

How to Increase the Retention of Good Performers While Encouraging Poor Performers to Leave the Organization

This Research Briefing is a service from BC HRMA's research group. Our aim is to make it easier and quicker for HR professionals to find and apply the latest and best people management insight to their challenges and projects. This paper contains a concise and practical summary of a recent academic finding that should shape your HR practices.

Summary

In the study “*Employee-organization Exchange Relationships, HRM Practices, and Quit Rates of Good and Poor Performers*”, Shaw, Dineen, Fang and Vellella attempt to understand and measure the turnover of both high and low performers compared to their organizations’ HR inducements and investments (rewards programs) and employer expectations (performance programs). The study finds that effective inducements and investments (rewards programs) are necessary and a factor that will keep both high and low performers attached to the organization. However, if an organization wants to encourage and keep its high performers and have low performers voluntarily leave, it need to focus on programs that set the employer’s expectations (performance). HR programs such as performance management and monitoring are effective tools to sort and voluntarily weed out low performers. This will increase the overall productivity of the workplace.

This study proves what many HR professionals have known intuitively; high performers want to work in a high performance culture. High performers will stay in cultures and organizations that reward high expectations even if there is lower investment in employees. Low performers will voluntarily leave high performance cultures. Effective HR programs such as performance management systems can help to create a positive turnover for low performers and improve retention for high performers.

HR Programs Can Be Divided into Two Major Groups

1. Inducements and investments include training, pay level, benefits level, job security and procedural justice.

2. Employer expectations include individual pay for performance systems, employee monitoring and formal performance appraisals, with the goals of raising overall performance levels and sorting the workforce based on performance levels.

Employers can be either **underinvested** (placing high expectations on the individuals but offering low levels of inducements) or **overinvested** (offering high levels of inducements but little in the way of high quality performance expectations). The theory behind overinvestment is that the employer will lower the attractiveness of other jobs in the marketplace and thereby reduce overall turnover.

Background

Turnover has been heavily studied by HR professionals for years. HR professionals need to fully understand turnover because turnover of high performers (dysfunctional turnover) can negatively impact the performance of the entire organization. Dysfunctional turnover can also help create tears in the social fabric of the organization. In juxtaposition, retaining low performers has also been linked to poor engagement scores and increased voluntary loss of high performers. Thus, some turnover can be healthy, provided it is the right type of turnover for the organization.

However, most research into turnover has focused on individual reasons for turnover, or has lumped all organizational voluntary turnovers into one group. These assumptions go against the thinking of many HR programs which emphasise a sorting or ranking system, such as merit pay.

This study is unique in that it tries to differentiate the turnover of high performers from the turnover of low performers. It studies two factors – inducements and investments (rewards programs) and employer expectations (performance programs) to determine if one or other of these factors help to reduce turnover of high performers and thereby increase their retention. Inversely, it measures if one or other of these programs helps to increase voluntary turnover of poor performers, thereby increasing the overall productivity of organizations.

Greater understanding of which HR programs impact the retention of high performers can help the HR department ensure resources are applied to the most effective programs to address dysfunctional turnover.

Hypotheses and Results

Do inducements (rewards programs) reduce quit rates of both high and low performers? And, do employer expectations (performance programs) increase quit rates equally for both high and low performers?

Understanding Voluntary Turnover

Understanding the causal processes of voluntary turnover is also important because quits are often unplanned and unexpected and can not only damage productivity, but weaken the social fabric of an organization as well (Dess & Shaw, 2001).

Voluntary quit rates can be divided into two types:

Functional: this applies to low performers' quit rates, and assumes that the departure of poor-performing individuals will improve (or at least not damage) organizational performance.

Dysfunctional: this applies to high performers' quit rates, and assumes that the departure of high-performing individuals will damage the organization and its productivity.

For an organization understanding the types of voluntary turnover being experienced will be valuable. The HR Metrics Service will be introducing these data elements in Q3 2012.

The researchers tested the above hypotheses at two different types of employers – the trucking industry and supermarkets.

The results were clear...

High inducements (rewards programs) acted as golden handcuffs and kept both poor performers and high performers attached to the employer. But, in lower inducement but high performance expectation employers, poor performers left at a faster rate than the high performers. The findings indicated that many employers report low quit rates among good performers when the employers emphasize expectation-enhancing practices (performance) but not inducements and investments (rewards programs). Poor performers left high expectation organizations for the following three reasons:

What high employer expectations provide...

- * The paths of “winners and losers” are divergent
- * Performance distinctions are highlighted
- * Uncertainty is created for poor performers, making other organizations more attractive
- * Certainty and greater resource allocation to good performers are created, making the current role more attractive to the good performer

1. “Increases the attractiveness of other jobs in the marketplace because those jobs, on balance, may place relatively few expectations on employees.” (*easier work can be found elsewhere*)
2. “In general, higher levels of expectations-enhancement HRM practices decrease the likelihood that employees will share organizational resources and receive rewards.” (*better rewards can be found elsewhere*) and
3. “Higher levels of employee monitoring and extensive performance appraisals also increase the likelihood that performance errors will be detected.” (*less stringent monitoring elsewhere*)

This creates uncertainty and makes the risk of changing organizations seem less daunting.

Good performers stay within their organizations for the following reasons:

1. Better opportunities for achieving relative advantages. (*financial and other awards increase*)
2. A (greater) sense that their goals can be accomplished. (*better able to get things done*)

Or in more direct terms – high performers stayed in high expectation environments while lower performers selected to leave.

Implications for HR Professionals

For the profession it means that we need to focus on our incentives (pay) programs to ensure that they are equal to others in our industry. However, it also means we need to recognize that this is only a “hygiene” factor. Resources should be utilized to ensure fair compensation, but over incenting employees will not create an environment that retains high performers.

If we want to improve productivity and weed out poor performers we need to start challenging our assumptions around programs such as performance management. We need to train our managers to use our HR programs to set high but attainable goals. We need to be clearer in our purpose of utilizing programs such as these to sort out high performers and reward them with incentives, but also with further stretch goals. When we challenge our employees, this study shows that the employee's productivity, their perceived value of work and desire for continuing accomplishments increase, but only for the high performers. Poor performers will self select themselves out of this type of organization.

However, the HR professional needs to be cautioned that this is only one causal factor in turnover. This article should also be read in conjunction with other articles on turnover found on the BC HRMA web site: <https://www.bchrma.org/researchvoice/research.htm#briefings>

What do the findings in the study mean to you in your role?

HR Analyst – begin to measure turnover – not only voluntary resignations but functional (low performers) and dysfunctional (high performer) resignation rates.

Important Note - HR Metrics will be adding a new data element by Q3 2012 to collect the above data. The new element will collect resignations by the top 25% and bottom 25% of performers. This data will allow your organization to measure the effectiveness of your retention strategies for high performers. You should begin testing the collection of this data in house immediately.

Compensation Analyst – improve performance bonuses to award high achievement.

HR Senior Leaders – ensure that the performance appraisals and monitoring systems are not only being performed but are being performed with an outcome of raising expectations of performance levels of the individual. They should also ensure that the results of performance measurement expose performance differentials among employees.

This article is based on the following research paper:

“Employee-organization exchange relationships, HRM practices, and quit rates of good and poor performers.” Shaw, J. D., Dineen, B. R., Fang, R., & Vellella, R. F.

Publisher: Academy of Management Journal. 2009. Vol. 52 – No.5. 1016-1033.

We'd like to hear from you!

Tell us how the insights from this study could affect change in your organization. What practices in your organization are most in need of attention when looked at through the lens of collective felt trust? Contact us at research@bchrma.org.