# A STUDY ON CORRELATION BETWEEN ATTRITION AND PERFORMANCE MANAGEMENT IN A BANKING ORGANISATION

**SHILPA SAVADATTI**

*Lecturer, K.L.E. Society's College of Business Administration, Hubli*

*shilpa.savadatti100@gmail.com*

*ABSTRACT*

*Statistics say that the attrition rates jump substantially after annual appraisals and salary hikes. In a survey conducted by a top recruitment agency, 62% of employees were keen on switching jobs post the appraisal season. Out of these, 64% of employees gave unsatisfactory appraisal as the reason for wanting to change their jobs while the rest of them wanted to milk the salary hike and get even better pay packages elsewhere. The fiscal year in India starts on the 1st of April and ends on 31st March. The month of March-April is the annual appraisal season across the different sectors in the country. It is the season most awaited than the monsoon when the amount on your pay check increases a bit and makes your smile a bit wider. Appraisal season is all about your responsibility and hard work would be acknowledged and appreciated. When these efforts and dedication towards your job are evaluated, you may get a promotion too, on top of the salary increment! Employee attrition and candidate absconding are significant business concerns for every organisation, one even bigger than attracting talent. Employee attrition is a serious issue, especially in today's knowledge-driven marketplace where employees are the most important human capital assets; attrition impacts an organisation's competitive advantage. It is imperative for every organisation to understand what attracts and retains a potential candidate and predict attrition early (Infant Attrition) in the recruitment process to curtail significant loss of productivity among hiring managers, recruiters and eventual loss of revenue. Post pandemic opportunities have been ample for women with various barriers. Market compensation has drastically changed considering various socio-economic factors.*

*Keywords: Attrition, Performance Appraisal, Voluntary Exits, Involuntary Exits.*

## 1. INTRODUCTION

Banking industry in India besides other challenges is also facing the problem of job attrition. In view of this high turn-over has been observed which is due to employee expectations for a better compensation, better role. One of the solutions to tackle this is hiring and training new employees which will lead to the increase in Total cost to the organization. Organization in general and banks in particular are paying more attention to aspects such as performance appraisal, empowerment, reward system, feedback, career development, motivation and empathy.

So this study focused on the performance cycle impacting company's attrition. This study can be helpful in knowing why the employees prefer to change their job. This study can serve as a basis for measuring the organization's overall performance in terms of employee

satisfaction.

## 2. REVIEW OF LITERATURE

Time is an eternal force capable of transforming landscapes and continually redefining the status quo, putting forth unprecedented scenarios and challenges. Over time, the patterns of human behavior and expectations undergo drastic evolution as well, following which the notions of what is acceptable change as well.

According to an article publishes in FortuneIndia.com (India, 2022) overall attrition rate among Indian companies increased to 21% in 2021, after moderating to 12.8% in 2020 from 16.1% in 2019. Voluntary attrition was at 15.4%, the Aon survey noted. According to Jenna McNamee in 2022 (employeeturnover) bank turnover at the non-officer level reached 23.4%—its highest level since 2019. At the officer level, turnover in 2022 hovered around 4.8%, below the average 7% to 8%. Finding the right fit: When it comes to talent acquisition, 95% of those surveys listed "finding and hiring the right people" as the most important element of their search. But that's becoming more difficult—especially when it comes to younger workers, as the banking industry has tended to favor more experienced workers.

According to Chris Platts (Platts, 2022) Wages have not kept up with inflation or with employee expectations. Pay increases can be measured by raises, bonuses, and other types of monetary incentives that employees may be offered. The reality is money has a lot to do with whether or not an employee will stay with a company; most employees will leave for more money if the role and company are comparable. Replacing employees is more costly for an organization than increasing pay; an average employee exit costs about 33% of their annual salary, but it can be considerably more. This shows that there is an actual, tangible cost-saving metric to offering a pay increase to retain staff.

According to Tyagi, Vibhuti (Tyagi, 2019/04/17) banks set their strategies that emphasizes on the efficiency of the employees. These banks evaluate the employee's performance mostly objectively and the final decision regarding the appraise is taken by higher authority, where some times the appraiser's or immediate supervisor's recommendation is neglected. The final decision is effected by the liking and disliking of higher authority.

According to Raj, Dr. Kiran (Raj, 2020) the study concluded that the most significant effect of performance appraisal system on the employee engagement in the Banking Industry when the employees says that "Employee's feedbacks are used for the company's improvement by the

Performance Appraisal System" and it "Changes the behavior of the employees" and at the same it is less effective when the employees says that it "Helps in employees concerns for goals of the company". In the study the Alternate hypothesis is accepted as it shows a significant Impact of Performance Appraisal System on Employee engagement in the banking Industry.

## 3. THEORETICAL ASPECTS

In broad terms, employee attrition (turnover) is grouped into two kinds including voluntary (intentional) turnover and involuntary (unintentional) turnover. When we say voluntary attrition it refers to a decision mainly made by workers (employees) leaving the company, including all resignation forms and involuntary or unintentional turnover refers to the decision of turnover mainly made by the organization, including fire, dismiss and other forms. For managers of different organizations, involuntary turnover can be forecasted and controlled, but voluntary turnover cannot be predicted in advance. The influence of different types of employee attrition for enterprises is different, but too much voluntary attrition is adverse to organization and that is why a number of scholars pay more attention to voluntary turnover.

Causes of attrition:

### A. Internal causes

These causes are pertaining to the internal environment of an organization. Therefore, they are controllable.

1) Salary

1. Insufficient salary
2. Delay in payment
3. No / delayed increment
4. Wage compression

2) Promotion

1. Biased promotion
2. No / delayed promotion

3) Transfer

1. Forceful transfer
2. Transfer to a placed employee is not willing to go

4) Workplace Infrastructure & amenities

1. Lack of hygiene
2. Lack of basic facilities like water, canteen, etc.

5) Task

1. Monotony of task
2. Task – labour mismatch
3. Team issues
4. Lesser job autonomy

B. Instability in leadership

1. Leading to confusion related to directions and commands which generate frustration among the workforce.

C. Lack of Flexibility

2. Lack of flexibility in timing, choice of task etc.
3. Introduction of new technology and employee's
4. Incompetency/ Unwillingness To Learn And Understand.

D. Lack of job security

1. Fear of being expelled/ retrenched/terminated
2. Faulty performance appraisal
3. Underestimation of performance
4. Power distance & politics
5. The communication gap between management and Workforce

E. External causes

1. These are the causes which are beyond the control of an organization as they belong to the external environment. These causes may be related to, better pay chances of promotion better perks and more fringe benefits in other organizations

F. Individual/Personal causes

1. End Of Life
2. Marriage
3. Pregnancy
4. Shift Of Family
5. Mental Imbalance

6. Over – Sensitivity

7. Wish To Go Abroad

8. Attrition Of The Group Members

9. Self-Employment

10. Education


## 3.1. What is a performance appraisal?

A performance appraisal refers to the systematic evaluation process of an employee's contribution and potential to the organization against pre-defined parameters. Alternatively called an annual performance review or employee assessment, it takes into account the job responsibilities of the employee and how the employee fares in her job role to ascertain her capabilities and future growth trajectory in the organization. Some of the factors that come into consideration during the performance appraisal of an employee are efficiency, quality, and quantity of work, attendance, leadership skills, judgment, co-operation, and teamwork to name a few. A lot of emphases is put on an objective performance appraisal that evaluates employees critically without any bias for the betterment of both the employee and the employer, and rightly so. It gives key insights into how the employees are faring vis-à-vis their job roles.

The main objectives of a performance appraisal are:

1. Evaluation of the performance of the employees and feedback on the same

2. Identification of the strengths of the employees to facilitate better utilisation of their talents.

3. Identification of the weaknesses of the employees to provide training and development opportunities.

4. Identification of the right talent that can be groomed further to take leadership roles.

5. Promotion and salary hike for the deserving employees that have performed well

6. Confirmation for the employees who have been on probation and have completed their probation period

7. Effective communication between the employee and the employer with regards to KRAs.

8. Database collection for compensation packages and wage structures

9. Review and assessment of the ongoing training and development activities

These objectives can be attained only if a proper framework for a performance appraisal is implemented in the organisation. While targets and plans can be measured and assessed objectively through numbers and charts, not the same can be said of the subjective parameters like attitude and leadership capabilities. This is where it gets tricky as many times, personal opinions and biases can affect the performance appraisal, intentionally and unintentionally.

A performance appraisal is deemed successful when it can reduce subjectivity to the bare minimum without giving full focus to the objective factors.  The balance is tricky but once you attain it, the reasons for undertaking such a comprehensive performance appraisal becomes clear.

*Performance appraisals are generally done through the following two methods:*

1. Traditional methods of performance appraisal which include rating scales, checklists, forced choice, forced distribution, critical incident, performance test, and observation, field review, confidential record, essay method, comparative evaluation approaches, cost accounting method, and behaviorally anchored rating scales.

2. Modern methods of performance appraisal which include 360-degree feedback, 720-degree feedback, management by objectives, psychological appraisal and assessment centres.

### 3.2. What Is Attrition Rate?

Attrition rate refers to the rate of employees leaving an organization in a specified period of time. Also known as the churn rate, this is used to determine an organization's ability to retain its employees over a period of time. It is collocated by the following formula:

Attrition Rate (%) = (Number of separations/ Number of employees) * 100

Attrition can be voluntary i.e. resignations or involuntary such as lay-offs. Even retirement also comes under attrition but organizations are duly prepared in these cases with a succession plan. This ensures that retirement does not become a key concern for the organization. A high attrition rate for any organization is a warning sign as it indicates that a lot of employees are not satisfied with the organization's way of functioning and may cast it in a poor light. The reasons can range from poor pay package and lack of growth opportunities to poor work-life balance and excessive work stress.

As organizations invest a lot of time, resources, and efforts in hiring and training the right people for a particular job, it is highly imperative that they actively work to reduce attrition rates to ensure

that employees stay in the organizations for a considerable period of time. Taking corrective actions that lead to job satisfaction of the employees can reduce attrition rate significantly and would be a much cost-effective solution than hiring new people.

## 4. OBJECTIVES OF THE STUDY

1. The study attempts to understand the diversity ratio across different departments and recruitment channels.
2. The study will help in predicting the approximate attrition for the remaining part of the financial year.
3. The study was conducted on the number of employees leaving the organization from the Beginning of the financial year till October 2022.
4. To understand the relationship between the duration of appraisal cycle to the attrition rate.
5. To calculate the ratio of type of exits to the total number of exits.

## 5. RESEARCH METHODOLOGY

1. Data Collection

    i. Sample size – 429
    ii. Type of data – Secondary, Primary data
    iii. Sample Population –6500
    iv. Sampling Technique – Convenience Sampling.
    v. Demographics – Gender, Tenure, Date of Joining, Date of Exit, Department, Grade of the Employee.

2. Primary Data:

    • Primary data was shared by a well known Banking and Financial Firm. Set of 429 Employees database had been selected. The name of the organization cannot be disclosed for confidential reasons.

3. Secondary Data:

    • Secondary data was collected from Internets, Journals, and Company Records.

## 6. DISCUSSION

1. The Analytical tools utilized to solve the problem are Descriptive Statistics. The techniques under Descriptive Statistics adopted are:

2. Percentages and Ratios

    a. Measures of Central Tendency: Mean

    b. Measures of Association: Correlation

3. From Table 1, we can understand that the predictive attrition for the rest of the year 2022-23 is 12 % which is below the industry standards of banking sector which is 30 % to 50%.

4. From Table 2, we can imply that the ratios of voluntary exits are very high for this organization.

5. From Table 3, Correlation coefficient between the duration from the appraisal cycle to the Number of people exiting the organization is negative correlated which means that as the employees move away the appraisal cycle (duration from the appraisal cycle) their tendency to exit the organization becomes less.

6. From Figure 1, it indicates the number of employees exits was higher than female employees.

7. From Figure 2, the two primary reasons for people leaving the organization was better remuneration and better role.

## 7. SUGGESTIONS

1. Pay (Remuneration):

    a. Employees leave their work position due to low pay which contains remuneration, benefits, imbalance between performance and reward.

2. Employee Referral Programs :

    a. Employees are more likely to suggest potential jobs if they are rewarded, which is why over 70% of organizations provide monetary incentives to employees who can refer appropriate prospects.

3. One study found that over 45% of employees referred by colleagues stay for more than four years, while only 25% of employees sourced through job boards stay for longer than two years.

## 8. CONCLUSION

Attrition is inevitable; it will always prevail; it can only be minimized. The right amount of attrition – with the right people turning over at the right time – is desirable. Employee attrition analytics is specifically focused on identifying why employees voluntarily leave, what might have prevented them from leaving, and how we can use data to predict attrition risk. Most importantly, this type of employee predictive analytics can be used to help organizations understand and design the interventions that will be most effective in reducing unwanted attrition. The study shows that employee's were expecting more pay and changes in the role during Appraisal cycle. The goal with employee attrition and retention is to strike the right balance of holding on to top talent while accepting that some level of attrition is healthy; employee attrition analytics enables organizations to find that balance. Intrinsic factors are equally and sometimes more important than extrinsic factors while controlling attrition.

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**ANNEXURE**

List of Tables

*Table 1:  Metrics describing the Predictive Attrition Rate by end of the Year 2022-23*

| | | |
|---|---|---|
| **Metric 1** | Total Number of Employees during Apr 1st | 6000 |
| | Total Number of Employees during Oct 30th | 6500 |
| | Total Number of exits | 429 |
| | Average Number of Employees | 6250 |
| | Total Attrition Rate | 6.86 |
| | **Predictive Attrition Rate by end of the Year** | **12** |

*Table 2:  Metrics describing the Ratio of Type of Exits to Total Exits from April 2022 to October 2022*

| | **Ratio of Type of Exits to Total Exits** | |
|---|---|---|
| **Metric 2** | **Involuntary** | **Voluntary** |
| | 0.1 | 0.9 |

*Table 3: Metrics describing the Correlation between the duration from the appraisal cycle to the Number of people exiting the organisation*

| Metric 3 | Correlation between the duration from the appraisal cycle to the Number of people exiting the organisation | | | | | | |
|---|---|---|---|---|---|---|---|
| | Apr | May | Jun | Jul | Aug | Sep | Oct |
| | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| | 152 | 120 | 52 | 32 | 41 | 29 | 3 |
| | **Correlation Coefficient** | | | | | | **-0.9** |

**List of figures:**
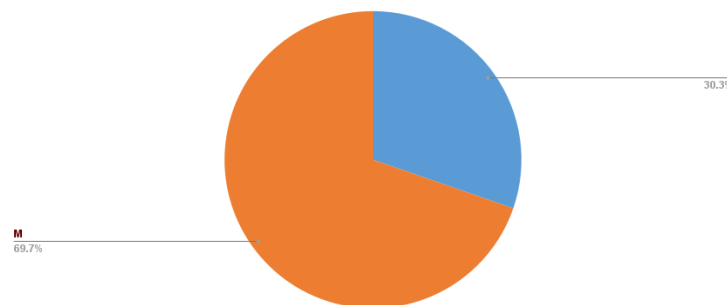


Genderwise Number of Employees exited the organisation

*Figure 1: Gender wise Number of Employees exited the organization from April 2022 to October 2022*



**Reason for Leaving the organisation from April 2022 to October 2022**

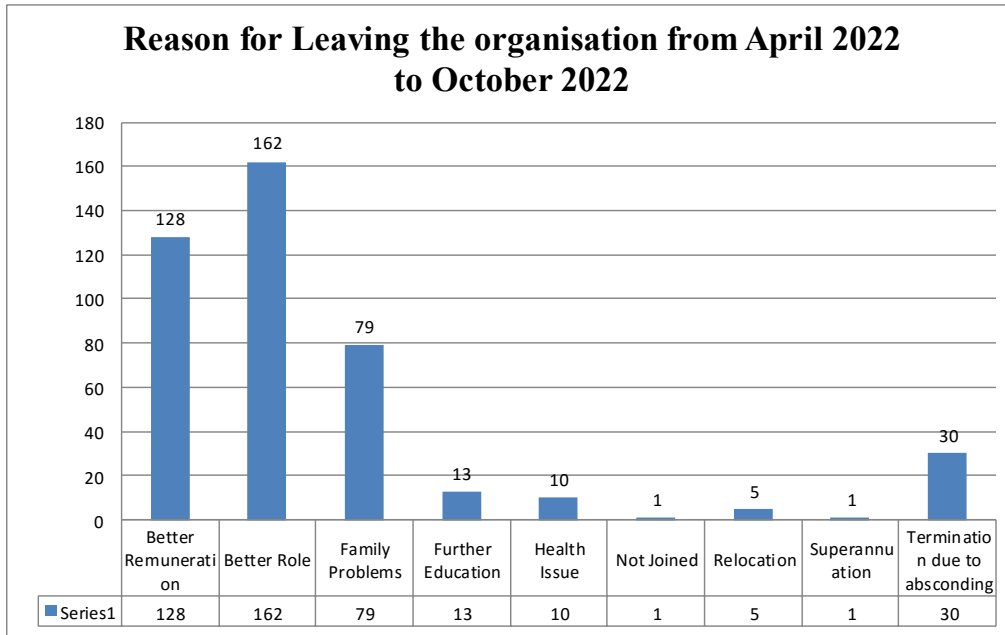| | Better Remuneration | Better Role | Family Problems | Further Education | Health Issue | Not Joined | Relocation | Superannuation | Termination due to absconding |
|---|---|---|---|---|---|---|---|---|---|
| Series1 | 128 | 162 | 79 | 13 | 10 | 1 | 5 | 1 | 30 |

*Figure 2: Reason for Leaving the Organization from April 2022 to October 2022*