

# Effect of Employment Contracts on Performance and Attrition

A Workforce Science Project Study

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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

	Involuntary	Voluntary	All	Misconduct
Cause more often required for discharge				

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

	Call Handle Time		Customer Satisfaction	
	w/o school	with school	w/o school	with school
<b>Cause more often required for discharge</b>				

with school n=@2000, w/o school n=@5000

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