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Correlation Between Turnover and Organizational Performance: An Exploratory Study

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Correlation Between Turnover and Organizational Performance: An Exploratory Study

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Abstract: Survey methodology was utilized to measure the effects of turnover on civilian employers of enlisted personnel in the National Guard and Reserve, where turnover is operationalized as deployment of a National Guard or Reserve employee. The sample was randomly selected from the Louisiana Guard and Reserve database. The results indicate that respondents perceived that as a result of deployment there is a positive correlation between the predictors level of organizational output, change in the number of customers served, and the number of team efforts with the criterion quality of the organization's output. Conversely, when the predictor amount of work effort was included in the stepwise regression, respondents perceived that it was negatively correlated with the quality of the organization's output.

INTRODUCTION

Literature on the resource-based view of the firm argues that turnover of employees adversely affects an organization's resource mix by removing the resource from the organization (Barney, 1991; Penrose 1959). Understanding how turnover affects the operations of organizations will increase awareness of the effects of labor stability on organizations. Targeting a specific turnover phenomenon is consistent with Abelson and Baysinger's (1984) suggestion that "...statistically significant deviations from the optimum rate of turnover..." should be researched (p. 340).

Extant literature has focused on turnover from the employee's perspective, rather than effects on the organization (Glebbeck & Bax, 2004; Grinyer & Singleton, 2000; Hansen, 2000; Hutchinson et al., 1997; Staw, 1980; Steers & Rhodes, 1978). This is problematic for two reasons: first, this approach restricts research to describing factors, which cause turnover, such as behavioral concerns, without expanding research to explore the effects of turnover on the criterion, organizational performance. Unless researchers explore correlations between the predictor turnover to the variance in the criterion organizational performance, they will be unable to explain the relationship between turnover and performance (Glebbeck & Bax, 2004).

Second, the inability to explain the relationship between turnover and organizational performance confounds researchers' attempts to construct a theory to explain the effects of turnover on organizational performance (Morrow & McElroy, 2007). Turnover is defined as an intra-organizational and extra-organizational employee movement which occurs due to downsizing, termination of employment, extensive absenteeism and transfers. Such actions affect organizational operations in a material fashion (Abelson & Baysinger, 1984; Droege & Hoobler, 2003; Hom, Katerberg, Hulin, 1979; Hopkins & Weathington, 2006; Ruby, 2002).

Historically, a barrier to the study of organizational turnover involved an inability to separate an organization's functional or optimum turnover from other statistically significant forms of turnover, which adversely affected an organization's operations (Abelson & Baysinger, 1984). Thus, differentiating between functional and dysfunctional turnover would allow researchers a measurement of the relationship between the predictor turnover and the criterion organizational performance. In this study the effects of dysfunctional turnover on the civilian employer are operationalized as the deployment or activation of a Reserve or National Guard employee. The dysfunctional natures of deployment and activation are due to the fact that the timing of the deployment cannot be predicted, the length of deployment is unknown, the

employer cannot negotiate the terms of the deployment, and upon return, the soldier's employment status must be as if he or she never left.

REVIEW OF LITERATURE

Effect of Turnover on the Predictor Level of Organizational Output

Loss of employee assets may have a deleterious effect on the organization's output (Bhavani & Tendulkar, 2001; Hutchinson et al., 1997). Moreover, Morrow and McElroy (2007) found a negative correlation between turnover and bank output operationalized as profits ($r = -.61$, $p \leq .01$), turnover and customer satisfaction ($r = -.64$, $p \leq .01$), and a positive correlation between turnover and costs ($r = .50$, $p \leq .01$, $N = 31$). These findings support the tenet that human resources are an integral part of the resource mix and, when any resource is removed from the mix, a deleterious effect on organizational output and quality, as measured by customer satisfaction, results.

Effect of Turnover on the Predictor Change in the Number of Clients/Customers Served

One negative effect of turnover may include a reduction in customer satisfaction (Anderson, Fornell, Mazvancheryl, 2004; Gruca & Rego, 2005; Koys, 2001; Lapre & Tsikriktsis, 2006; Mittal, Anderson, Sayrak, & Tadikamalla, 2005; Rust & Chung, 2006). Moreover, Luo and Bhattacharya (2006) found a positive correlation between employee innovation and customer satisfaction. In addition, there is a positive correlation between customer satisfaction and shareholder value, as measured by an increase in shareholder equity resulting from capital appreciation (Anderson et al., 2004; Mittal et al., 2005). Finally, the customer's perception of the organization is derived from his interaction with the organization's employees. If the customer experience is compromised due to dysfunctional turnover this may have a deleterious effect on customer retention.

Effect of Turnover on the Predictor Level of Effort

Loss of a co-worker or unwanted job expansion, resulting from turnover, may negatively affect employee behavior and possibly lead to a reduction in work performance (Ford, Quinones, Sego, & Sorra, 1992; Rouiller & Goldstein, 1993; Tracey, Tannenbaum, & Kavanagh, 1995). Resentment by employees as a result of an increase in workload due to turnover may lead to negative types of behavior, such as increased absenteeism, decreased job performance, and an overall organizational climate not conducive to supporting the organization's mission (Rhodes, 1990).

Dissatisfied employees may lead to a reduction in job performance, which is due in part to the correlation between the behavior of the employee and job performance (Kopelman et al., 1990). In addition, Hom et al. (1979) found that it is common for employees with low morale to exhibit "...unfavorable behaviors towards an organization ..." (p. 280). Moreover, Rosen, Levy, and Hall (2006) found that morale was positively related to performance outcomes ($B = .45$, $p < .05$). Thus, the Hom et al. and the Rosen, Levy, and Hall studies indicate that there is a positive relationship between employee morale and organizational performance.

Effect of Turnover on the Number of Team Efforts

Respondents perceived that an association existed between the predictor number of team efforts and the criterion quality of output (Hisey, 2012). Moreover, a study performed by Fazzari and Mosca (2009) supports Hisey's findings. In their 2009 study Fazzari and Mosca state that an employer compensated team members over their regular pay for team participation. The compensation metrics for the team members

were based on quality, productivity, customer satisfaction, and attendance. Finally, Amundson et al., (2004) found that turnover has a deleterious effect on team performance which may affect organizational performance as well.

Additionally, Cantarello, Filippini, & Nosella (2012) state that team work and human resource practices have a positive impact on product quality. Further, team work, job satisfaction, and employee empowerment have a positive effect on customer satisfaction (Cantarello, Filippini, & Nosella, 2012; Vermeeren et al., 2014; Yaacob & Abas, 2011).

Thus, teams along with human resource practices have a positive impact on product and service quality. Further, teams in addition to job satisfaction and empowerment have a positive impact on customer satisfaction. Employers are willing to pay team members a premium to reduce turnover and improve product quality and customer satisfaction. Finally, turnover has a deleterious effect on team performance. Therefore, turnover moderates team performance which in turn may have a negative influence on product quality and customer satisfaction.

Summary

Dysfunctional turnover reduces employee morale which has a negative effect on organizational output. Moreover, there is a positive relationship between internal customer satisfaction and customer service quality (Minjoon & Shaohan, 2010). In addition, increased level of effort diminishes employee morale which has a moderating effect on organizational performance. Conversely, Vermeeren, et al (2014) found a positive relationship between job satisfaction and higher organizational performance. Finally, team work has a mediating effect on the quality of the organization's output.

Extant research on the effects of turnover has led many researchers to call for more studies on the effects of turnover on organizational performance and to call for further research on the strategies employed by organizations to counter the effects of turnover (Hutchinson et al., 1997; Staw, 1980). Moreover, researchers have called for the creation of a theory to explain the effect of turnover on organizational operations (Abelson & Baysinger, 1984; Glebbeek & Bax, 2004; Grinyer & Singleton, 2000; Hansen, 2000; Hutchinson et al., 1997; Morrow & McElroy, 2007; Staw, 1980; Steers & Rhodes, 1978).

PURPOSE OF THE STUDY

The purpose of this study is to determine if, as a result of dysfunctional turnover a correlation exists between the predictors level of organizational output, change in the number of customers served, amount of work effort and the number of team efforts with the criterion quality of the organization's output as perceived by the respondents.

OBJECTIVES AND METHODOLOGY

Research Objective One

Research Objective One is to describe employers on number of employees supervised and type of industry in which the respondent organization participates.

Research Objective Two

Objective Two is to determine if there is a correlation between predictors affected by turnover and the criterion organizational performance where turnover is operationalized as deployment of a Reserve or National Guard employee. The predictors are change in the level of organizational output, changes in the number of customers served by the organization, change in the level of effort required to produce the

organization's output, and change in the number of team efforts. The criterion is a perceived change in the overall quality of the organizations' output (Anderson et al., 2004; Lapre & Tsikriktsis, 2006; Mittal et al., 2005; Morrow & McElroy, 2007). The respondent will be asked to compare the pre-turnover to post-turnover change in the measures listed above for his organization, using a five point Likert-type scale that ranges from (1) "substantial decrease", (2) "some decrease", (3) "no change", (4) "some increase, to (5) "substantial increase."

Research Design

This study applied survey methodology to describe the effects of turnover operationalized as deployment of Reserve and National Guard employees on the operations of a civilian organization. The survey was administered during May 2009 to employers of Reserve and National Guard employees in the state of Louisiana who have signed a statement of support with the Employer Support of the Guard and Reserve (ESGR).

Procedures

The target and accessible population for this study was comprised of 1109 employers of reservists in the state of Louisiana who have pledged support for the ESGR, ESGR (2006). The primary sampling unit was the employer organization, and the secondary sampling unit was a respondent who had knowledge regarding the effect of an employee's absence on the organizations' operations. The respondent's position in the organization was determined by phone or email prior to mailing the questionnaire. Sample size calculations were derived from Cochran's sample size formula (Cochran, 1977).

The instrument was developed from the researcher's experience, the review of literature, the research objectives, and the pilot study. Finally, the researcher created the survey instrument for this study after a thorough search of the literature revealed that existing instruments would not be valid for this study.

The instrument scored a Content Validity Index (CVI) of .81 and a Factorial Validity Index (FVI) of .91. The CVI indicated that there was 81% agreement among the content experts on the content validity of the instrument. The FVI indicated that there was 91% agreement amongst the content experts on the correlation between the objectives of the study and the questions in the instrument.

Data collected from the pilot study indicated that the instrument appeared to be reliable for the study, based on a Cronbach *alpha* of 0.733, which was in the range of acceptance established *à priori* for this exploratory study. Based on the results of the pilot study the instrument remained unchanged for data collection, thus the responses for the pilot study are incorporated into the data collected for the study.

Data collection began on March 9, 2009, and culminated on May 11, 2009. Including the data gathered during the pilot study, there was a total of 534 contacts attempted, which led to 206 agreements to participate in the survey, which in turn provided 125 responses; 117 of the 125 responses were usable for a response rate of 56.8 %. Finally, 21.4% of the responses were gathered from the third mailing. There was no statistically significant difference between early and late respondents ($p \leq 0.05$).

The predictors used in the regression equation were chosen using principal component analysis (PCA) utilizing varimax as the rotation method (Hisey, 2012). The Kaiser-Meyer-Olkin Measure of sampling adequacy (KMO) was a .681 after removal of all measures with a sampling adequacy value below .500. Eighteen variables from the questionnaire using a Likert-type scale were analyzed with 117 usable responses providing over six cases per variable. Utilizing these criteria 13 variables remained; five had extraction values greater than 0.5, four of the values ranged between 0.4 and 0.5, and the remaining four

ranged from 0.185 to 0.281. Finally, there were 51 (65 %) non-redundant residuals with absolute values greater than 0.05. This may be a result of the multi-dimensionality of the instrument.

Of the 13 remaining variables from the PCA, four were chosen as predictors for the regression analysis from the review of literature and the criterion, quality of the organization's output was chosen from the remaining variables as the measure of organizational performance. Stepwise Multiple Regression chosen as the method to build the regression equation was selected by the researcher due to the exploratory nature of the study and due to the discrepancy in the literature over whether quality of the organization's output or customer satisfaction should be a predictor or a criterion in the regression equation (Minjoon & Shaohan, 2010). Finally, the researcher's rationale for choosing the predictors and the criterion are based on the perception of the respondents.

FINDINGS

Research Objective One

The range for the number of employees supervised was 5199 with a minimum of 1, a maximum of 5200, and a median of 35. The mean for the number of employees supervised was 273 ($SD = 697.24$). Of the respondents, 25% supervised 10 employees or less, 50% supervised 37 employees or less, and 75% supervised 143 employees or less.

The majority of respondents, 68 (58.1 %) indicated that their organization was involved in some type of service industry; the next highest number of respondents, 23 (19.7 %), indicated that their organization was a professional firm; 11 (9.4 %) of the respondents indicated that their organization was involved in construction, and 9 (7.7 %) of the respondent organizations were involved with transportation. Finally, 2 (1.7 %) of the respondent organizations were involved in sales, and one (0.9 %) in farming. Three organizations (2.6 %) did not indicate an industry type.

Research Objective Two

Table 1 illustrates the question from the instrument, its associated variable name, the standard deviation, sample size, and mean for the responses. The criterion is *custsat6*. The remaining variables are the predictors. None of the variables deviated more than one standard deviation from the grand mean of 3.04. A comparison of the means in Table 1 indicates that both the level of team efforts and the level of effort to produce the organization's output are above the grand mean of 3.04. The level of clients/customers served remained basically unchanged and overall quality of the organization's output and the level of output were below the grand mean.

Based on the results of the Q-Q plot, two responses were removed from the regression analysis. The Q-Q plot provides a graphic representation of the observed, versus expected normal values to determine if the data are normally distributed. In addition, the frequencies for the regression standard residual were normally distributed around zero, indicating that observed values for the criterion (*custsat6*) were evenly distributed around the regression curve.

As indicated in Table 2, the correlation between the criterion quality of the organization's output and the predictors level of organizational output, the change in the number of customers served, the level of effort required to produce the output, and the number of team efforts, is significant ($R^2 = .512$, $F = 29.14$, $p \leq 0.001$) with a moderate relationship (Davis, 1971). The difference between R^2 and the adjusted R^2 is 0.017. This indicates that the adjusted R^2 accounts for 1.7% less of the variance in the criterion quality of the organization's output. However, this relationship is still moderate. Finally, the Durbin-Watson statistic indicates that the test for independent observations has been met ($p \leq 0.01$).

TABLE 1. DISTRIBUTION OF RESPONSES

Question from the Instrument	Variable Name	SD	N	Mean
How much did the number of clients/customers served by your organization change?	Custsat4	.46	116	3.00
How much did the overall quality of the organization's output change? (Criterion)	Custsat6	.56	116	2.81
How much did the number of team efforts change?	Empbehav6	.64	116	3.12
How much did the level of output change?	Orgoutput1	.66	117	2.90
How much did the level of effort required to produce the organizations' output change?	Orgoutput2	.61	117	3.38
Grand Mean				3.04

TABLE 2. RESULTS FROM THE STEPWISE REGRESSION ANALYSIS

R	R Square	Adjusted R Square	Std. Error of the Estimate	R Square Change	F Change	df1	df2	Sig. F Change	Durbin-Watson
.716	.512	.495	.393	.031	7.042	5	111	.009	2.148

Predictors: (Constant), orgoutput1, custsat4, orgoutput2, empbehav6

Criterion: custsat6

The *t* test results in Table 3 indicate that all of the predictors are significant ($p \leq 0.05$). The tolerance values for each of the predictors are close to one, with the lowest tolerance value of 0.746 for the predictor change in the level of output (Orgoutput1). Thus, none of the predictors appears to be linearly related. In addition, the variance inflation factor (VIF) indicates that multi-collinearity does not appear to have a significant effect on the regression analysis results. Further, the predictor level of effort required to produce the organization's output (orgoutput2) has a negative relationship in the presence of the remaining predictors, indicating that as level of effort increases, quality of output decreases. The remaining predictors are positively correlated with the criterion.

TABLE 3. CRITICAL ANALYSIS OF THE STEPWISE REGRESSION EQUATION

Model	Unstandardized Coefficients		Standardized Coefficients		<i>t</i>	Sig.	95% Confidence Interval for B		Tolerance	VIF
	<i>B</i>	Std. Error	Beta				Lower Bound	Upper Bound		
(Constant)	1.10	.348			3.16	.002	.409	1.788		
orgoutput1	.39	.07	.46		5.94	.000	.258	.516	.746	1.340
custsat4	.24	.09	.20		2.65	.009	.061	.423	.773	1.293
orgoutput2	-.22	.06	-.24		-3.61	.000	-.341	-.099	.956	1.046
empbehav6	.20	.06	.23		3.31	.001	.079	.317	.944	1.059

a. Criterion: custsat6

CONCLUSIONS

Conclusion One

The majority of the respondents were employed by service organizations. The second largest number of respondents reported that they were employed in management or in a professional organization. The range for the number of employees supervised was 1 to 5200, the median was 35. The mean for the number of employees supervised was 273.

Conclusion Two

Based on the responses, a perceived decrease in the level of output as a result of deployment is correlated with a perceived decrease in the quality of the organization's output. In this case, respondents perceive that a reduction in output is correlated with diminished product or service quality. In addition, the means for both the reported output measures and the reported quality measures are below the grand mean.

Respondents also perceived that a relatively stable number of customers served as a result of deployment was positively correlated with the quality of the organization's output. However, the mean for the number of customers served remained basically unchanged, while the mean for the quality of the organization's output was below the grand mean. This seems counter-intuitive. One would expect that if the number of customers remained constant that the perceived quality of the organization's output should also remain constant.

However, one possible explanation for the lack of change in the number of customers served as opposed to a decrease in customers served is that the loss of customers is perceived to occur slowly. For example, long term contracts, purchase orders with 90 day terms, and established supplier – customer relationships all require time to terminate. This creates a time delay between the moments the customer is adversely affected by a supplier's product or service to the time that the respondent perceives the effect. Moreover, there is an additional delay while the respondent determines the connection between the static customer base and why market share is not increasing. As a result of the time delay, it is difficult for the respondent to connect a variance, if any, in the number of customers served with the quality of the organization's output. Finally, these findings are consistent with earlier findings on the effects of turnover on organizational performance (Ford, Quinones, Sego, & Sorra, 1992; Rouiller & Goldstein, 1993; Tracey, Tannenbaum, & Kavanagh, 1995).

Conversely, an increase in work effort was perceived to be correlated with a decrease in product or service quality. These findings are consistent with the descriptive measures in that the mean response for level of work effort was above the grand mean, while the mean for the level of quality was below the grand mean. One possible explanation for this finding is that respondents perceived that additional work effort does not improve product or service quality.

However, the use of teams is positively correlated with the quality of the organization's output. The conclusions from this study are that a perceived increase in team efforts as a result of deployment is positively correlated with the quality of the organization's output. However, the mean for the responses for the quality of the organization's output was below the grand mean, while the mean for team efforts was greater than the grand mean. One possible explanation is that the team intervention moderated the adverse effects that deployment was perceived to have on the quality of the organization's output. Thus, it is possible that if the organization had not incorporated the use of teams to combat the perceived negative effects that deployment had on the quality of the organization's output, the effects of activation on quality would have been worse. These findings are consistent with current literature on the effects of teams on product quality and customer service (Cantarello, Filippini, & Nosella, 2012; Yaacob & Abas, 2011).

Finally, the selection of the predictors and the criterion are based on the researcher's experience, the principle component analysis, and the review of literature. Based on the responses from the questionnaire, respondents perceived that output, number of customers served, work efforts, and team work were the precursors to the quality of the organizations' output.

The sequence of events from the perception of the respondent is;

1. the respondent produces a set amount of products or delivers a service which meets or exceeds the customer's requirements
2. the customer receives the defective product or service
3. the customer reduces or suspends future orders for the product or service, which reduces the output of the respondent's organization (Orgoutput1). This is the first point at which the respondent first perceives a problem
4. the respondent perceives that if one customer suspends its order then more customers will suspend their orders, thus market share will fail to grow (Custsat4)
5. the initial programmed response by the respondent to address the problem is to increase the level of effort (Orgoutput2) The rationale for this is that this response has worked for the respondent in the past or this is the first response that the respondent can take autonomously
6. after increased work effort, the respondent chooses team work as the next most viable response choice on the questionnaire for problem resolution (Empbehav6)
7. based on the answer choices provided in the questionnaire and the experience of the respondent, the respondent perceives that the sequence of events is consistent with a quality problem (Custsat6)
8. all of these events culminate in an increased attention to quality perceived by the respondent to be the result of a decrease in output and a stagnant customer base, resulting in an increase in work effort and the use of teams in order to improve product and service quality.

IMPLICATIONS AND RECOMMENDATIONS

Understanding the effects of turnover on organizational operations will assist practitioners in the implementation of interventions to enable organizations to adapt to the loss of key personnel. For example, the use of teams is perceived by respondents to be an effective means to address poor product and service quality as opposed to increased effort. By emphasizing team work over increased employee work load, management may be perceived as being more behaviorally oriented as opposed to task oriented in its decision making. Thus, the use of teams may be perceived by the employee as empowering, particularly if management incorporates teams into the established organizational structure which may possibly increase employee morale and motivation.

FUTURE STUDIES

Future studies should seek to create a conceptual model to describe the relationship between dysfunctional turnover and the organization's capacity to adapt. The purpose of the model should be to provide a template for industry leaders to map out how dysfunctional turnover might potentially affect their organization. Finally, the model should offer guidance on various strategies that may be employed by the organization to counter the effects of dysfunctional turnover on the organization's operations.

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