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Managing the Impact of Employee Turnover on Performance: The Role of Process Conformance

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Abstract

We examine the impact of employee turnover on operating performance in settings that require high levels of knowledge exploitation. Using 48 months of turnover data from U.S. stores of a major retail chain, we find that, on average, employee turnover is associated with decreased performance, as measured by profit margin and customer service. The effect of turnover on performance, however, is mitigated by the nature of management at the store level. The particular aspect of management on which we focus is *process conformance*—the extent to which managers aim to reduce variation in store operations in accordance with a set of prescribed standards for task performance. At high-process-conformance stores, managers use discipline in implementing standardized policies and procedures, whereas at low-process-conformance stores, managers tolerate deviations from these standards. We find that increasing turnover does not have a negative effect on store performance at high-process-conformance stores; at low-process-conformance stores, the negative effect of turnover is pronounced. Our results suggest that, in settings where performance depends on the repetition of known tasks, managers can reduce turnover's effect by imposing process discipline through standard operating procedures.

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