

June 25, 2018

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The Team Turnover Paradox

I recently had the pleasure of attending a presentation by a very successful Wisconsin-based high impact entrepreneur. His talk included some thoughts on the advantages and disadvantages of building a high impact start-up in “between the coasts” locales with limited access to venture capital. One big advantage, he suggested, was lower employee turnover, which led to lower recruiting, training, and administrative expenses.

He is certainly right about the cost savings of lower team turnover, and thus likely right about the overall positive impact of low turnover on his business. In terms of the regional economy, though, I think his conclusion points more to a problem – low levels of high impact entrepreneurship and investing – than any sort of regional advantage.

I’ve always been intrigued by paradoxes, business and otherwise. So, for example, most venture investors favor jurisdictions, like California, that don’t enforce non-compete agreements. At the same time, when they do a deal in a jurisdiction, like Massachusetts, that does enforce non-competes, they are more than happy to employ them.

Team turnover is another business paradox. On the one hand, pretty much everyone agrees that high employee turnover is a bad thing for any particular business. On the other hand, places with the most dynamic high impact entrepreneurial and investing sectors – Silicon Valley being the obvious example – generally “suffer” from very high turnover rates. What’s not so good for any given tree, it seems, can be pretty good for the forest.

Or, at least, forests where new growth is constantly crowding out the old growth. Places where the “creative destruction” that Joseph Schumpeter said was the distinguishing virtue of capitalism, was most active, as a plethora of “next big things” is always nipping at the heels of yesterday’s headliners.

When you look at turnover in places with substantial high impact start-up sectors, what you see is a lot of folks looking for new opportunities to change the world, as opposed to folks looking for some marginally greener grass in the next break room over. Sure, folks at Apple may move over to

Facebook or Google for a better salary, but the real allure for hot-shot employees with outsized ambitions to create wealth and change the world is the opportunity to latch on with what just might be the next Apple, or Facebook or Google. It's about taking big risks for big payoffs, not chasing the marginal dollar.

And so, as I see it, while the high employee turnover in places like Silicon Valley surely poses tactical challenges for individual businesses, be they start-ups or tech titans, it is a clear strategic advantage for the region taken as a whole. The data, in terms of rates of economic growth, wealth creation and innovation, pretty clearly suggest that the costs of higher team turnover, while no doubt real, are more than compensated for by the benefits. That having a workforce always on the lookout for the next big opportunity – and willing to jump at it despite the risks – is the stuff of outsized innovation and economic performance.

And thus the paradox of high employee turnover. It may be bad for you and me, but it can be very good indeed for us.

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