Research shows too much executive turnover hurts companies

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While some companies think shaking up their top management team will limit complacency and improve firm performance, research by University of Kansas School of Business professors shows that's not always true.

A new study by James Guthrie and Jay Lee, professors of human resource management, shows that although turnover in the highest levels of management can sometimes produce positive results for firms, too much turnover damages the performance of the company. Sometimes, Guthrie said, companies are too trigger-happy in removing top management and they overestimate the positive effects of turnover.

Much research exists about why people choose to leave a job, with less focus on the consequences of employee departures for organizational effectiveness, Guthrie said. The purpose of the current study was to examine the effects of turnover at the highest level of management. As the most significant decision makers with the most influence on a company, the researchers wanted to see how companies perform following the exit of top executives. The research, titled "Turnover at the Top: Executive Team Departures and Firm Performance," was published this summer in *Organization Science*.

"Even within management research, there is this idea out there that top management teams get too complacent, too committed to the status quo, and therefore shaking things up will improve performance," Guthrie said. "And there is a certain extent to which that is true."

What companies don't always take into account, he added, is the tacit knowledge executives have such as social connections, industry relationships or organizational knowledge.

"The implication is that turnover not only erodes performance by depleting organizational skill banks but, perhaps more dramatically, by altering the social structure and fabric of an organization," the research states.

Guthrie said companies don't always understand the value of a person's firm-specific experience. Their experience is sometimes overlooked, and there's a predilection in thinking that change is always a good thing.

"Certainly you need to change top executives when they're not performing well or skill sets are obsolete, but I think a lot of firms take this too far," Guthrie said. "Companies often underestimate the value of employee retention."

Using data from 367 firms representing 134 industries, the researchers' analyses examined the relationship between top management team turnover and firm performance, taking into account a number of industry and firm characteristics, including a company's own performance history. Findings show that as rates of top management turnover increase, firm performance tends to suffer.

The ill effects of turnover at the highest level of management are similar to the effects found in studies of turnover among lower-level employees. As turnover increases, productivity goes down and it can also lead to insecurity in other parts of firm, Guthrie said.

"What's equally important is what happens to the people left behind when a top executive leaves," he said. "It's basically a cautionary tale. Don't necessarily think that if you're in a volatile industry, changing people at the top will improve things."

More information: "Turnover at the Top: Executive Team Departures and Firm Performance." Jake G. Messersmith, Jeong-Yeon Lee, James P. Guthrie, and Yong-Yeon Ji. *Organization Science* 201425:3 , 776-793 dx.doi.org/10.1287/orsc.2013.0864

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