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A Theoretical Model on the Effects of Voluntary Turnover on Organizational Performance

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A Theoretical Model on the Effects of Voluntary Turnover on Organizational Performance

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Jude Bumgardner, Louisiana State University

Abstract: This paper presents a two-fold theoretical model to explain the effects of voluntary turnover on organizational performance. First, we use the Phase Component to determine whether an organization is over or under staffed, or whether an organization utilizes its human resources optimally. Next, we use the Performance Component to describe how antecedents, organizational performance, and organizational phase affect an organization's ability to compete in the market place.

PURPOSE OF THE STUDY

The purpose of this paper is to create a theoretical model to examine the effects of voluntary turnover on organizational performance. Voluntary turnover continues to be a difficulty for businesses in the 2000's, as demonstrated by Morrow and McElroy. In their 2007 study, Morrow and McElroy investigated voluntary turnover as opposed to other forms of turnover, because voluntary turnover had the most dysfunctional effect on organizational performance. Therefore, this study attempts to describe through the use of a theoretical model how voluntary turnover affects an organization's ability to operate.

The Resource Based View (RBV) offers one theory to describe the effects on an organization of losing an asset (Barney, 1991). The RBV describes not only the effects of asset loss on the organization's performance, but also the effects of asset loss on relationships among assets. In addition, the RBV explains the temporal effects of voluntary turnover on organizational performance. Importantly, resources and their interrelations are time-specific.

Thus, this study also highlights the effect of losing a human resource (HR) within the context of the RBV. Burt (1992), Hitt et al. (2003), and Penrose (1959) maintain that HR and the relationships between the organization's resources are inimitable and valuable. Further, scant research on voluntary turnover has led researchers to call for more studies on the effects of turnover on organizational performance (Hutchinson, Villalobos, & Beruvides, 1997; Staw, 1980).

The dual-component structure of this study operates as follows: (1) The Phase Component describes the relationship between an organization's performance and the duration and/or frequency of voluntary turnover. (2) The Performance Component describes the effect that voluntary turnover has on that organization's capacity to acquire resources, depending upon which phase the organization is in.

PHASE COMPONENT

The Phase Component (Figure 1) depicts potential organizational phases, depending upon how voluntary turnover impacts the organization. This component incorporates earlier work performed by Abelson and Baysinger (1984) on the effects of turnover on an organization's performance (p. 334). The Phase Component used in this study, however, differs from the Abelson and Baysinger (1984) model in that it targets voluntary turnover. Voluntary turnover, or resignation, is distinct from other measures of labor instability in that the employer has little control over voluntary turnover. Abelson and Baysinger (1984) maintain that future research on turnover should focus not on the optimum rate of turnover, but rather on statistically significant deviations from turnover. Since the data on turnover indicates that voluntary turnover is a deviation from the optimum rate of turnover, the study of voluntary turnover is consistent

with the call for further research. Therefore, the Phase Component draws from earlier work on the effects of voluntary turnover on organizational performance.

In addition, the Phase Component plots organizational performance relative to voluntary turnover. Adding to the earlier work performed by Abelson and Baysinger (1984), the frequency and length of voluntary turnover is charted against organizational performance. Figure 1 below shows that, in each of the four phases displayed, there is variation in the level of performance exhibited when met with an increase of voluntary turnover. Phase II indicates that a small increase in the performance of the organization will occur with an increase in voluntary turnover. Phase I indicates that a small decrease in organizational performance may be expected with an increase in voluntary turnover. Phase IV indicates that a large decrease in performance will occur with an increase in voluntary turnover. Finally, Phase III indicates that a large increase in performance will occur with an increase in voluntary turnover.

An organization in either Phases, I or II, is near equilibrium in respect to resources and the demands placed on the resources. Thus, an organization in either phase I or II is under little stress indicating that few if any adaptations are required when an employee resigns.

Conversely, an organization in Phase IV will be adversely affected by the loss of the employee. This result is depicted by the reduction in organizational performance coupled with an increase in voluntary turnover. Theoretically, an organization in Phase IV must replace the resource (i.e., hire part time help, hire temporary help, or hire a full-time replacement), or employ new or additional technology (i.e., machinery or automation) to replace the lost employee to avert adverse effects on organizational performance. In Phase IV, loss of the employee is detrimental to the performance of the organization.

Finally, Phase III indicates that an organization may experience an improvement in performance due to the voluntary turnover of an employee. An organization in Phase III should reexamine hiring policies to determine why the loss of an employee improved organizational performance. Such an examination may reveal that the organization was over-staffed or top-heavy, perhaps causing a bottle-neck in communication.

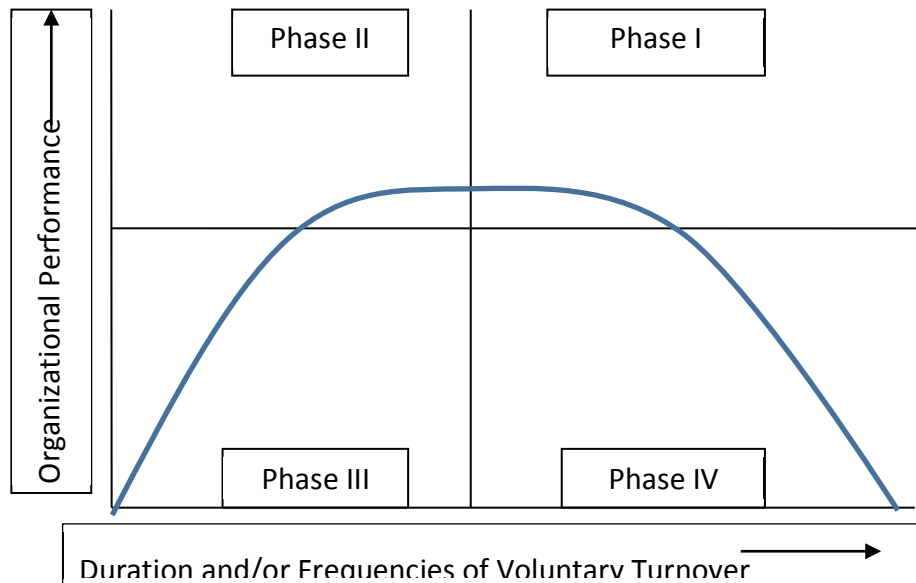
PERFORMANCE COMPONENT

Voluntary turnover may lead to a reduction in performance due to the loss of personnel. However, the effect will not be the same for all employers. The antecedents and performance factors that affect the organization will combine to mediate or moderate the effect that voluntary turnover has on organizational performance.

Figure 2 depicts the Performance Component. This component reflects organizational, employee, and environmental factors that affect the organization. These factors are antecedents that exist prior to voluntary turnover of the employee. Examples of antecedents are the employees' position in the organization and how easily the employee may be replaced.

In addition, environmental factors such as the frequency and length of the turnover may affect how a firm responds to the loss of HR. Further, the market in which the employer competes may affect the adaptive response of the employer. A firm that competes in markets where there is a high demand for employees with specialized talents, such as technical skills and managerial talent are potentially the most adversely affected by voluntary turnover.

**FIGURE 1, PHASE COMPONENT
THE EFFECTS OF VOLUNTARY TURNOVER ON ORGANIZATIONAL
PERFORMANCE**



CONSTRUCTS USED IN THE PERFORMANCE COMPONENT

The Performance Component (Figure 2) consists of three parts. First, Antecedents affect the organization's capacity to adapt to the loss of an employee, which is determined by the value of the employee, whether the organization can replace the employee, and how adaptable the organization is. Second, is the Organizational Performance section of the component which describes the phase of the organization. Third, the component culminates in the Resource Based View of the firm.

ANTECEDENTS

1. Internal environment – Internal environment refers to the social setting in an organization that affects employee morale. Extant literature proposes that there is a positive association between employee morale and organizational performance (Hom, Katerberg, Hulin, 1979; Kopelman, Brief, & Guzzo, 1990; Rosen, Levy, & Hall, 2006).
2. Employee's Position in the Organization – The employee's position in the organization pertains to social and human capital. For example, position in the organization might involve the employee's effect on communications within the organization. In other words, is the employee a gatekeeper for an executive officer within the organization? In addition, does the employee have technical knowledge that no one else in the organization has? Does the employee have a relationship with a customer or customer base that cannot be replaced by another individual? Finally, does the employee have specific skills that are not easily replicated by the organization (i.e., pilot, surgeon, special licenses, or mechanical abilities)?

3. External Environment– External environment refers to the effects of the labor market on the firm during a voluntary turnover event. If the market in which the organization competes is depressed, then the loss of an employee might be beneficial to the firm by reducing the cost of labor. Conversely, if the firm is experiencing an up market, then losing employees could be deleterious to the firm's performance.

ORGANIZATIONAL PERFORMANCE

The section of the Performance Component that follows the Antecedents is the Organizational Performance section, which describes the effects of voluntary turnover on the organization's performance. Further, the Organizational Performance section of the Performance Component delineates which phase the employer will fall in to relative to the effect that voluntary turnover has on the organization's performance.

Literature supporting the moderating effect of voluntary turnover on the organizations ability to compete includes: Burt, 1992; Carmeli, 2004; Conner and Prahalad, 1996; Glebbeek and Bax, 2004; Morrow & McElroy, 2007; Penrose, 1959; Steers and Rhodes, 1978. In addition, product quality can be adversely affected by voluntary turnover (Anderson et al, 2004; Cantarello, Filippini, & Nosella, 2012; Hisey, 2012; Hisey, 2016; Mittal, Anderson, Sayrak, & Tadikamalla, 2005; Lapre and Tsikriktsis, 2006; Rust and Chung, 2006). Adaptations to augment product quality may include training of replacement employees, business development policies, and the use of teams to maintain customer satisfaction. Additionally, engineering procedures may be used to improve quality by automating processes that are affected by the loss of an employee.

In addition, voluntary turnover may affect employee morale, which in turn affects organizational performance (Hosmer and Kiewetz, 2005). Further, the organization's financial position may also be compromised by voluntary turnover (Anderson et al, 2004; Gruca and Rego, 2005; Mittal et al, 2005; Morrow & McElroy, 2007; Rust and Chung, 2006). Finally, loss of employee assets may have a deleterious effect on the organization's output (Bhavani and Tendulkar, 2001; Hutchinson, et al., 1997; Koys, 2001; Morrow & McElroy, 2007) and information sharing within the organization (Abelson and Baysinger, 1984; Clarke and Herrmann, 2004). Thus, instances where turnover has the greatest effect on the firm's performance (Figure 1) falls in to either Phase III, mediating effect on organizational performance or Phase IV, moderating effect.

RESOURCE BASED VIEW

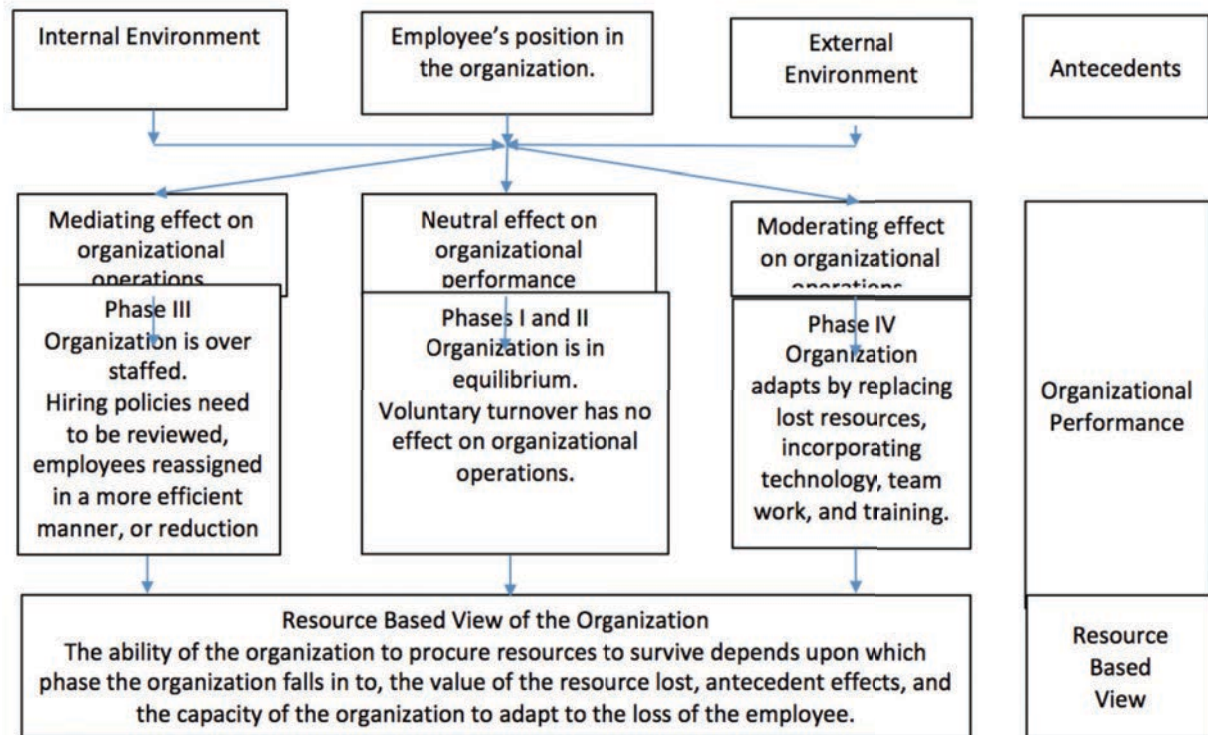
The Antecedents and Organizational Performance effects on the organization culminate with the Resource Based View (RBV) of the firm. The RBV of the firm states that for a resource to have value, it must be rare, inimitable, and irreplaceable (Barney 1991). Extant literature indicates that HR meet all of Barney's requirements. Thus, voluntary turnover may either moderate or mediate the organization's performance depending upon the phase that the organization is in.

CONCLUSION

The Phase Component and the Performance Component collectively comprise the Theoretical Model, which highlights the effects of voluntary turnover on the organization. In describing the turnover phenomenon, the suitability of the model is derived from the use of several studies that measured the effects of resource acquisition on organizational performance and the incorporation of previous research on voluntary turnover. Finally, the effects of voluntary turnover on organizational performance rests upon (a) how valuable the employee is to the organization, (b) the environment in which the organization

operates, (c) how replaceable the employee is, (d) whether alternative assets can replace the employee, and (e) the internal dynamics of the organization.

Figure 2, Performance Component



SIGNIFICANCE OF THE THEORETICAL MODEL

The Theoretical Model may assist in establishing policies to prevent the adverse effects of voluntary turnover on organizational performance. In addition, antecedents in the model may enable practitioners to correlate specific strategies to a pre-turnover level of organizational performance, thus providing management with a tool to reduce organizational downtime due to the loss of the employee.

Moreover, government officials may use the model to target employers who are most adversely affected by voluntary turnover. Finally, the model should enable practitioners to pinpoint specific areas within the organization that are most susceptible to the adverse effects of voluntary turnover or areas in the organization that are chronically overstaffed.

FUTURE STUDIES

Based on the call for additional studies in voluntary turnover, future studies should concentrate on describing employers by headcount, market served, strategy employed to adapt to employee-loss, and the length of time required to bring the organization's performance back to a pre-turnover level of performance. In addition, future studies should describe the perceived effects of voluntary turnover on changes in customer satisfaction, employee behavior, and changes in product or service output. Finally, future studies should determine if a relationship exists between organizational type and the strategy used by the organization to adapt to voluntary turnover, and should determine if a relationship exists between time required to bring the organization's performance back to its pre-turnover level of performance and the strategy(s) used by the organization to adapt to the loss of the employee.

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