



# CAHRS ResearchLink



No. 4 June 2017

## How do Leader Departures Affect Turnover Among Those Employees Left Behind?

### Key Findings



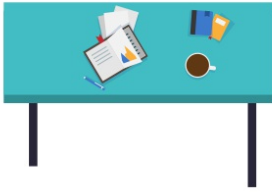
if the worst case scenario applied to only 20% of the 287 units in this study, the total cost to the company would be \$4,132,800

In large organizations, mid-level unit leaders regularly vacate their positions for a variety of reasons, including promotions, transfers, quits, and terminations. Certainly there are reasons to expect that these departures have residual effects – both positive and negative – on the units involved. Surprisingly, though, researchers have thus far paid scant attention to these dynamics. The present study takes a major step toward filling this void. Specifically, it looks at data from 287 locations of a company in the food and hospitality industry to examine the extent to which succession patterns among mid-level unit leaders influence both short- and longer-term voluntary turnover rates among core employees in the affected entities.

Overall, the study offers four major conclusions. Across the organization studied:

- 1 Following the departure of higher performing unit leaders, voluntary turnover rates among core employees (i.e., those most central to operational performance) began to spike almost immediately. The departure of lower performing unit leaders, on the other hand, had the opposite effect. (The same pattern was observed among non-core employees as well.)
- 2 In the units that lost higher performing leaders, voluntary turnover rates among core employees continued to increase (relative to pre-departure rates) over time, whereas in the units that lost lower performing leaders the voluntary turnover rates among core employees went down (relative to pre-departure rates) over time. (This pattern also was observed among non-core employees.)
- 3 These general effects were moderated by the source of the replacements who moved into the vacated positions. Contrary to expectations, when replacements were promoted from within the same units, voluntary turnover rates among core employees increased over time. When the replacements were from outside the units (i.e., from other units in the same company or from other companies) voluntary turnover rates among core employees decreased over time. (Again, this pattern occurred among non-core employees as well.)
- 4 The experience of the replacements mattered as well. When they had experience in the same position in other locations of the company, voluntary turnover rates among core employees declined over time. When they lacked such experience, the obverse occurred. (This pattern was not observed among non-core employees.)

In brief, the study shows that the exit of high performing unit leaders, especially when they are replaced by employees from within the same units who have no previous experience as unit leaders, results in an almost instantaneous spike in voluntary turnover rates among core employees, as well as an ongoing increase in these rates during the ensuing 12 months. Figure 1 on page 2 provides an illustration of how this might play out in



practice. It compares two typical 100-person units; one reflecting a well-managed situation, say the promotion of a high performing unit leader who is replaced by an outsider who has previous managerial experience, and the other showing a problematic case in which a high performing unit leader is replaced by an insider with no previous managerial experience. In the first instance, the annual average voluntary turnover rate among core employees in the unit is 31% during the first month following the leader's departure, and it remains unchanged over the next year. In the second case, the comparable figures are 41% initially and 67% twelve months later. In the poorly managed case, the work unit loses—and must replace—an additional 36 workers over the course of the year. Assuming a very conservative \$2,000 outlay to replace those who leave results in excess turnover-related costs of \$72,000 for the work unit. Multiply the difference – \$72,000 per unit – times the number of units involved and the overall cost mounts up quickly. For example, even if the worst case scenario applied to only 20% of the 287 units in this study, the total cost to the company would be \$4,132,800  $(.20 \times 287) \times \$72,000$ .

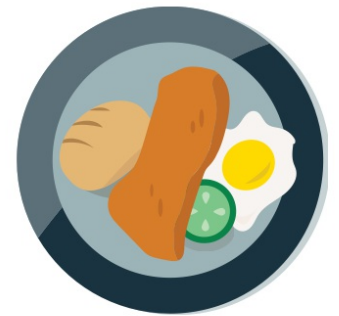
## Specifics of the Study

The study was conducted within a large corporation in the food and hospitality industry and the analyses focused on its retail units and specifically on the leaders of these units (the General Managers), as well as their core employees (direct report who were in positions with operational, not support, responsibilities). The data were obtained from company records and covered a three-year period (June 2009 to May 2012). Usable data were obtained for 287 units that lost their leaders during this period, resulting in 6,357 unit-month observations.

Leader performance was measured on a scale from one to five using data from the company's performance rating system. Voluntary turnover rates for core employees were calculated by dividing the number of core employees who voluntarily left a unit in a given month by the total number of core employees in that unit in the same month (the company codes all losses as either voluntary or involuntary). This measure was tracked month by month, and post-exit trends were tracked for 12 months, the longest period for which relevant data were available for all units.

Replacement leaders were coded as internal if they had been on the unit's payroll prior to the move and as external otherwise (80 of the 287 replacements [28%] were internal) and they were coded as experienced if they had ever occupied a General Manager position within the company and as inexperienced otherwise (107 of the 287 replacement [37%] were experienced).

The data were analyzed using discontinuous random coefficient growth modeling, a procedure that allows for the measurement of both discrete events (immediate turnover) and time-series events (trends over time).



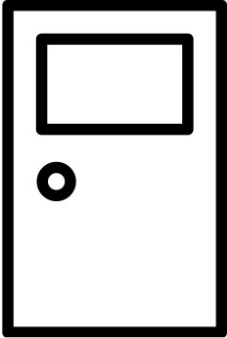
**Figure 1: Example of the Additional Annual Cost of Turnover: Well-Managed Case versus Problematic Case**

Categories	Well-Managed Case*	Problematic Case**
Annual Turnover Rate per Unit	31%	67%
Annual Additional Employee Losses in a Problematic Unit (assuming 100 person units)		36
Additional Costs Accrued in a Problematic Unit (assuming a very conservative \$2,000 cost of replacement)		\$72,000
Annual Additional Costs Incurred by the Company (based on the study's findings that 20% of 287 units were problematic)		\$4,132,800

\*Well-Managed Case: High performing, unit leader replaced by an outsider with previous managerial experience

\*\*Problematic Case: High performing unit leader replaced by an insider with no previous managerial experience

# The Hypotheses and the Results



Research suggests that in large organizations on average about 25% of mid-level unit leader positions are vacated in any given year as their occupants either move within the organization or leave it for some reason. Previous research has tended to focus on the post-departure experiences of the “movers” or on the individual attitudes and behaviors of those who are left behind. Thus far, scholars have paid little attention to the potential effects of these moves on important unit-level outcomes, although there are reasons to believe that these effects may be significant. For example, research at the individual level has shown that departures of unit level leaders often lead subordinates to assess their probable futures and sometimes to give serious consideration to leaving their organizations. But the conditions under which these individual assessments and considerations result in actual departures remain unstudied.

It would be helpful to have some answers here because it is well-known that voluntary turnover has deleterious organizational effects. At a minimum, there are costs associated with finding and training replacements. In addition, it is likely that voluntary turnover, particularly among core employees, results in reduced levels of productivity as a result of lost human and social capital, as well as the confusion and uncertainty that can ensue during the time it takes to put new leaders in place and get them up to speed. Clearly, it is in the best interests of organizations to gain a firmer understanding of when and why these negative outcomes might occur since such knowledge can lead to a reasoned choice of actions designed to minimize, if not eradicate, the associated costs.

Thus, the present study was undertaken to identify key factors in mid-level unit leader succession that are associated with the retention of core employees during and following the transition period. Does it matter, for example, whether the departing unit-level leaders are high or low performers? And what about the replacements? Is it preferable if they are promoted from within the same units or is it better to bring them in from the outside? Does it help if they have previous experience in a General Manager position as opposed to stepping into this type of job for the first time?

Based on the foregoing, the study expressly examined four specific hypotheses:

## *Hypothesis 1:*

The immediate effect of a leader exit on core member voluntary turnover rates depends on the exiting leader’s performance: turnover rates will increase in the month after a high performer exits and decrease when a low performer leaves. This hypothesis was strongly supported. Across the company there was a strong positive relationship between the performance ratings of departing leaders and the voluntary turnover rates of core (as well as other) employees. In general, when high performing unit leaders departed, some of the remaining employees in their units began leaving almost immediately, but when low performing unit leaders exited there was a downward spike in voluntary turnover rates among the remaining employees. This finding is consistent with previous theorizing on the topic. The firm’s performance rating assessed both operational concerns (meeting sales targets and the like) and people concerns (e.g., team morale). A high rating indicates the ability to both manage the business effectively and establish positive relationships with and among subordinates. Thus, it is to be expected that in units where high performing leaders leave, employees are likely to begin harboring concerns about deteriorating working conditions and worsening interpersonal relationships. And, further, that these concerns would manifest, in some cases, in the form of job searches and, again in some cases, in decisions to quit. In contrast, in units where poor performing leaders leave, employees would have every reason to hope, if not believe, that conditions could only improve once new leaders were brought in and, thus, to wait and see what happens.

## *Hypothesis 2:*

The effect of leader departures on the post-exit trend in core member voluntary turnover rates depends on the exiting leader’s performance. Relative to the pre-exit trend, the post exit trend will become more positive after a high performer leaves and become less positive after a low performer leaves. This hypothesis received strong support as well. The departure of high performing unit leaders led to an uptick in voluntary turnover trends among core (and other) employees over time while the departure of low performing unit leaders led to a downturn in these trends over time. It could be that in the former case, some of the job searches that were initially initiated took longer than others to pay off, while in the latter case, the patience of the employees who initially decided to stay put was rewarded.

## *Hypothesis 3:*

Also it is likely that that in the former case on average more of the replacement leaders were less effective than their predecessors, while in the

latter case on average they were an improvement over the previous bosses. The effect of leader departures on the post-exit trend in core member voluntary turnover rates depends on the replacement leader's experience in the unit. Relative to the pre-exit trend, the post-exit trend will become less positive when replacement leaders are promoted from within the unit and more positive when replacement leaders are not. This hypothesis was not supported. In brief, replacement leaders brought in from outside the affected units were more effective in stemming voluntary turnover rates among core (and other) employees than were replacement leaders who had been promoted from within the units. Initially it was reasoned that internal replacements would have a leg up, especially for a honeymoon period following the transitions, mainly because their knowledge of the work environment and their ongoing relationships with their coworkers would help them hit the ground running. It is not clear why this was not the case here. It is possible that replacements from within their units were constrained by their previous interpersonal ties with co-workers. Another possibility is that the company did a more thorough job of screening the external hires. This, in turn, would result in the selection of better performers who would more quickly ease the operational and personal concerns of core (and other) employees. Previous research on this issue is contradictory. It shows on the one hand that external hires are generally more qualified than internally promoted leaders, but on the other hand that the latter tend to be the ones who perform better and stay in their jobs longer. Clearly, this is an issue in need of further study.

**Hypothesis 4:** The effect of leader departures on the post-exit trend in core member voluntary turnover rates depends on the replacement leader's previous role experience as a former leader. Relative to the pre-exit trend, the post-exit trend will become less positive when replacement leaders have previous role experience as a formal leader and will become more positive when they do not. This hypothesis was strongly supported (although the effect did not carry over to non-core employees). Most likely the replacement leaders with experience had learned to be solid performers in their previous stints as General Managers, albeit perhaps in smaller units, and thus were able to carry this learning over to more demanding milieus. They had already absorbed the essentials of leadership (perhaps the hard way) while their less experienced counterparts required time to work their way up this learning curve.

## The So What



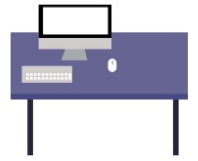
As illustrated in Figure 1 on page 2, this research suggests that doing a better job of managing succession events among mid-level unit leaders can generate considerable savings in excess costs associated with voluntary turnover among core employees in the units involved. It also suggests what "doing a better job" might entail being:

- alert to the risks of moving high performing unit leaders. Obviously, there are solid organizational and career-related reasons for making these moves. At the same time, however, the data suggest that one consequence may be the loss of key talent from the units involved. One way to minimize the fallout is to anticipate the moves and quickly fill the vacancies with candidates who preferably come from other units and have demonstrated success in similar positions in the past (i.e., to engage in career planning that involves leadership development and progression from smaller to larger units within the company).
- prepared to invest in actions to prevent incurring excessive turnover costs when faced with situations in which high performers must be moved or quit unexpectedly and outside replacements with relevant experience are simply not available. In such cases, it may be necessary to fill the vacancies with candidates from within the affected units and/or with no previous leadership experience. As the study shows, these are the worst case scenarios that can be quite costly in terms of excessive turnover costs and thus ones where it makes sense to spend the time and money it takes not only to make the best possible selection decisions, but also to provide onboarding assistance as well as ongoing training and support for the individuals involved.
- attuned to the need for action in the case of poorly performing unit leaders. There are many reasons why it makes sense to replace these leaders (assuming efforts to induce improvements have failed to produce the desired results). This study adds one more: the potential to reduce voluntary turnover rates among core employees (and perhaps other employees as well) which in and of itself can result in considerable cost savings over time.

A major limitation of the present study is that it was conducted in a single firm, thus potentially limiting its generalizability to other situations. The best

way to counter this limitation, of course, is for other organizations to invite researchers in to conduct additional studies. These studies could not only replicate the present study, but also go further by digging more deeply into the dynamics involved. For example, it would be helpful to clear up the conflicting findings with respect to internal versus external replacements. Also, from an action planning standpoint it would be helpful to know how quickly the worst case scenarios can be turned around and even better which types of interventions are most cost effective in this respect.

---



## Researchers



John Hausknecht,  
Associate Professor,  
Human Resource Studies,  
ILR School  
Cornell University

in collaboration with:  
Jessica Li, Cornell University, and  
Lisa Dragoni, Wake Forest University



Cornell University  
ILR School