Effect of Employment Contracts on Performance and Attrition

A Workforce Science Project Study

Northwestern
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Coordinating Talent Analytics with Legal Issues

Talent analytics pervaded by issues of legal compliance

• Perhaps less attention to effect of legal system on outcomes such as attrition and performance

The legal issues that are discussed are privacy and diversity

• less attention to other aspects of the legal system
Preliminary Results

• Project coding state employment laws

• Effect of state laws on employer’s right to discharge without showing cause (“just cause” rules)

• What effect do these state laws have on turnover and performance?

• Data: Entry level workers in call center customer service
Just Cause Discharge Rules: Turnover

<table>
<thead>
<tr>
<th></th>
<th>Involuntary</th>
<th>Voluntary</th>
<th>All</th>
<th>Misconduct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cause more often required for discharge</td>
<td>Red</td>
<td>Green</td>
<td>Pink</td>
<td></td>
</tr>
</tbody>
</table>

n=@17,000, 17 states, 18 mostly multistate firms

In states with laws requiring more cause to fire

- Much lower involuntary turnover
- Higher voluntary turnover
- Only slightly lower total turnover
- No change in misconduct discharges

Effect of laws is large relative to other variables

- Controls: Firm, state, prior job stability, school, 3 other laws
- Comparison is tricky but roughly speaking effect of just-cause law is at least twice as large as the effect of job stability or school
## Just Cause Discharge Rules: Performance

<table>
<thead>
<tr>
<th></th>
<th>Call Handle Time</th>
<th>Customer Satisfaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>w/o school</td>
<td>with school</td>
<td>w/o school</td>
</tr>
<tr>
<td><strong>Cause more often required for discharge</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>with school</td>
<td>@2000</td>
<td>with school @5000</td>
</tr>
</tbody>
</table>

In states with laws requiring cause more often to fire

- Much better (lower) call handle time. Effect of laws roughly 2X larger than job history or school
- Better customer satisfaction only if don’t include school
  - maybe sample size problem with school
What Should Employers Prefer?

Typically assumed employers should prefer easy discharge

Indeed, states in which discharge is harder have

• lower involuntary turnover
  • Obvious: more fear of liability, not firing weak performers

But also have

• more voluntary turnover:
  • Less obvious: are weak performers leaving even if not fired?

• probably higher performance
  • Does job security improve morale and thus performance?

So benefits of easy discharge appear partially illusory and may be offset by worse performance.
Implications

• Might want to include variables for state law in predictive models
  • We are coding many state employment laws- happy to share codes

• Siting decisions:
  • Assumption that easy discharge is good for employers may not be true

• Employer can provide discharge protections even if state allows easy discharge
  • Legal departments want tough contact to decrease liability exposure when employee is fired
  • But maybe easy discharge at odds with good HR policy: secure workers have higher morale
Questions

1) Is the question of discharge law or policy on your radar in any setting?
   • liability avoidance issue
   • predictive factor for outcomes like turnover and performance
   • factor in siting based on state law

2) Do you discuss trade-offs between goals of legal department (liability avoidance) and of talent management? Or take legal advice as given?
Questions

3) Would be nice if job security improved performance (win-win) but is this too good to be true?

• Note that some other academic studies have reached less optimistic conclusions although they
  • looked at different outcomes, maybe less relevant to an employer, like state-level unemployment
  • Used different coding