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Where did our employees go?

Examining the rise in voluntary turn over during economic recoveries

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> PHOTOGRAPHY BY DAVID CLUGSTON

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Fast forward to smoother seas after the current economic storm: your company has survived. You made the hard decisions regarding layoffs, expenses, and closing facilities to improve operational performance and short-term earnings. Like your peers, you made cutting and managing costs your number one strategic priority while pushing focus on managing human capital to the back of your mind.

But unfortunately this turns out not to be the whole story.

Executives may be tempted to think that their current actions are having no effect on the retention of their employees since voluntary turnover rates have been low throughout the downturn. However, their actions may be actually increasing ***turnover intentions*** with many employees planning to jump ship once the economy improves. To prevent the loss of talent typically seen during economic recoveries with a resulting "resume tsunami," leaders must avoid making mistakes that increase employees' turnover intentions. A downturn, it turns out, should not be considered a license to put human capital management on the back burner.

A TURNOVER INTENTION IS AN EMPLOYEE'S "CONSCIOUS AND DELIBERATE WILLFULNESS TO LEAVE THE ORGANIZATION" WITHIN A CERTAIN TIME INTERVAL, E.G., THE NEXT SIX MONTHS
(TETT AND MEYER, 1993)

Instead of celebrating the upturn, many corporate leaders may well face a new problem: replacing lost employees as the economy kicks into gear and talent is once again a scarce commodity.

THE IMPENDING RISE OF VOLUNTARY TURNOVER AFTER A DOWNTURN

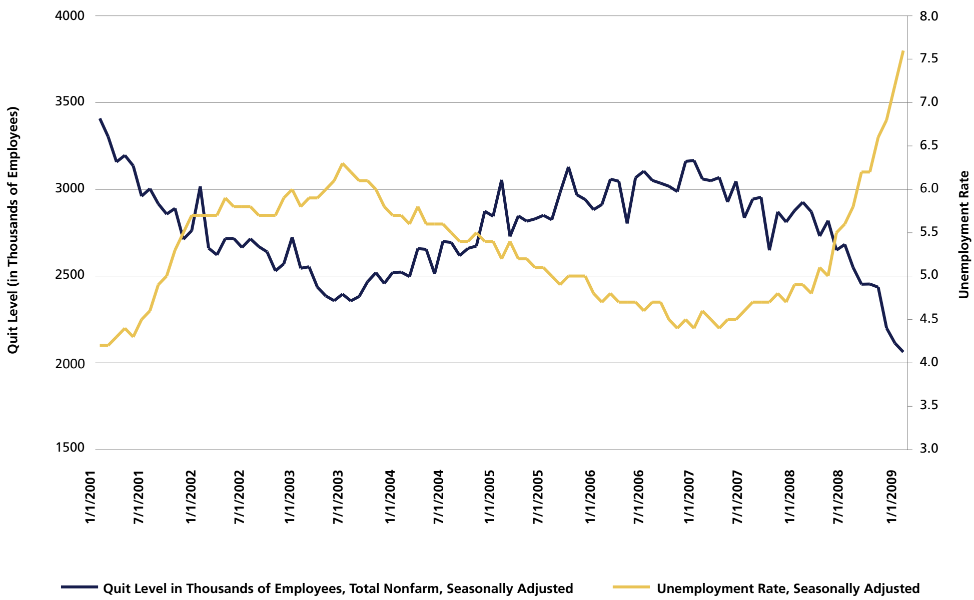
While the vast majority of employees stay put during economic downturns, an analysis of the correlations between voluntary turnover (quits) versus unemployment and voluntary turnover versus consumer confidence suggests that employees will begin to leave their organizations once the economy recovers.

When the economy is strong, unemployment decreases as firms hire more employees to create the output needed to meet rising demand. Alternatively, and as expected, when economic demand and growth slow, organizations cut costs and downsize the workforce, increasing unemployment. Because of this, looking at the unemployment rate's relationship with voluntary turnover shows how voluntary turnover will change as the economy seesaws back and forth.[1] Chart 1 shows that as unemployment goes down, voluntary turnover goes up (and vice versa), which implies that voluntary turnover will most likely increase once the economy recovers.

Looking at voluntary turnover's relationship with consumer confidence also shows that organizations should expect employees to leave their current jobs when the economy improves.[2] When consumer confidence is high, consumers expect the economy to grow, causing them to become more willing to spend. Since consumer spending represents two-thirds of gross domestic product, the increased consumer spending helps drive economic growth. Alternatively, when consumer confidence drops, consumers expect the economy to weaken, and they reduce spending, contributing to a slowdown in economic growth.

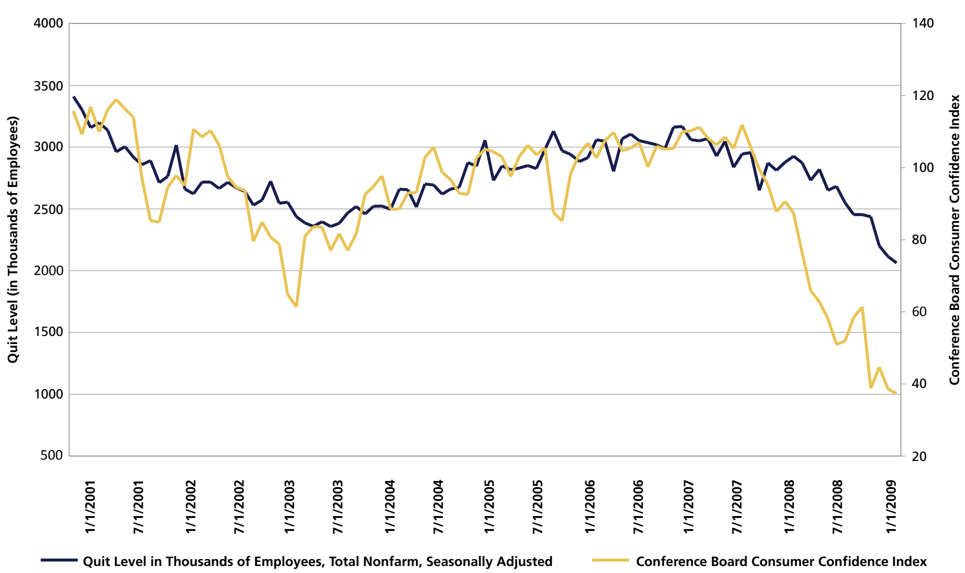
Chart 2 shows that when people expect the economy to improve, they are more likely to quit their jobs (and vice versa), implying that voluntary turnover will most likely rise when economic growth is expected to start again.

Chart 1: Quit Level in Thousands of Employees, Total Nonfarm, Seasonally Adjusted vs. Unemployment Rate, Seasonally Adjusted



Data Source: Bureau of Labor Statistics, St. Louis Federal Reserve Economic Data[3]

Chart 2: Quit Level in Thousands of Employees, Total Nonfarm, Seasonally Adjusted vs. Conference Board Consumer Confidence Index



Data Source: Bureau of Labor Statisics, Polling Report[4]

These two trends suggest that, while voluntary turnover is low throughout economic downturns, organizations should expect a spike in voluntary turnover once the economy recovers.[5]

THE CAUSE OF VOLUNTARY TURNOVER'S CYCLICALITY

As the economy languishes, workers have reduced alternative employment opportunities. Since quits are motivated in part by the prospects of finding a new job, employees do not quit during the downturn but instead put their heads down and weather the storm until the economy recovers.

However, while the number of alternative opportunities is a factor in voluntary turnover, it is not the driving force. Instead, decreased job satisfaction, which is "a simple single summary measure" capturing employees' perceptions of how their organization treats them,[6] sets employees off along the path of voluntary turnover. During an economic downturn, employees experience decreased job satisfaction for a number of reasons, including increased job insecurity[7] and preventable employer mistakes.

Decreased job satisfaction drives increased turnover intentions.[8] When job satisfaction decreases, employees begin to consider leaving their jobs and start evaluating their alternative employment opportunities. If they think it is likely they will find a job that will bring them more tangible and intangible benefits than their current one, they will begin to have a turnover intention. Once an employee reaches this point, it is likely they will leave your organization as turnover intentions are strongly positively correlated with voluntary turnover.[9]

Therefore, if you do not take action to prevent a drop in employee job satisfaction and rising turnover intentions, then many of your employees will walk out the door as the economy recovers. First out the door will be your critical workforce segments, those employees and groups that "drive a disproportionate share of their company's business performance and generate greater-than-average value for customers and shareholders," top performers, and future leaders who have transferable and highly demanded skills.[10]

KEEPING THE LID ON EMPLOYEE TURNOVER INTENTIONS

It seems counterintuitive — employees are not running for the exits in a downturn — but organizations should be careful not to alienate employees during a downturn because of the tangible and intangible costs associated with losing talent once the economy recovers.

If voluntary turnover increases after an economic downturn, then companies have to bear the costs to recruit, train and attract new employees to replace those who have left. Replacing lost employees quickly becomes expensive. A review of various benchmarks suggests that the cost of replacing an employee lies somewhere between 25-200 percent of leaver salary.[11] Not only does turnover have direct financial costs, but voluntary turnover has also been shown to decrease workforce performance.[12] However, these costs are only the tip of the iceberg as customer relationships are impacted, knowledge is lost, and other employees have to pick up the slack.

Given this and the trends in voluntary turnover, organizations may think they are fated to see their people walk out the door once the economy recovers. To some extent, that may be true: a good economy presents more options and some people will make the move. But there are several mistakes that organizations make that decrease job satisfaction and increase turnover intentions. These can be caused by both actions taken without proper planning or important actions not taken.

To prevent the loss of talent typically seen during economic recoveries with a resulting "resume tsunami," leaders must avoid making mistakes that increase employees' turnover intentions.

1. Don't forget that your high performers can always get jobs somewhere else.

Your top performers, future leaders, and critical workforce segments increase operational performance, drive value creation, and — to put it plainly —can succeed anywhere. During an economic recovery, companies are likely to lose these employees as they have the most options. Not only can these employees find new jobs during an economic recovery, but they also are actively recruited during an economic downturn. Forty percent of surveyed executives reported they would try to attract more critical talent with hard-to-find skills in response to the current economic downturn.[13]

By communicating one-on-one with top performers, you can let them know that they will not be cut, preventing the rise in turnover intentions that might have caused them to look for outside opportunities. Also, instead of offering only additional compensation, consider offering them other benefits, such as developmental experiences that they cannot find elsewhere, for example international assignments, rotational programs, or leadership roles. These actions can increase organizational commitment and help you keep your top performers without breaking already tight budgets.

2. Don't give leaders bonuses while expecting employees to go without.

Given the public outcry over Wall Street bonuses and automaker CEOs flying in private jets to ask for bailout funds, it is apparent that the focus on executive compensation is greater than ever before. Because of this, CEOs and other executives cannot cut employee salaries and jobs on the one hand and take large bonuses on the other if they hope to prevent a rise in employee turnover intentions.

To show that leadership is dedicated to organizational success and is willing to share the economic burden with their employees, leaders should consider a symbolic act of dedication.

To show that leadership is dedicated to organizational success and is willing to share the economic burden with their employees, leaders should consider a symbolic act of dedication. During the 2001 downturn, the 107 partners of DiamondCluster Consulting unanimously agreed to take a 10 percent pay cut to avoid layoffs. DiamondCluster's employees viewed this gesture positively and thought that it reflected their team-focused culture.[14] Symbolic acts of dedication have also occurred more recently such as when Gap CEO Glenn Murphy volunteered to take a 15 percent pay cut.[15]

By following these examples, you will show your employees that you care about them and are committed to your organization's success. Such actions can prevent employees from resenting management and feeling as if they have been treated unfairly throughout the downturn. By showing that you have dedication to the firm and its employees, you will earn your employees' respect and dedication.

3. Don't cut employee compensation to avoid layoffs without first looking at your company's tolerance for compensation cuts.

Throughout the economic downturn, some organizations looking to reduce costs are considering cutting compensation instead of reducing headcount. In a 2009 Deloitte* survey, 326 global executives were asked how they anticipated their organization's focus on reducing costs and employee headcount would change over the next 12 months. As a way to reduce costs, these executives noted that they expected to reduce bonuses (35 percent), benefits (23 percent), and salaries (18 percent).[16] However, before implementing compensation reductions, you need to understand your organization's tolerance for compensation cuts because this will determine if they are a better route for your company than layoffs.

In 2001, a professional services firm decided to institute pay cuts to reduce the number of layoffs. However, they learned the hard way that their organization's culture was not tolerant of pay cuts. Their top performers, who did not feel tied to the company, knew they could get better money elsewhere. Additionally, those who remained had strong feelings of resentment and a lack of trust toward management; they felt they should be compensated for their hard work throughout the downturn. As the economy picked up and salaries for new hires increased, the company faced salary compression issues taking several years to remedy and saw voluntary turnover increase substantially leading to a talent gap they are still recovering from today.

Alternatively, as mentioned in *The Boston Globe,* Beth Israel Deaconess Medical Center CEO, Paul Levy, recently proposed to his staff the idea of doing what they could to protect "the lower-wage earners — the transporters, the housekeepers, the food service people." He told them that to protect these workers, they all would have to "make a bigger sacrifice," including giving up "more of their salary or benefits." As soon as the words left his mouth, the crowd roared with applause. He went on to ask his employees for cost-cutting ideas and, as emails started to pour in, it was clear that employees were willing to forego pay and benefits to prevent their fellow employees from being let go. For example, employees suggested bypassing raises, working only 4 days a week, giving up vacation and

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sick time, and eliminating bonuses as possible ways to cut costs and avoid layoffs.[17] Because of the interconnectedness between hospital employees, where nurses and administrators rely on janitors and cafeteria workers to keep everything running smoothly, Beth Israel possessed a culture where employees were willing to bypass pay to save their fellow employees' jobs.

Considering your culture's tolerance for compensation cuts is key to understanding if they are a viable option. If they are, you can avoid the anxiety and insecurity associated with layoffs, which can prevent a rise in voluntary turnover when the economy recovers. However, if your employees are not willing to take a pay cut to keep others' jobs, you will create resentment and anger in your company, leading to higher voluntary turnover, especially among your top performers. In this situation, you are also weakening your company because you are losing your best employees to keep your worst.

4. Don't let your managers off the hook for retaining their employees.

While manager focus on improving business results is especially important and challenging during a downturn, it can lead to a reduced focus on a company's human capital if managers do not have an incentive to proactively deal with employee issues.

Managers need to focus on how they treat their employees because employees' satisfaction with their supervisors is negatively related to employee turnover.[18] The Corporate Leadership Council has reported that 22 of the top 25 most effective levers of employees' intentions to stay within an organization were driven by their managers (for example, accurately assessing employee potential, clearly articulating organizational goals, and encouraging employee development).[19] Additionally, employees' perceptions of manager support play such a large role in their decision to stay or leave an organization that even when employees do not believe that their organization supports them, employee perceptions of manager support can still keep employees committed to their organization, preventing a rise in turnover intentions.[20]

To make sure managers do their part in preventing talent from leaving your organization, consider tying their bonuses and rewards to not only operational and financial metrics but also to their department's turnover numbers. By tying managers' rewards to turnover, you will give them the incentives they need to maintain their focus on their people.

5. Don't assume that downsizing survivors can do all the work of their laid-off colleagues.

In 2000, a technology company had 10 HR coordinators spread throughout the country managing their 650 interns. When the economy dropped in 2001, they decided to let go of all 10 HR coordinators who had experience running the program. Instead of closing down the intern program, they chose one HR employee to run it. At first, the employee taking over this role felt proud that the company thought she could do the work of 10 people, until she realized how much work had to be done. Trying desperately to complete the work of 10 people led to endless long days and nights, causing the employee to resent the company and to leave as soon as the opportunity presented itself. Additionally, the interns had a bad experience that resulted in fewer accepted offers and negative buzz on campus.

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While this is an isolated example, we often see organizations, in their rush to reduce costs, cut people without focusing on how layoffs will affect their remaining employees. This causes additional new responsibilities to be thrust upon survivors who are expected to pick up the slack for their downsized colleagues. As a result, employees experience "role overload," which lowers organizational commitment and increases turnover intentions.[21]

Before you cut your employees, analyze their tasks and be prepared to cut their low value-add activities. If you are planning to have employees take on new roles, make sure you provide training and clearly communicate their new responsibilities so they understand what is required.

6. Don't be afraid to communicate what is really occurring.

There is no way around it: spin does not work, and honesty does. At a life sciences company, management refused to announce a downsizing until the day that it occurred because they feared that an earlier announcement would cause people to stop working and begin looking for new jobs. However, as news of the downsizing leaked out and company performance continued to drop, the lack of communication from leadership led to anxiety and fear among their employees. The fear and anxiety reduced organizational productivity as employees spent their time talking and worrying about the impending layoffs. It also led to an increase in turnover intentions throughout the organization because employees knew layoffs were coming but were unsure when they would occur and who would be affected.

Contrast that with one public sector organization that was implementing a new claims processing system. Leadership realized early on that the system would lead to a reduction of one-third of their workforce, and they knew which employee roles would not be required in a year. Due to state disclosure laws, leaders had to go to employees and tell them their roles would be eliminated in a year. However, leadership proactively communicated that cuts were coming, were as transparent as possible, and let employees know they would help those impacted acquire new skills and find new jobs. This targeted and effective communication strategy made it possible for the director to comment only a month after the announcement that the pending layoffs were a "non-issue."

While the decision may be hard, it is better to make one large cut than a bunch of small ones. "A single big layoff is tough on everyone but does a lot less damage than seemingly endless rounds of unpredictable cuts..."

These two examples show the importance of effective communication in helping reduce employee anxiety and building trust between leaders and employees. Honest and transparent communication can help reduce employee anxiety and turnover intentions as it allows employees to understand that a layoff is coming, how it will affect them, and how the organization will handle the process. Creating trust between you and your employees can also help prevent a rise in turnover intentions as trust may help keep employees supportive of their organization, even when the organization's decisions are unfavorable.[22]

7. *Don't ignore the loss of valuable institutional knowledge caused by downsizing.*

When management looks to downsize, there is an incentive to cut as quickly as possible to realize cost savings. However, management often underestimates how much knowledge resides in their workers' heads and how little is contained in the organization's systems and processes. Companies may go through layoffs without thinking about those who are left behind, often overlooking the absence of a formal process for knowledge transfer. The resulting chaos may lead to turnover intentions as survivors experience confusion, stress and burnout as they figure out how to do their predecessors' work.

In some cases, it is impossible for survivors to figure out what their predecessors did, causing some organizations we have worked with to bring back certain terminated employees as contractors, paying them more than when they were employees. Without taking steps to capture this knowledge before it leaves, the organization must decide whether to bring back laid-off employees at higher wages or risk losing customers and productivity as someone new adapts to the job. To avoid this risk and the risk of increased turnover intentions, consider offering downsized employees a financial reward or a service, such as job placement or resume help, to incent them to share their knowledge before they leave.

8. Don't make small cuts over and over again to avoid the press coverage and shock of large layoffs.

A recent *New York Times* article spoke not of massive headline-making layoffs but of how some companies have begun to "routinely carry out scattered layoffs that are small enough to stay under the radar."[23] While small layoffs stretched over a period of time may not make the paper, these small cuts still create a lot of anxiety throughout the organization as employees start to wonder when it will be over. Repeating small cuts over time creates increased turnover intentions and wreaks havoc on a company's organizational culture.

For example, a consumer products company, which relied on its culture of knowledge sharing to spur innovation, found itself continuously laying off a few workers here and there until, over a period of years, layoffs were a way of life. The constant cuts caused knowledge hoarding to become the new norm. Employees felt they could not be let go if they had information that no one else knew. As a result, employees became increasingly reluctant to share information with their colleagues, leaving corporate knowledge management systems outdated and empty. Consequently, productivity dropped as employees no longer had access to previous work products and spent time worrying about when the next cuts would come. The fear of the ever-impending layoff also led employees to look for new jobs because they never knew if they might be next.

While the decision may be hard, it is better to make one large cut than a bunch of small ones. "A single big layoff is tough on everyone but does a lot less damage than seemingly endless rounds of unpredictable cuts," writes Robert Sutton, Stanford professor of management science and engineering.[24] By cutting once, you can put the layoff behind you and focus your efforts on improving the morale and reducing the anxiety and insecurity of your remaining employees. This will help reduce the likelihood that your remaining employees will leave the organization, help them once again become productive, and better position you to realize the business benefits that motivated the cut in the first place.

9. Don't buy into the belief that across-the-board layoffs are good for your company.

Often, newspaper layoff announcements include the designation "across-the-board." In our experience, organizations implement across-the-board layoffs because they feel they are fair since all departments share the burden. While having employees believe that the procedure for choosing downsizing victims is fair can help increase organizational commitment,[25] an across-the-board layoff is bad business and will ultimately increase employee turnover intentions.

For example, a pharmaceutical company may ask each department to cut 15 percent of its workforce in an effort to reduce costs. However, in doing so, they will end up cutting their critical workforce segment, the scientists and researchers who develop new drugs that drive company growth, by the same amount as other departments. Such a cut is bad business; You are essentially shooting the goose that lays the golden eggs to keep around the one that lays nothing. Additionally, if such a cut were to occur, survivors on the R&D team could view layoffs as unpredictable, causing an increase in job insecurity, anxiety and turnover intentions among the critical workers.

To avoid these dual threats, you first need to identify your critical workforce segments and avoid cutting there unless you have no choice. During, before and after the cuts occur, get your leaders in front of your employees and prepare them to communicate the reasons, basis and procedures for the layoff. Make sure they are prepared to answer any questions, deliver a common message, and do not say anything that might cause legal trouble.

PREVENTING THE DOWNTURN FROM SPREADING INTO THE RECOVERY

Cutting costs and focusing on operational performance can help companies control the flames of an economic downturn, but if they hope to put out the fire completely, they must also focus on their talent. If not, they will be prone to making mistakes that will leave smoldering resentment throughout the downturn. Mistake after mistake, resentment, anxiety and turnover intentions will slowly grow and spread. As long as the economy is not growing, these embers may appear dormant. However, once the economy picks up, new alternative employment opportunities in the economy will ease the way for employees to begin leaving your company. Instead of being able to take advantage of the economic recovery, you may find yourself on the defensive as talent walks out the door.

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