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A Theoretical Model of Executive Voluntary Turnover

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기업내 임원의 자발적 이직에 관한 이론적 모형

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Abstract For the current organizations, retaining executive members is one of the most important functions of human resource management. Given that importance, although executives' mobility becomes prevalent, most prior studies tended to focus on involuntary turnover of executive members. To fill this gap, the current theoretical paper suggests a model of executive voluntary turnover, drawing on the lierature of employee mobility and entrepreneurship. First, running a new business as a CEO negatively affects prior-firm performance, but collaboration between two firms mitigate the negative association. Second, spin-off positively affects prior-firm performance, but this is weakened as spin-off firm performance decreases. Finally, moving to a competitor negatively, while moving to a collaborator positively affects prior-firm performance.

Key Words : Executive Turnover, Mobility, Entrepreneurship, Human Resource Management, Talent Management

요 약 현대 조직에서 고위급 임원들의 이직이 점차 증가하고 있음에도, 대부분의 기존 연구들에서는 임원들의 비자발적 이직/퇴직의 함의에 대한 연구에 치중해있는 실정이다. 본 연구에서는 기존 연구의 한계를 탈피하기 위해, 조직원 이동과 창업자 연구에 기반하여 임원들의 자발적 이직에 관한 이론적 모형을 제언한다. 첫째, 최고경영자로 창업자가 된 경우 기존 기업에 부정적 영향을 줄 것이나, 두 기업이 협력적 관계가 형성될수록 부정적 관계는 줄어들 것이다. 둘째, 스핀오프의 경우 기존 기업에 긍정적 영향을 줄 것이나, 스핀오프 기업의 성과가 저조할수록 긍정적 관계는 약화될 것이다. 마지막으로, 경쟁사로 이직하는 경우에는 부정적, 협력사로 이직하는 경우에는 긍정적 영향을 기존 기업의 성과에 줄 것이다. 본 연구에서는 임원들의 자발적 이직이 기존 기업의 성과에 미치는 영향력이 임원들의 향후 활동 양태에 따라 달라질 것이라 주장한다.

주제어 : 임원 이직, 조직원 이동, 창업, 인적자원관리, 재능관리

1. Introduction

In the current society, organizations are facing "war for talent". In line with the rise of knowledge based economy, the importance of human resource and its management has been the core issue among scholars as well as practitioners[1-4]. One of the most important issues in human resource management is contemplating the nature of turnover in the

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workplace. To be specific, because of the impacts on organizational level performance, turnover of top executive members has received extensive attention from researchers[5-7].

In spite of prior intensive attention from researchers on this topic, however, there are several limitations and gaps in the current literature. First, most studies focused on 'event based' turnover of executive members and neglected contemplating more general model of executive members' turnover[8]. Second, prior studies mostly considered involuntary turnover of executive members, while paid less attention to the voluntary turnover[7]. To be sure, there are plausible reasons not to consider voluntary turnover. Traditionally, executive members are composed of people who have long time work experiences within the focal organization. Moreover, in terms of promotability, there is no option for them to be promoted anymore. On top of that, mobility of executive members was extremely low; in fact, even mobility of ordinary employees was relatively low especially for eastern countries such as Japan and Korea, because of institutional factor such as lifetime employment system[9]. Thus, for above reasons, turnover of executive members can be equated with retirement. In other words, following March and Simon (1958)'s model[10], executive members had low level of the desirability of movement and low level of the ease of movement, which result in low base-rate of voluntary turnover of executive members.

However, there have been substantial changes in organizational context. First, mobility of executive members is increasing and the ease of movement for employees are increasing, correspondingly; thus, for executive members, moving to another company is not rare event anymore[11]. Second, compensation level for executive members is drastically increasing during recent several decades, which results in increase of the desirability of movement[12]. As a result, those changes result in increase of executive members' voluntary turnover and call for research on that issue, as well. Third, in line with the emergence of knowledge-based economy, founding a new venture is on the rise as an option of career path for executive members[13]. All in all, unlike prior days, there are many alternatives are available for executive members in organizations. Moreover, in terms of practical implication, it is a noteworthy topic in considering that executive members' turnover implies loss of core human resources for the focal organization where they worked.

Therefore, in the current study, I aim to suggest a model of executive members' voluntary turnover. In contemplating the nature of turnover, it can be divided into two types of research; one contemplates antecedents of turnover, whereas another one investigates the effects of turnover[8]. In this paper, we focus on contemplating the impacts of executive members' turnover on the prior-firm performance where they worked. In fact, contemplating turnover process of executive members would not be differentiated with prior studies on voluntary turnover[14]. At least in the theoretical level, executive turnover does not go beyond the function of the ease and the desirability of movement while, to some extents, impacted by unexpected events[10].

To the contrary, the effects of executive member turnover on performance of the prior-firm where they worked can be varied diverse way, depending on what they do *after* conduct turnover from the firm. To extent of our knowledge, there was no attempt to investigate the effects of executive members' turnover through contemplating their future movements. Thus, in this study, firstly I contemplate possible pathways that prior executive members would take. Second, using possible pathways for prior executive members, I provide a taxonomy that categorizes the future step of prior executive members based on the hierarchical position of ex−executives in the current−firm and the nature of relationship between the prior−firm and the current−firm. Third, I will set propositions that contemplate the impacts of executive turnover on the prior−firm depending on prior executive members' future step. Finally, I discuss theoretical and practical implication of the current research and challenges for empirical testing of propositions.

2. Consequences of ex−executitves' turnover

In contemplating possible pathways of executive members after their turnover, we can borrow concepts in the literature of mobility. In terms of mobility, employees have three mobility options including 1) remaining in the current job, 2) changing workplace, and 3) making a new firm and becoming an entrepreneur[13]. Among these three options, executives' turnover implies that they do not choose remaining in the current job. Thus, they have two available options; one is changing workplace as an employee and another one is becoming an employer by establishing a new company. To be sure, a lot of executive members would terminate their lifetime career after turnover. However, owing to the purpose of current study that contemplates the impacts of executives' turnover on prior−firm performance, executive members who choose to retire are not concern of this study.

Meanwhile, second issue that should be considered is the nature of current−firm where ex−executives work[15]. On the one hand, ex−executives can choose to work in unrelated field and industry with prior−firm. In line with the purpose of this study, we exclude two cases; when ex−executives run a new business in unrelated sector and when they move to established firm who has no relationship with executive's prior−firm. Indeed, prior−firms would experience troubles owing to the absence of ex−executives. However, it is rather internal coordination processes of prior−firms rather than outside impacts which are caused by ex−executive members' activities; thus, we will not discuss regarding this issue.

To the contrary, ex−executives can work in the related field and industry where prior−firms are involved; we contemplate on these cases. First, they become entrepreneurs by founding a new venture based on know−how and expertise they have accumulated prior working experiences[16]. Second, they also become entrepreneurs by founding a spin−off firm with receiving supports from prior−firms[17]. While prior two cases can be regarded the same case in that ex−excutives become entrepreneur, it should be differentiated because later cases sustain high degree of amicable relationship with prior−firms. Indeed, prior cases often result in negative impacts on prior−firms, whereas later cases are often considered as a way of value creation for established firms[16].

Finally, we can consider cases that ex−executive becomes an executive member of established firm. As stated above, based on the nature of current−firm, we can divide these cases into three type of mobility. First, ex−executives can move to unrelated company with their prior−firms. For instance, John Sculley, prior CEO of Apple, had worked in Pepsi before he moved to Apple. Even though these cases occur from time to time, however, we do not include this case into the consideration of this study, because it is hard to expect that ex−executive members' activities would cause impacts on their prior−firms where conduct unrelated business with the current−firm. Thus, we contemplate later two cases as a focus of the current paper. One is becoming an executive member of the competitor company, another one is becoming an executive member of the collaborator company.

To summarize, this paper builds a taxonomy of ex-executives' pathway after turnover by using listed cases. First, I divide executives' pathway into whether they become an employer or sustain as employee. Second, this article also classifies it into whether their current-firm has competitive relation or collaborative relation with their prior-firm. Figure 1 shows taxonomy of the current paper. In the following section, based on the above taxonomy, I posit the impacts of each pathway on prior-firm where executive members worked.

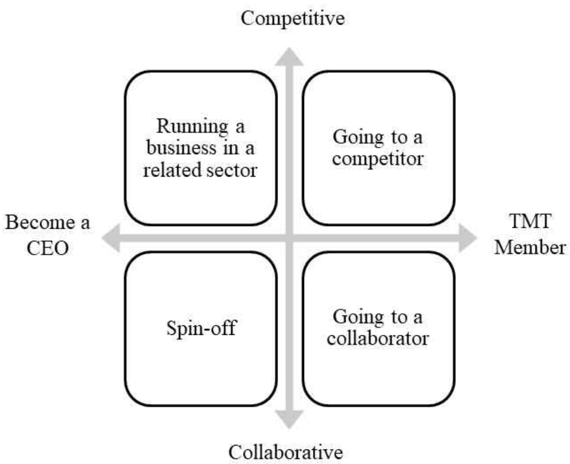

Fig. 1. Taxonomy of ex-executives' pathway

3. Impacts of executives' turnover on prior-firm performance

First, when a ex-executive become an entrepreneur by founding a new firm in a related sector where prior firm is involved, we expect the negative impacts on performance of prior-firm. In running a new business, ex-executives would exploit information and know-how what they have accumulated from prior working experiences[18]. Moreover, prior working experiences also affect the recognition of business chances as well[13,16]. As a result, founding a new business by ex-executives would facilitate competition between prior-firm and the current-firm owing to the overlap between two firms.

Surely, only the existence of competition does not guarantee negative impacts on performance of prior-firm. Indeed, in compare to the entrepreneurial firm, prior-firm would have competitive advantage based on economy of scope and scale, and superior firm resources[19, 20]. However, even in case of small organizations, they can compete against large organizations by occupying niche where large organizations cannot invade[21,22]. In line with this, entrepreneurs who run a relatively small firm can provide customized products and services that attracts clients who are less satisfied with the existing one provided by large firms[23,24]. Thus, entrepreneurial firm of ex-executive would give negative impacts on performance of prior-firm where they worked. Based on the reasoning, we suggest the following:

Proposition 1. When ex-executive member run an entrepreneurial firm, it will cause negative impacts on performance of prior-firm where the executive worked.

Even if ex-executives run a new business, it does not necessarily mean that they intend to have competitive relationship with prior-firms where they worked. Rather, competition between two firms is inevitable situation led by structural factor of industry. Moreover, depending on perspective, it is not regarded as competition. In fact, from the perspective of entrepreneurial firms, they intend to create a new market, rather than competing against other firms[24]. However, from the perspective of established firms, regardless of intention of new firms' tactics, the fact that they are deprived of existing customers does not change.

Given that situation, thus, collaboration between two firms can mitigate negative effects of entrepreneurial firm led by ex−executive on performance of prior−firm. According to the literature of inter−organizational collaboration, bargaining power between organizations determines the amounts of stake[25,26]. In other words, even if collaboration is successful, outcome of collaboration can be distributed uneven way; firm who has stronger bargaining power would get more profits in compare to firm with weaker bargaining power. Likewise, when established prior−firm collaborates with new entrepreneurial firm, there is an asymmetry in terms of resources and power, which would lead bargaining contracts that gives an advantage to the prior−firm over the entrepreneurial firm. As a result, prior−firm can receive compensation by making favorable contract with ex−executive's firm. Accordingly, it would mitigate the negative impacts from entrepreneurial firm of ex−executive.

Meanwhile, when two firms collaborates each other, entrepreneurial firm can get resources more easily with the support from prior−firm, which would result in higher growth−rate and lower failure−rate. On the other hand, however, in expense of supports from prior−firm, they would experience constraints on conducting certain type of tactics and strategies that potentially undermine prior−firm performance. As a result, entrepreneurial firm would sacrifice profits by limiting one's own behavior. To the contrary, prior firm would gain synergy effects while not threatening by entrepreneurial firm. After all, we propose following:

Proposition 2. Collaboration between prior−firm and ex−executive's entrepreneurial firm would mitigate negative effects of entrepreneurial firm on prior−firm performance.

Second, spin−off can be understood as an expansion of collaboration between entrepreneurial firm of ex−executive and prior−firm. While employee entrepreneurship is regarded as a threat for the prior−firm (Ganco, 2013), spin−off is considered as a way of value creation for established firms [17]. In the same vein with existing literature, we expect positive impacts of spin−off on prior−firm performance for following reasons. First, spin−off can be the way of diversification while mitigates the negative effects of it[27,28]. When an established firm pursues a diversification into the firm, it requires additional coordination cost in harmonizing with existing and new part, as well as huge amounts of resources for initial investment[29]. Thus, founding a new firm and manage independent way can cut corresponding costs while keep pursuing concentration of core value of the current organization.

Moreover, a newly established spin−off firm can gain significant support from parent−firm while sustaining collaborative relationship. In considering the fact that the most crucial factor for entrepreneurial firms to sustain and success is to gain enough amounts of economic supports from others[30,31], it would be considerable competitive advantage of spin−off firm. On top of that, creation of spin−off firm often lead collective turnover from the prior−organization. Instead of sole turnover of one executive member, spin−off allow executive to accompany with other members in prior−firm[32]. Thus, spin−off firm would gain additional competitive advantage in terms of human resources. As a result, based on relatively abundant financial and human resources, spin−off firm would achieve higher growth−rate and faster niche occupation.

In addition, as stated above, asymmetric relationship between spin−off firm and prior−firm can lead contracts of two firms that favor prior−firm side. In this vein, prior firm can mitigate the possibility of carnivalization from spin−off firm. On top of that, spin−off firm is composed of people who worked in prior−firm. It can enhance inter−organizational collaboration by encouraging mutual understanding and trust, and it would lead enhancement of performance for both firms [33,34]. Thus, we suggest that:

Proposition 3. When ex-executive member run a spin-off firm, it will cause positive impacts on performance of prior-firm where the ex-executive worked.

Needless to say, spin-off does not always lead positive results. Rather, strength of positive effects of ex-executive's spin-off on prior firm performance would be moderated by performance of spin-off firm. Indeed, for prior-firm, collective turnover of executive member and employees means loss of human resources [35]. On top of that, prior-firm should invest initial assets for spin-off firm that results in negative impact on prior-firm's financial performance. Moreover, prior-firm is more likely to fall into escalation of commitment, owing to prior relationship with members of spin-off firm[36,37]. As a result, escalation of commitment would induce for prior-firm to conduct additional investment that aggravates financial performance. Based on the reasoning, we propose that:

Proposition 4. Spin-off firm performance would moderate the effects of spin-off firm led by ex-executive member on prior-firm performance, such that positive relationship would be mitigated as spin-off firm performance become worse.

Third, ex-executives can move to another firm where sustains competitive relationship with prior-firm. In this study, we conjecture that ex-executive's movement to the competitor firm would cause negative impacts on prior-firm performance. Prior studies on employee mobility has pointed out that loss of core employees in organization can cause loss of competitive advantage[38-42]. In line with this, we expect similar effects would occur when executive mobility occurs. First, after ex-executives' movement to the competitor, they would transfer knowledge what they have accumulated from the prior-organization (Song, Almeida, & Wu, 2003). It can damage the prior-firm via two ways. On the one hand, competitor firm can imitate the routine of prior-firm. To be sure, it can cause other challenges owing to the differences of two firms, which results in unsuccessful imitation [16]. However, even imperfect imitation can provide cues and chances for competitor firm to chase prior-firm[43].

On the other hand, although competitor firm does not apply routine of prior-firm knowledge to the current firm, still they get to know prior-firm's information. Indeed, knowing rival firms' accurate information itself can contribute in gaining competitive advantage for firms, because firms can form an appropriate plan based on accurate information regarding their rivals[44]. Therefore, knowledge of prior-firm what ex-executive has would be exploited by the current competitor firm, which results in negative impacts on prior-firm performance. In addition, mobility of executive member to rival firm would cause negative impacts on the focal firm where executive worked via changing the nature of inter-firm relationship[45]. To be specific, ex-executive would be reluctant to have relationship with prior-firm. Moreover, even in case of voluntary turnover, ex-executive would possess hostile emotions toward prior firm, which will lead decision making that harms prior-firm. On top of that, ex-executive can draw prior clients who built relationship in the prior-firm; by doing so, ex-executive can damage to the prior-firm's performance [38]. To summarize, when ex-executive member moves to competitor firm with the prior-firm, it can cause damage to the prior-firm owing to knowledge prior-firm knowledge of ex-executive and ex-executive's hostile activities threatening prior−firm's established social capital. Therefore, based on the reasoning, we suggest the following:

Proposition 5. When ex−executive member moves to a competitor firm, it will cause negative impacts on performance of prior−firm where the executive worked.

Finally, fourth pathways of ex−executive member is to move to another firm where sustains collaborative relationship with the prior−firm. While most studies on employee mobility suggested and contemplated negative effects on prior−firm and positive impacts on current−firm, only recently scholars have begun to challenge this underlying assumption. According to Corredoira and Rosenkopf[46], knowledge transfer that caused by employee mobility is bidirectional rather than unidirectional. Thus, employee mobility can result in positive impacts even for prior−firm where employees worked via knowledge transfer from prior employees. Likewise, when ex−executive members move to collaborator firm, they would sustain relationship with employees in prior−firm. Then, I expect positive effects of ex−executive's mobility to collaborator firm on prior−firm performance for following reasons.

First, ex−executives can play a role of boundary spanner in collaborator firm with prior−firm they worked. Indeed, in implementing inter−firm collaboration, two firms should face a lot of challenges such as inter−firm coordination and alignment of interests[47,48]. Given that, ex−executives can deliver information and perspective of prior−firm to the current firm. In a similar way, they can play a role as an ambassador to the prior−firm; they can deliver intention and perspective of the current−firm. By doing so, they can contribute in enhancing mutual understanding of two firms, more efficient way. Also, it would lead reducing coordination cost of two firms by enhancing inter−firm trust[33]. Thus, ex−executives activities would give positive effects on prior−firm performance.

Second, employee mobility between prior−firm and collaborator firm would facilitate the development of social capital. To be specific, Somaya and colleagues[49] argued that mobility of employees can enhance structural, affective, and cognitive aspects of social capital by motivating them to involve continuous exchange relationship. In the same vein, movement of ex−executives can provide additional chances to interact each other by recognizing potential chances to exchange. Moreover, in the course of repeated exchange, they can intensify mutual understanding of both parties[50]; one top of that, ex−executives' boundary spanning would facilitate this virtuous cycle of exchange. As a result, both firms can be the optimal collaborator to each other, especially under uncertain market situation[50]. Thus, for above reasons, we suggest that:

Proposition 6. When ex−executive member moves to a collaborator firm, it will cause positive impacts on performance of prior−firm where the executive worked.

In the following, Table 1 summarizes the propositions.

Table 1. Summary of propositions

	Pathway	Boundary condition	Impact on prior−firm
P1.	Run a firm as a CEO		Negative
P2.		Collaboration	Collaboration strengthen, mitigating negative impact
P3.	Spin−off		Positive
P4.		Spin−off firm performance	Spin−off firm performance decreases, mitigating positive impact
P5.	Moving to a competitor		Negative
P6.	Moving to a collaborator		Positive

4. Discussion

In this paper, I suggested a model of executive voluntary turnover by contemplating executive member's future pathway after turnover and its effects on performance of prior−firm where executive worked. In terms of theoretical implication, this paper aimed to provide theoretical framework in understanding the nature of voluntary turnover of executive members in organizations. To extent of our knowledge, it is the first attempt to provide theoretical framework in explaining phenomenon of executive voluntary turnover. While prior studies were largely focused on event−based study or involuntary turnover, this article tried to respond toward call for research that fills a gap of established literature [8].

Second, most prior inquiries on turnover tended to focus on causal processes that cause turnover (e.g. process model of turnover), this paper adopted the opposite approach. In this article, I put emphasis on varied future career of ex−executive members. After categorizing possible future career pathways, I divided these cases into competitive relationship and collaborative relationship. As a result, I can deduct propositions that future activity of ex−executive would be harmful for prior−firm when they are situated in competitive position. To the contrary, while using exactly the same theoretical reasoning (e.g. exploitation of knowledge accumulated in the prior−firm), I also proposed that activities of ex−executive would be beneficial for prior−firm when they are situated in collaborative position.

Third, propositions suggested in the current study cast doubt on the underlying assumptions of prior literature. First, prior studies assumed that executive members who quit the firm would not have influence on the focal firm. However, in this study, I provided various cases that they can exert influence on the prior−firm where they worked. By doing so, I tried to show that turnover does not necessarily mean the termination of relationship between employee and employer; in fact, even after turnover, formal and informal relationship between them can sustain. Second, most established literature dealt negative impacts of turnover by considering it as a loss of human capital. In this paper, I also suggested that positive impacts led by ex−executive members would be also possible, in virtue of facilitation of social capital, enhancement of inter−firm coordination, and bidirectional knowledge transfer. By doing so, I intended to show possibilities of win−win turnover, beyond the case of crowding out worst−performer. Indeed, Naver, a representative IT company in Korea, started as an in−hous venture of Samsung SDS[51]; in addition, considering collaborative relationship between those two companies, we can expect that the above propositions emerged in reality[52].

Fourth, as the current paper articulates the implication of executive members' turnover, it taps into the notion of senior entrepreneurship [53]. Although academic, practical attentions toward entrepreneurship tend to be focusing on young entrepreneurs, there are substantial population of people start one's own business at the age of senior[53]. This paper would be fruitful for advancing the understanding on the nature of senior entrepreneur.

Finally, I introduced a retrospective way of inquiry in articulating turnover phenomenon. Although a lot of theoretical and empirical works have introduced numerous factors that explain and predict turnover, still there are many issues and questions remained unsolved [54]. Thus, as an alternative way of breaking through the current standstill, I proposed the change of conception in contemplating turnover[55]. Indeed, numerous factors, even unexpected accidents and events such as win a lottery can cause turnover of employees; in principal, there is no way to predict such turnover events. In that sense, predicting turnover has its own limitation. However, contemplating ex-employees' future pathway after turnover can provide an additional clue for the focal organization regarding what was the problem and what should be done in the future. In this way, I attempted to suggest an alternative way of thinking.

For practitioners, meanwhile, implication of the current article is simple and clear, but hard to implement - do not make a room for executive members to run away toward enemy of the firm. In the current society, many organizations are in the face of hyper-competition and often conduct personnel reduction in the name of enhancing competitive advantage. Even for executive members, in line with this, firms put high pressure on them to gain tangible results. To be sure, I do not intend to say not to fire employees; rather, I intend to argue that employer should be careful in sustaining positive relationship with employees, even if their contract is about to break up. Although formal relationship is not valid any more, it does not necessarily mean that there is no way for employees to give influence to the organization. On top of that, as suggested above, they can give positive influence on the focal firm. Therefore, practitioners should be careful in sustaining positive relationship their executive members, even if they already intend to leave the organization. Furthermore, paradoxically, propositions of this study imply that employers should pay *more* attention to executive members who want to leave organization, because their activities' impacts can be varied, from positive to negative way.

In the same vein, challenge for practitioners would involve how to increase collaborative relationship with prior executives including mobility toward collaborator firm and making collaborative relationship with the firm led by ex-executives, while reduce competitive relationship such as letting them to move to competitor firm or competing against them. In fact, practitioners can execute passive tactics that undermines human capital and social capital of executive members. For instance, firms could employ them during certain amounts of time as honorary post, with paying substantial amounts of money but without assigning actual tasks. After that, as time goes by, knowledge executive members have would become obsolete and social capital what they have built for the current firm would be substituted. It may reduce negative impacts caused by ex-executives. At the same time, however, firms would lose positive impacts on firm performance which can gain by letting ex-executives to go outside of the firm, as well. Therefore, practitioners should contemplate way of sustaining positive relationship with ex-executive members to gain better results via sustaining and facilitating social capital of the firm.

This paper has a number of limitations. First, although this article intended to complement Shen & Cho[7]'s work, but I did not consider what is likely to happen when ex-executives involuntarily quit the company. For instance, while I posited that moving to a collaborative firm will give positive impact on prior-firm performance, it can turn to negative if ex-executives attempt to form negative inter-firm relationship due to their own emotions and motivation. Future research would be fruitful to investigate more comprehensive cases of turnover of executive members so that we can figure out the moderating role of voluntariness of turnover.

Second, although this paper draw on the notion of entrepreneurship as a mobility to constitute a comprehensive model of executive turnover[13], this may not be exhaustive to capture all feasible pathways of executive turnover that affect prior-firm performance. To overcome this limitation, I encourage future research to conduct qualitative study to clarify specific phenomena in reality; by conducting interviews toward ex-executive members, we can establish a more complete theoretical framework on executive turnover.

Third, in line with the second point, the current article is a theoretical work to propose a theoretical framework. Accordingly, future research needs to conduct empirial studies to figure out whether the propositions indeed happen in reality. However, as mentioned above, it is difficult to find appropriate empirical settings for collecting empirical data. Given the difficulty, I suggest that adopting social network approach toward a specific industry cluster will be the solution for conducting empirical study on this issue.

To conclude with repeating prior *cliche*, organizations are in the face of “war for talent”. Given that situation, to the contrary, organizations often neglect and underestimate what they already possess. Moreover, they also tend to assume that relationship with employees would be terminated with their turnover. In this article, I aim to challenge against the established assumptions by contemplating the nature of executive voluntary turnover. I wish this inquiry would contribute to the literature by introducing novel way of approach to grasp phenomenon.

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