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Reprints

## Commitment Takes Another Hit

*Has the recession killed off any thoughts of employer loyalty? A recent study finds that two-thirds of employers are using the downturn to replace low-performing employees -- actions that apparently wouldn't have been taken in happier economic times. What's the long-term effect of such an approach?*

By Peter Cappelli

It's hard to know just yet what we will take away from the current economic downturn.

Opinions run the gamut from "a profound upheaval like the Great Depression" to "nothing particularly special." No doubt some of the difference in interpretation depends on one's personal circumstances, echoing Ronald Reagan's famous line that a recession is when your neighbor loses their job and a depression is when you lose yours.

It's probably more useful to look at actual practices, though, to see if anything new is happening. One piece of evidence I find stunning is from [The New Normal: Recession Response and Workforce Planning](#), a recent survey commissioned by the staffing company Veritude about employer reactions to the recession.

About two-thirds of those surveyed report that they have laid off employees; probably not a surprise. Only 10 percent say that they have furloughed employees, a solution that makes sense if you are worried about keeping a workforce together when business picks up.

Here's what's new: Almost two-thirds report they are using the opportunity provided by the downturn and the surplus of qualified applicants to get rid of low-performing employees and replace them with new hires.

And here is why that is so different. First, these aren't layoffs because the jobs aren't going away. They are being filled by new hires. Current employees are pushed out, presumably dismissed for cause.

The fact that firings go up during downturns isn't exactly news, but usually that happens as a way to reduce headcount. That isn't what is happening here.

Second, the study suggests that it is the availability of high-quality substitutes that is driving these dismissals.

Another way to look at that is that the workers being pushed out for poor performance would not have been let go in normal times. It is the fact that better workers are available that led to the change.

What that means is that the performance standard needed to keep a job is not absolute. It is relative. We've had relative performance standards for quite a while in the form of forced-ranking systems. Most of us remember that General Electric got a lot of attention under Jack Welch for, not only doing forced rankings, but for pushing out the bottom 10 percent of the performers (a position from which the company has quietly backed away).



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Even in the old GE approach, though, the competition was internal. Now it's external, and the performance standard necessary to keep a job depends on competition in the outside market.

The relevant question to keep a job then becomes: Could the company hire someone better than the current employee?

This approach isn't completely novel. We see it in the academic world when tenure decisions routinely compare candidates to faculty in their age cohorts at other schools. It's also common in professional sports.

But this is the first time I've heard anything quite like this in corporations, and the fact that almost two-thirds of them are actually doing it seems remarkable to me.

There are several unstated assumptions behind this approach. One is that we can tell with some certainty whether a candidate from another organization will perform better in our firm than our current employee. The research on employee selection suggests it is a whole lot harder to predict who will succeed than one would think. Have these companies factored in the risk of hiring mistakes?

A second assumption is that the costs of turnover aren't very great; that it is easy to replace people because there isn't much company-specific knowledge or relationships that matter.

The most important implication concerns issues of morale and commitment. Employers rightly complained in the dot-com era about employees hopping from company to company based on better job offers. Is there anything different about what the employers are doing here?

Does this put the nail in the coffin of the view that employers and employees have obligations to each other short of looking out for their own immediate self-interest?

It is hard to imagine any employee watching their employer sort through potential applicants to decide whether any current workers should be let go and having any qualms about leaving themselves should they get a better offer when the economy improves.

If you faced a choice between looking after your own interests and those of your employer, which way would most employees go now?

Where did this idea come from?

I heard murmurs about the need to "upgrade" talent during the downturn this past year, and they seemed to be coming from top executives and boards of directors. I think there is an important divide now in corporations between the top leadership and everyone else as to how they think about talent and employees in general.

The executives and boards have bought deeply into the "war for talent" notion -- that the success of business is all about getting "A" players who are basically free agents and will jump ship if we don't pay them a lot. (Perhaps rightly, they see themselves as "A" players and expect to be treated that way.)

The rest of the organization is still thinking about the importance of long-term commitment of employees and employers to each other, about the perceived fairness of policies and especially about internal equity. Not surprisingly, the executives seem to be winning that tussle, but I wonder if they'll like the kind of organization they get as a result.

What do you folks -- who are in the midst of it -- [think about all this](#) ?

P.S. In my [March column](#) about the Employee Free Choice Act, I suggested that the provision requiring unionization be based on a "card check" of employees had no chance politically and that the Act's supporters would fall back on the more modest proposal to have snap elections. That is what happened last week, according to a report in the *New York Times*. Sometimes what seems to be perfectly obvious politically actually happens.

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