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An Employment Systems Approach to Turnover: Human Resources Practices, Quits, Dismissals, and Performance

Abstract

Key Findings

- Organizations using high-involvement work practices have lower rates of quits, dismissals, and total turnover, which in turn leads to higher rates of customer satisfaction.
- Long-term investments in employees—such as the use of internal promotions , high relative pay, pensions, and full-time employment—lead to lower rates of quits, dismissals, and total turnover.
- HR practices that emphasize short-term performance such as intensive performance monitoring and commission-based pay—lead to higher rates of quits, dismissals, and total turnover.

Keywords

turnover, retention, unemployment, HR practices, long term investments

Comments

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AN EMPLOYMENT SYSTEMS APPROACH TO TURNOVER: HUMAN RESOURCES PRACTICES, QUILTS, DISMISSALS, AND PERFORMANCE

Key Findings

- Organizations using high-involvement work practices have lower rates of quits, dismissals, and total turnover, which in turn leads to higher rates of customer satisfaction.
- Long-term investments in employees—such as the use of internal promotions, high relative pay, pensions, and full-time employment—lead to lower rates of quits, dismissals, and total turnover
- HR practices that emphasize short-term performance such as intensive performance monitoring and commission-based pay—lead to higher rates of quits, dismissals, and total turnover



Topic

Turnover is among the most important employment relations outcomes for both employees and organizations. Employees face the uncertainties of job search and potential unemployment. Organizations confront uncertain costs and benefits: The costs of operational disruption and replacement of human capital versus the benefits of lower-cost labor, or fresh skills to compete on innovation. These uncertainties raise the question of which management practices increase turnover; how much turnover is harmful or beneficial, and under what conditions and why? This paper addresses these questions.

Employee turnover falls into two categories: “voluntary” and “involuntary”. Voluntary turnover occurs when employees quit their jobs, typically after weighing their current job against alternate prospects. Involuntary turnover occurs when employers dismiss employees – perhaps due to hiring errors, changing skill requirements of jobs, or poor performance due to other factors. . Previous research has conceptualized quits and dismissals as distinct from one another, with each having unique causes as well as consequences (Dalton & Todor, 1979; Donaghue & Castle, 2006; Knight & Latreille, 2000; Shaw, Delery, Jenkins, & Gupta, 1998).

In this study the researchers took an alternate perspective and conceptualized quits and dismissals as related phenomena brought about by the type of employment -- or HR system -- the employer utilizes. They argue that employers often view the level of turnover as a ‘strategic variable’ – one of many policies that may be used to achieve performance objectives. Jack Welch at GE, for example, built a ‘performance culture’ through an explicit policy of dismissing 10 percent of employees each year. This study examines how the level of quits and dismissals is affected by three dimensions of HR systems: work organization, commitment-inducing long-term incentives, and performance-enhancing short-term incentives. It then tests whether these dimensions of HR systems, as well as turnover, affect customer satisfaction levels.

Study Questions

- Do quits and dismissals have similar antecedents?
- How does the organization of work – the extent of employee discretion and group collaboration – affect quit and dismissal rates?
- To what extent do long-term investments in employees lead to lower quit and dismissal rates?
- How do short-term performance-enhancing practices affect quit and dismissal rates?
- How do high rates of quits and dismissals affect operational performance?

Results

- Employers that made greater use of high-involvement work practices showed lower rates of quits, dismissals, and total turnover, which in turn led to higher rates of customer satisfaction
- Organizations that invested more in their workforce through long-term incentives (internal promotion opportunities, high relative pay, pensions, and full-time jobs) showed lower rates of quits, dismissals, and total turnover.
- Organizations that made greater use of short-term performance pressures (intensive performance monitoring and commission-based pay) had higher rates of quits, dismissals, and total turnover
- In all three types of HR practices—work organization, commitment-inducing long-term incentives, and performance-enhancing short-term incentives—the effect that each practice had on turnover was the same for both quits and dismissals, supporting the idea that quits and dismissals have similar causes within organizations
- These relationships held for organizations over a five year period, meaning that these results are fairly stable over time
- Higher quits and total turnover rates led to lower customer satisfaction rates over time.

Work Organization

This study shows that the way work is organized can affect turnover rates. Low-involvement work organizations display “Taylorized” work design, where jobs are narrowly defined and employees have little-to-no say in their work. This study found dismissals to be higher in low-involvement work organizations. This may occur because Taylorized work systems allow employees to be more easily monitored and poor performance detected; or because these systems demotivate employees, leading them to perform more poorly.

High-involvement work organizations are characterized by more employee involvement and group problem solving. High-involvement systems provide a structure of cooperation and mutual learning in which employees who run into problems can obtain help from

coworkers. Additionally, high-involvement work organizations create higher employee satisfaction, motivation, and commitment, and fewer quits (Hackman & Oldham, 1980). The results of this study showed that employers that made greater use of high-involvement work organization had significantly lower rates of quits, dismissals, and total turnover. Additionally, high-involvement work systems improved operational performance, as measured through customer service.

Investment and Inducement Strategies

Employers that invested more in their employees and offered long-term incentives had significantly lower rates of quits, dismissals, and total turnover. These results have three main drivers. First, long-term incentives, such as higher relative pay, benefits, and internal promotion opportunities encourage employees to stay with an organization. Second, these incentives are more likely to motivate employees to avoid poor performance that might lead to dismissal. Last, firms are more hesitant to dismiss a worker who they have invested in long term.

Performance-Enhancing Expectations

Short-term incentives are performance-enhancing practices that may include behavior-oriented measures (electronic monitoring, performance appraisals) and outcome-oriented measures, such as “pay for performance”. Results suggest that workplaces featuring higher short-term performance pressures, intensive performance monitoring, and commission-based pay had significantly higher rates of quits, dismissals, and total turnover. Employees typically view ongoing electronic monitoring as an indication of lack of trust, which may lead even good performers to quit. Unlike some forms of pay-for-performance, commission-based pay puts pay at risk. Because employees are often risk-averse – particularly those whose pay is modest – commission-based pay is often viewed negatively as current and future income is uncertain.

Organizational Performance Outcomes

Past research has speculated that quits have a negative impact on performance because better employees are more likely to leave than are ‘poor performers’. By contrast, dismissals are expected to have a positive impact on performance because the lower performing workers are removed (Koys, 2001:111). Contrary to prior research, this study found that both quits and dismissals have a negative impact on performance outcomes, as measured by customer service evaluations. These results support the theory that both quits and dismissals disrupt organizational operations by incurring costs to replace the worker, fracturing stable work relationships, and decreasing trust and collaboration with the workplace (Leana & Van Buren, 1999).

Data Source

Data was taken from two nationally random surveys of customer service centers in 1998 and 2003. The 1998 data came from call centers in the telecommunications industry (call center workforce size: mean = 107, median=24). Data from 2003 was collected from call centers within all industries (call center workforce size: mean=167, median=73). The surveys were completed by the senior manager at each center and were conducted by a university-based survey research institute.

Takeaways

- Contrary to previous arguments, quits and dismissals have similar antecedents, suggesting that HR systems should be monitored on how they influence both quits and dismissals, instead of one or the other.
- Organizations focusing on long-term customer service may want to focus on low overall turnover in order to offer high-quality services to their customers. This lower turnover could be achieved through investing in high-involvement work organization and long-term incentives and downplaying intensive performance monitoring.
- Organizations focusing on high-volume, low-cost interactions with a goal of short-term sales may consider a Taylorized approach to work with the understanding that high turnover is a likely consequence.

Researchers

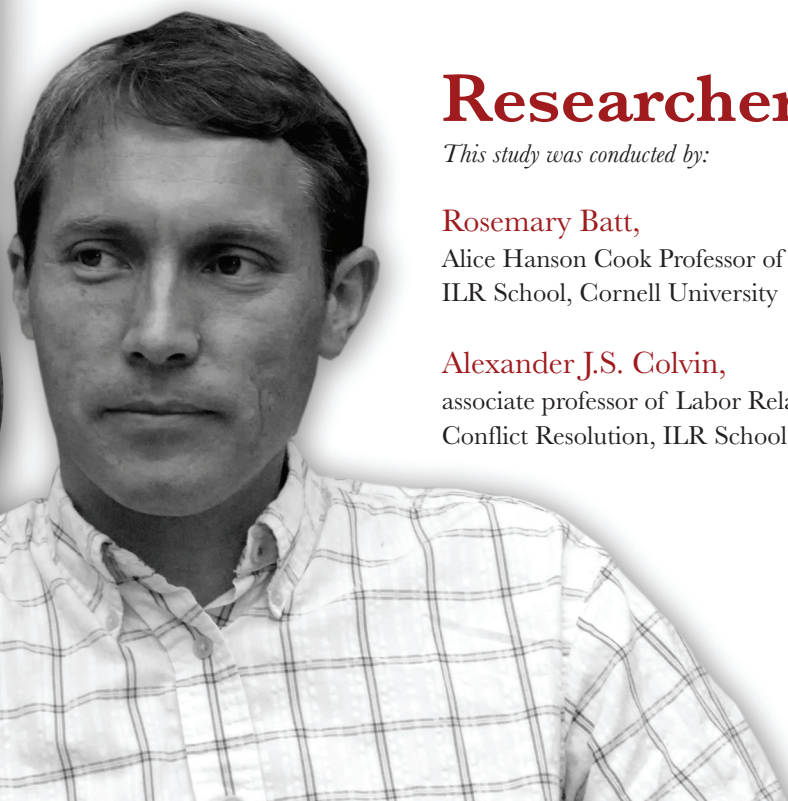
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