. Most importantly, they need to know that their opinions matter and that management are fully interested in their input. According to our experience, communication is the first step toward creating the kind of environment that people care about, and if they care, they may just stay. At any given time, all of your employees should have a reasonably clear idea of how business has been, and they should be aware of any issues that the company is attempting to address. This means that you regularly keep your people up to date with important events affecting the company. If November was good, let them know and while you are informing them, go on to tell them what is expected to happen in December as well. Share good news as well as points of concern. If you have got issues, talk about it early on before they start asking questions. These measures will help organisations to develop employee loyalty and trust. The point here is that you want to treat these people as your partners, which in a sense is what they are. They may not have the worry of releasing payroll this week, but they do have worries of their own. Treat them with at least as much respect as they give you. As the sales manager, you set the tone for the entire organisation. If your sales people, for instance, enjoy their encounters with you, they are much more likely to greet customers with a positive attitude. They are much more likely to enjoy their work in this environment.

Fairness at Work

The perception of fairness of pay and evaluations and equitable treatment is important for creating and sustaining employee loyalty. In one company, for example, a new sales representative was given the most potentially successful, commission-producing account. The current staff viewed this decision as one which effectively took food off their tables, and it would be safe to assume that some of them are now looking for their next opportunity. In another instance, a fresher, just a year or two out of college, was given a Rs. 20,000 hike over a six-month time period. Information of this type never stays secret in companies, so it is unquestionable that the morale of several other employees will be affected by this. For example, you have a staff person who views his/her role as important and he/she brings ten years of experience, an M.B.A. and a great contribution record to the table. When such an employee finds that he/she is earning much less money than other employees, he/she is likely to look for a new job. Minimally, his/her morale and motivation will take a big hit. Did the staff person deserve the raise? Perhaps the answer is yes, but recognize that it will lead to an impact on others. There should be fairness at work, workplace ethics are important and the main notable issue of workplace ethics is finding out the ethics of senior company leadership. If you ask employees, many will say that their senior leaders are not ethical and some may discuss company ethics as well.

Day-to-Day Satisfaction

This means the employees should get satisfaction with their daily activities at work. The employees will get satisfaction if they are happy with their reporting manager and if they are not under any pressure. For example, a staffing company may have a yearly target of getting 500 consultants hired for their clients and yet only employ five recruitment consultants. With proper division, each consultant is therefore working towards 100 requirements. To make matters worse, in this instance the requirements they are working on are niche, it is difficult to get consultants on those skills sets, and the company for which they are recruiting are not among the top five and are not a big brand. In such a case, it is not only far more difficult but almost impossible for them to achieve the said target, and if they are being pressurized to meet the target then it is unethical for their managers to push them. Instead, they need to employ more recruiters which will be more cost-effective than pressurizing the existing ones, as this may influence them to look out for other opportunities and ultimately the organisation

will lose the existing staff. So to get day-to-day satisfaction at work, there should be fair division of work. Managers' expectations should focus on outcomes, not activities. In other words, you achieve clarity when you identify the expected results rather than the method for achieving them. Managers often make the mistake of attempting to direct the process that an employee will use, rather than being clear about results. The advantage of identifying the outcome is that you, the manager, focus on the goal; after all, the employee will develop the method for achieving the desired results.

Feelings of Accomplishment

This factor defines employee's feelings of accomplishment in their work. An employee acquires this feeling when there is a recognition or reward system. It is important to listen to your employees when they have ideas for improvement, because again the benefits extend beyond just making employees feel appreciated for their contributions. These are people who do the same work every day. They may have some ideas to improve productivity, and when they do come up with one, you should let others know where the idea came from. It creates a feeling of pride and accomplishment in the person and some new efficiency that saves the company money. An employee is defined as an individual who works for wages or salary, and a partner is defined as one or more persons engaged in the same business enterprise and sharing in its profits or losses. Under which definition will a person try to give their best efforts? Obviously, the person will only give their best efforts to an organisation if they feel they are a vital part of that organisation. So the kind of work they do should give them a feeling of satisfaction, which will pay for their loyalty.

Compensation/Benefits

Compensation can be defined as an employer's appreciation for an employee's ideas and input. Compensation and benefits are the key drivers for employee loyalty. As you might be aware, employee compensation covers how people are rewarded in accordance with their value to an organisation. It is about both financial and non-financial rewards and the strategies, policies, structures and processes used to develop and maintain reward systems. The ways in which people are valued can have a considerable amount of impact on their effectiveness at their work and ultimately in the organisation. The aim of employee commission/incentives policies and practices in the organisation is to help attract, retain and motivate high quality people. It is important for managers to celebrate small success too as it is a good motivation for employees. An example of this would be to have small incentives for the individual and for the team who achieves success at each level. Managers can divide the whole job/task into pieces or into months; at each level of success the individual/team should be rewarded by the token of incentives as decided, and the achievement should also be published. This will prove to be an effective motivator for all and will help them to be sincere in their work.

CONCLUSION

The paper concludes by suggesting that the role of a CEO or HR Manager is like the director of a movie or the choreographer of a stage show, where there is a defined role for each character, each participant. CEOs and HR Managers should take a closer look at their organisations and find out if each employee is making their best effort, in order to learn their main talents and to establish how to obtain their loyalty. The paper has discussed the key areas where companies are falling short when driving employee loyalty. Employers still have a long way to go to cover up the gap between employees who are just about satisfied and those who are truly content and intend to stay with the organisation. Loyalty is directly linked with employees' attitude and experience. Truly loyal employees are those who are committed to the company and plan to stay long term with the company. Companies should develop more strategic programs to help invest in their employees' development simply because employees are one of their most important assets.

The paper also concludes that loyalty is losing its value; however employers have an abundant supply of talent and also realize the people they have are the key of their success, so they try to make the work environment more attractive to retain good workers. Companies have to have the vision and insight to measure employee loyalty. Companies can create loyal employees by doing a better job of creating an environment to help keep more committed employees. Employee focus should be taken as seriously as customer focus. Employers need to employ the aforementioned loyalty factors within their organisations to retain their desired employees and to also attract the best talent. These loyalty drivers, if implemented properly, can achieve good results. Also, organisations should also invent new strategies to retain their people.

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