

Retaining top performers in an economic downturn

Author: Munodiwa Zvemhara . October 2019

When times are tough companies most often turn to employee layoffs as a solution to high staff costs not supported by revenue.

Research by Christopher Stanton found that if a company cuts pay for the employees the best performers are the first to leave, most often joining the competitor. Whereas those who choose to handle the downturn through lowering headcount have greater control over who stays and who goes, in turn, they have power over retaining their best performers.

In an experiment done to observe the effects of a pay cut on employee retention in a sales department, researchers observed sales agents working at a call center. Commission was lowered down to 18% and the company had a significant decrease in sales as high performers left at a 28% faster rate than average performers in the following months.

Once a company has hit a rough patch one solution may be to examine those employees who are most likely to leave and cut their commission by a lower percentage than the rest of the team. In this way, costs are saved whilst at the same time keeping in your best performers because for the employee, the decision to leave is based on their chances of getting another job and for top performers, this is the least of their worries. Not only does a salary cut result in losing top performers, but the employees that do stay behind are also most often left demoralized which harms productivity.

A critical factor that may determine the decision the company should make is how widespread the economic downturn is? If one company is going through turmoil and they cut salaries whilst their competitors are doing well, it is most likely that employees will leave whereas in a case where there is a nationwide recession an employer will most likely retain staff if they choose to cut salaries rather than laying off employees.

Munodiwa Zvemhara is a consultant at Industrial Psychology Consultants (Pvt) Ltd a management and human resources consulting firm.

Phone +263 4 481946-48/481950/2900276/2900966 or cell number +263 783168453 or email: munodiwa@ipcconsultants.com or visit our website at www.ipcconsultants.com

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