

Compensation Elasticity of Employee Engagement in Indian Software Industry “An Anthropological Perspective”

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Abstract: The employees of Indian software industry are known to be “well paid” people in India. This industry has been the dream industry of most of the youth coming out of the colleges. With emergence of ERP and other business process oriented packages, it is attracting non-engineering graduates as well. Presently Indian software industry is at a phase where it is striving to get up the value chain to maintain its edge over the emerging competitors like China, Philippines, Brazil etc. This has resulted in increasing demand for experienced and more productive work force in the industry. As per the law of demand, this increased demand is leading to higher wage rates for that workforce. However as there is human psychology involved instead of commodities, the statistics show a different picture. Depending on socio-economic conditions, sometimes even the high-wage offer cannot attract better workforce. The purpose of this paper is to discuss such wage elasticity of employee engagement among Indian software work force.

Keywords: Anthropology, Engagement, Elasticity, Motivation, Retention.

I. INTRODUCTION

India is the biggest workforce provider for world’s software industry. Most of the big software technology companies have been making India as their workforce hub. Some examples [1] being IBM which has around 91000 employees in US while it has around 1.3 lakhs workforce in India. Accenture has global work force of around 1.33 lakhs of which Indian workforce amounts around 90000 Capgemini has around 66000 employees out of around 125000 total workforce.

This creates a unique situation in Indian labour market where the companies want to hire as many people as possible at as much less of compensation as possible. While there is a steady stream of supply for freshly qualified workforce of around 1,55,000 per year and another 2,00,000 of other degrees and diploma courses. Of this around 60,000 people get engaged in IT industry directly or indirectly [2]. There is also an acute shortage of the “experienced” “high performing” people. As India moves up the value chain, it requires more and more people who have that kind of knowledge, experience and performance. Hence companies try to retain their high value resources and at the same to time try to get the additional high-value resources from market. This pushes up the demand as well as the resource cost. To arrest resource costs companies try to negotiate the compensation offered to the new employees.

From employee perspective, the lesser the delta compensation, lesser the chance of accepting the offer in most of the cases but this decision is also affected by the other socio-psychological and micro and macro-economic factors. The objective of this study is to identify the decision making pattern against different level of compensation change offers and also under different variables as discussed in this section.

II. SUBJECT DISCUSSION

What is compensation?

Compensation also referred to as remuneration is a systematic approach to providing monetary value to employees in exchange for work performed. Compensation may achieve several purposes assisting in recruitment, job performance, and job satisfaction. Typically, this consists of monetary rewards, also referred to as wage or salary.[3] A number of complementary benefits, however, are increasingly popular remuneration mechanisms. This is a component of Reward management. Reward management consists of analysing and controlling employee remuneration, compensation and all of the other benefits for the employees. Reward management aims to create and efficiently operate a reward structure for an organisation. Reward structure usually consists of pay policy and practices, salary and payroll administration, total reward, minimum wage, executive pay and team reward.[4] Normally, the compensation is used as a tool for:

- Recruit and retain qualified employees.
- Increase or maintain morale/satisfaction.
- Reward and encourage peak performance.
- Achieve internal and external equity.
- Reduce turnover and encourage company loyalty.
- Modify (through negotiations) practices of unions.

The process of determining compensation has following steps [5]:

- Develop a compensation out line
- Develop a compensation philosophy
- Conduct job analysis for all positions
- Evaluate Jobs
- Determine Grades
- Establish Grade pricing and Salary Range
- Determine appropriate salary structure
- Develop a salary administration policy
- Obtain necessary stake holders signoff on policy
- Communicate the policy
- Monitor and fine tune.

Each step of the above mentioned process can be discussed at length in a different forum and as the purpose of this work is to discuss other topic, we will not go into each of these steps.

Let us now briefly see some of the components of the compensation [6]:

- Base Pay
- Commissions
- Overtime Pay
- Bonuses, Profit Sharing, Merit Pay
- Stock Options
- Travel/Meal/Housing Allowance
- Benefits including: dental, insurance, medical, vacation, leaves, retirement, taxes
- Interest free/low interest loans etc..

Many theories of employee motivation circle around the compensation an employee gets. Some of the famous theories related to motivation and compensation are Maslow's theory of need hierarchy [7], Frederick Herzberg's motivator-hygiene theory [8] and Victor Vroom's Expectancy theory.[9]. While each theory explains different motivators and the correlation between compensation and performance, the underlying conclusion of each of the theory is that the right compensation at right level contributes to right productivity.

What is Engagement?

Employee engagement is an emergent property of the relationship between an organization and its employees. An "engaged employee" is one who is fully absorbed by and enthusiastic about their work and so takes positive action to further the organization's reputation and interests.

An organization with 'high' employee engagement might therefore be expected to outperform those with 'low' employee engagement, all else being equal.[10]

In 1993, Schmidt et al. proposed a bridge between the pre-existing concept of 'job satisfaction' and employee engagement with the definition: "an employee's involvement with, commitment to, and satisfaction with work. Employee engagement is a part of employee retention." This definition integrates the classic constructs of job satisfaction (Smith et al., 1969), and organizational commitment (Meyer & Allen, 1991).

In layman terms engagement is a result of the work environment and the relationship with the players in work place where an employee is willingly continues to contribute his best to the employer organization.

Commitment theories are rather based on creating conditions, under which the employee will feel compelled to work for an organization, whereas engagement theories aim to bring about a situation in which the employee by free choice has an intrinsic desire to work in the best interests of the organization.[11].

Some of the factors which affect the engagement are:

- Employee's perception of job importance
- Clarity of job
- Growth and advancement opportunities
- Relationship with Supervisors
- Relationship with peers and subordinates
- Feedback mechanism and performance management policies
- Reward and recognition programs
- Remuneration and compensation
- Internal communication
- Micro and Macro-economic conditions
- Employee Perception of Ethics and values of employer

What is compensation elasticity of Engagement?

Economic definition of elasticity is the measurement of how responsive an economic variable is to a change in another [12]. In this case the first economic variable is employee engagement while the affecting variable is the compensation offered to that employee.

As discussed in the above section there are many determinants which affect employee engagement apart from remuneration and compensation of the employee. It is the most common belief among HR department of Indian Software companies that "if you want to hire someone, just offer him more than he's getting and he's in your company". But it may not always be the case. Almost as much as 30% of the offers issued by tier 1 & tier 2 software companies were turned down by the job seekers at "Offer" phase and most common of the reason for such renege is "the current employer has matched offer" or "got better offer"

Thus compensation elasticity of engagement is the continued engagement of an employee with an employer when the offer for marginal increment of the compensation has been offered to that employee. Though the level of elasticity in-turn depends on many factors, the overall elasticity of the engagement towards compensation cannot be ruled out.

III. METHODOLOGY

After review of the relevant literature in different fields like economics, anthropology, management and Indian software industry, we selected our target group of respondents to be interviewed or studied in Hyderabad and Bangalore cities. The respondents were not only from Tier 1 and 2 software companies but included people from tier 3&4 companies. There were total of around 45 respondents at different career levels (refer table 1) and working in different departments (refer table 1a) of the software companies. These departments include delivery, HR and support departments.

Table1. Number of respondents at different career levels

Career level	Respondents
Freshers	20
Beginners	18
Junior Level	26
Middle level	8
Senior level	5
Executive level	2
Total	79

Table1a. Number of respondents in different departments.

Department	Respondents
Delivery	60
HR	13
Support	6
Total	79

These respondents were selected after first personal interaction and an enquiry as to whether they have changed their job in past 1 year or are they planning to change in next 1 year. Those who said yes to either of these two questions were selected for this study post their confirmation of willingness to be part of this study. However the people working in HR department were directly asked if they want to be part of this study without the first check as they can provide the 'Other side' of the recruitment process. Respondents requested that some of the data they shared should not be published and hence those data are not present here.

The Author being a manager handling 87 people and handling around 37 separations during his tenure as a manager in different companies has used participative, observation and contact based techniques for gathering the required data for this study. The data so collected was tabulated and summarized to draw relevant conclusions. Simple statistical techniques like Mean, Median are used to draw conclusions.

Limitations of the Methodology:

1. **Sample Size:** The total software industry workforce is huge and the sample size selected is too small to be representative of the universe, the purpose of this study is to pilot the concept and hence small sample size was used.
2. **External conditions:** Many a times the external conditions affect the response of respondents, this include economic, weather and social conditions. Hence the response received from respondents could be biased and may or may not be based on facts.
3. **Psychological conditions:** The psychological condition of the respondent as well as the surveyor plays an important role in the quality of the information derived from the interaction. Hence the response is subject to be impacted the psychological condition of the surveyor and the surveyed.
4. **Biased Hypothesis:** As the researcher himself was involved in the process of hiring and separation in some of the cases and also as a person working in the same industry, some of the hypothesis may be subject to be influenced by the pre-conceived notions of the researcher.

IV. FINDINGS

Degree of Elasticity varies along with career level:

The expectation from the new job varies across the career levels and hence the degree of elasticity. The higher the career level, the higher the degree of elasticity of engagement. Some of the reasons for this particular pattern as given by the respondents were:

- They are already in comfortable position and hence to disturb well-settled job/career, higher and compensation offer has to be made to these employees
- They look for specific components of the compensation and are particular on how the composition of the compensation has to be, before deciding to separate from current employer, these include the variable component of the package, flexi – hours, job title or designation etc.
- Higher the career levels of the employees lesser the tolerance to work location change. Employees expect more increment in their compensation if they are to be offered to work from different location
- The employees at lower level of career (Freshers, Beginners and junior level) have lower degree of elasticity and are easily attracted by; offer of onsite opportunity, vicinity of the work location to their native/home town, prospect of Better work, prospect of change in technology or area of work etc. among others.

Economic conditions affect the engagement elasticity:

When a person is comfortable in his current economic conditions and has lesser financial commitments, he/she tend to look out for a change when the financial commitments go up. 85% of the employees surveyed started looking out for change of employment when their marriage was fixed, were expecting their baby or the health of their parents was deteriorated and needed hospitalization. These three were the major reasons given as a reason for looking out for change of employment. These factors are the micro-economic factors affecting the compensation elasticity of engagement.

Under such negative micro-economic conditions, the degree of elasticity of engagement tends to be less and even the lower degree of increase in the compensation will lead to the resignation of the employee.

As for Macro economic conditions like economic slowdown, negative/lower employment generation in a country, inflation etc. the elasticity of the engagement acts differently. During the US slowdown when the pink slip was widely being used by Indian software companies, there was an overall job insecurity and this lead to lower elasticity of the engagement. As the employees were not sure if their job were secure or not, they tended to accept the offers at a lower increment and sometimes at the same or lesser level of compensation just for the sake of job security. The same phenomenon was observed when CEO of erstwhile Satyam announced of financial misrepresentations. Most of the Satyam employees were so much concerned about the future of the company and their job security that they accepted the offers where the compensation offered to them was significantly lower than their current compensation packages.

Personal factors overrule compensation:

The personal factors like one's aspiration to be nearer to his home town/native place, being nearer to their parents or relatives, health conditions of their spouses, parents etc. their change in family status like marriage, new child etc. often have a negative effect on the compensation elasticity of the engagement. Out of the all people surveyed, the people at junior and middle career level tend to lose their elasticity of engagement for these personal factors. The age of those in these career levels is one of the factors where the people face a lot of changes in their personal factors and hence this is one of the most powerful and common reason for people of these career level to start looking for job changes.

Offer location and Delta compensation work in opposite direction:

As per the interviewed HR department personnel, the reason for most of the renege are due to the location constraint of the candidates, sometimes even if the delta compensation is a little on higher side, if the joining location is not the one they requested for, the probability of renege increases. Also employees expect more delta compensation if they have to join in a location which is not the one they have indicated as preferred location. Though now a days it is a practice for all the companies to ask if the candidate is willing to work in any location in interviews and in most of the

cases the candidates give a positive answer to such questions, they tend to renege the offer if they are offered a different location and the *normal* hike in the compensation.

V. CONCLUSION

The compensation elasticity of engagement is definitely one of the areas which need more in-depth research. The degree of the engagement is inversely proportionate of the degree of delta in compensation offered by the prospective employer. The elasticity also depends on other variables from macro-economic to personal factors and hence a scientific approach has to be adopted by the companies to enhance the employee engagement.

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