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All Turnover Is Not Created Equal: Gaining Insight Into How Employee Departures Affect Organizational Units

Center for Advanced Human Resource Studies

All Turnover Is Not Created Equal: Gaining Insight Into How Employee Departures Affect Organizational Units

Abstract
[Excerpt] Key Findings:

- Traditional turnover ratios–the number of employees leaving versus the total number in a unit—may not accurately describe how employee departures affect business unit performance.
- Traditional measures of turnover focus primarily on the quantity of employee exits, but fail to measure important qualities of turnover events.
- Some turnover scenarios tend to be more damaging than others, such as if a unit loses proficient workers, loses workers all at once, gains relatively less proficient workers, or loses workers from core functions rather than peripheral ones.
- To effectively link turnover to performance, metrics should account for when employees leave and from which positions, and accurately reflect the capabilities of exiting, remaining, and entering employees.
- The authors propose a new measure of "capacity" that targets both the quantity and qualities of turnover, allowing practitioners to improve the information value of attrition-related metrics.

Keywords
employee turnover, human resources, measurements, performance

Comments

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Key Findings

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Topic: Finding New Meaning When Measuring Turnover

HR professionals, industry and market analysts, and management consultants have long looked to "turnover" numbers, which typically depict the number of workers leaving a unit versus the original number, as an indication of an organization's stability and performance.

Higher turnover has been held to destabilize organizational routines; slow organizational learning; and deplete knowledge, capabilities, and internal networking. Higher turnover rates also have been associated with lowered productivity, customer service, and profits (Batt 2002, Kacmar, Andrews, Van Rooy, Steilberg & Cerrone, 2006, Ton & Huckman 2008).

However, studies have not been able to link turnover rates consistently with performance outcomes. On their own, turnover numbers cannot sufficiently capture the dynamics of exactly what happens when employees leave, and how their departures and the arrival of newcomers affect an organization or unit.

Traditional methods focus on the quantity of departures, not the quality. The researchers in this study identified additional descriptors of turnover that qualify employee exits and replacements and that are crucial to predicting how the loss of leaving employees and the gain of new ones will affect a unit's performance.

The researchers focused on turnover dynamics in units within organizations (e.g., teams, groups, departments, stores), rather than across multiple organizations or industries.

The Study Questions

1. What are the critical characteristics of turnover that must be addressed to understand how it affects a unit?
2. How much difference does it make if employee exits are spread out over time, or occur en masse at specific times?
3. If one or a few positions are repeatedly vacated, does this affect the unit differently than if many positions are vacated only once each?
4. How does the loss of the skills, knowledge and networking of the exiting, remaining, and entering employees affect the unit?
5. Can a small turnover number cause catastrophic performance failure to a unit
6. When does turnover actually improve a unit's performance?

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A New Perspective on Turnover

Beyond the simple volume or number of leavers, the authors suggest that five crucial factors play into the turnover equation:

- the proficiencies (capabilities) of employees leaving the unit;
- the degree to which employee exits are dispersed over time;
- whether exits are spread over a number of positions or constrained to a few;
- the proficiencies of employees leaving the unit;
- the proficiencies of their replacements.

Further, certain circumstances relating to employee turnover will cause units greater difficulty:

- If the unit loses its most-proficient members, rather than novices;
- if turnover happens all at once, rather than sporadically;
- if turnover affects many positions, rather than a few;
- if the remaining employees are novice, rather than proficient;
- if the skills, knowledge, and networking capabilities of exiting employees are greater than those of the newcomers.

HR practitioners have traditionally taken the view that the greater the percentage of a unit's workforce that leaves and is replaced, the greater the loss of human capital and disruption to operations and learning, and thus the greater the detriment to performance. While quantity is a fundamental factor in any discussion of turnover, stating turnover as a simple ratio can obscure important traits of the underlying change in workforce makeup. For instance, two units might have identical turnover ratios, but one might experience a greater loss of human or social capital because it lost a large number of employees all at once, or because it lost veteran employees and gained mostly novices.

Turnover rates can even be misleading – for example, an organization with a high turnover rate might not actually experience any detriment, because of the timing and positioning of the departures. Or a low turnover rate might fail to bring needed attention to employee exits that threaten the organization's operations.

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In this study, the researchers sought to show that identical turnover ratios can imply vastly different changes to the makeup of a unit's workforce, and thus vastly different performance outcomes. They developed a "capacity index" that takes into account five factors crucial to accurately describing the nature of a unit's turnover, and thus predicting how turnover will affect its performance. The five factors include:

Leaver proficiencies. When they leave a unit, employees take with them human capital, capabilities that can be more or less generalized or specific to the organization, or social capital, beneficial capabilities formed within the unit as the result of employees' interactions. Simple turnover rates imply that all leavers are of equal value; but those with greater human or social capital, especially if that capital is specific to the organization and formed during the workers' tenure there, will cause a greater detriment to the unit when they leave (Dalton, Krackhardt & Porter 1981; Dess & Shaw 2001; Huckman & Pisano 2006).

Time dispersion. Departures that are spread out over time may be less damaging than those that are concentrated at certain points. This happens because, at any given time, the collective still has a relatively high level of total proficiency. If exits all happen at once, not only does the unit lose a large amount of proficiency, but the remaining workers must make up the difference until the newcomers are up to speed. In some cases, a mass exodus can be catastrophic: Heller Ehrman shuttered its doors after 15 of its top intellectual-properties attorneys left (Dinkenspiel 2008).

Positional distribution. A single position, or a relatively few positions, turning over repeatedly ("position restricted") will tend to be less costly to a unit than multiple positions turning over once ("position distributed"). In the former case, relative novices keep appearing and leaving, while a stable core of employees continues to provide good performance and helps train and socialize the newcomers. In the second case, however, the unit loses more members who are proficient. Unless the work is extremely standardized and requires no coordination or interdependence, position-distributed turnover tends to erode unit proficiency; the unit lacks sufficient proficient workers to help train the entering workers. [Other researchers have argued that position-distributed turnover in retail settings can lead to a cycle of failure, in which customers get less help from the less-proficient workforce, complain, and demotivate the employees, causing the proficient ones to continue exiting, leaving only mediocre workers to help the newcomers. (Schlesinger & Heskett 1991)]

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Remaining member proficiencies. Over time, a unit's members develop the capability to function well together due to good communications, internal performance assessment, and workload and task allocation. After a certain time, this capability reaches a maximum benefit and does not appreciably increase (Huckman and Pisano 2006). Turnover disrupts the development of this proficiency and forces the remaining workers to direct their efforts toward helping newcomers and compensating for their lack of proficiency. So, the proficiency of remaining members is relative to their tenure (up to the attainment of maximum capability) and the cumulative effects of previous shifts in workforce (downsizing, expansions, staffing reallocations), as well as the current turnover. The greater the buffering that remaining members provide to compensate for the loss of exiting workers, the less disruption the turnover will cause.

Proficiency of newcomers. New workers entering a unit typically bring general knowledge and capabilities, but not firm-specific human capital or social capital, which develop during on-the-job training. If the unit relies more on general than on specific human capital, and newcomers bring a high level of general human capital, the unit may actually benefit from the turnover, as remaining members can concentrate on developing firm-specific human and social capital (Abelson & Baysinger 1984).

By a similar token, if an abundant pool of qualified labor is not available, or if the unit is reliant on firm-specific knowledge and processes, then turnover is likely to have more negative effects. Remaining employees will likely have to spend a considerable amount of time simply bringing their new colleagues up to speed, leading to reduced group performance.

Capacity Index

The researchers have developed a capacity index that strives to capture these characteristics and better depict the actual proficiencies of a unit's workforce following turnover. It compares the actual levels of human and social capital deployed by the current workforce versus the maximum levels that are practically obtainable, and depicts the timing and distribution of exits and replacements. Implementing the capacity approach requires hire and separation dates, and estimations of time to proficiency for applicable positions. For more information on its calculation, contact John Hausknecht at jph42@cornell.edu.

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Takeaway

How can this study's capacity index help HR practitioners understand how employees' departures affect their units and the organization?

- Alongside turnover rates, which capture turnover quantity, practitioners could also calculate a capacity index to signal when departures substantially influence the organization's stock of human capital. Low values of the capacity index could signal managers to pay closer attention to specific units.
- From an analytics standpoint, capacity values could be linked to operational performance (e.g., customer satisfaction ratings, productivity metrics) to understand how human capital influences business performance.
- Traditional turnover rates contain substantial "noise" — they may seem "high" even though performance is likely unaffected — capacity index values may be more accurate because they account for the underlying factors that lead to performance disruption.
- Managers could use capacity indexes to compare units within the organization and understand where targeted HR interventions could have maximal impact.

Researchers

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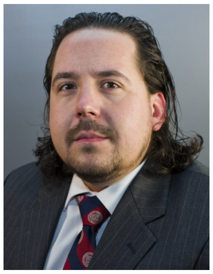

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For an in-depth discussion of this topic, see:
"When does employee turnover matter? Dynamic member configurations, productive capacity, and collective performance." *Organization Science* (forthcoming, 2013).

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