

**DISCHARGES, POOR-PERFORMING QUILTS, AND LAYOFFS AS “VALUED  
EXITS”: IS IT REALLY ADDITION BY SUBTRACTION?**

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## ABSTRACT

We contend that a variety of types of employee exits from the firm are presumed to be a net positive and are thus valued by management. For each of three “valued exit” (VE) types (discharges, poor-performing quits, and layoffs) we examine incidence, construct similarities and differences, and antecedents. We also summarize and critique the literature on consequences for the organization. In doing so we discuss how an underlying tension must accompany the analysis of VE’s, as the intuitive notion of addition by subtraction must be considered relative to evidence that the operational disruption created by VE departures may at times mitigate or even outweigh the VE benefits.

## I - INTRODUCTION

While voluntary turnover has received enormous attention in the literature and is generally seen as problematic (Hausknecht & Trevor 2011), certain types of employee exits typically have been presumed to be of value to the organization. First, *forced exits*, those leavers who separate from the organization for other than volitional reasons (i.e., layoffs and discharges), are deemed to be a means to reduce costs and or remove bad apples. Second, while voluntary turnover is generally counterproductive, the poor-performing subset of these leavers are often assumed to yield turnover that is functional or advantageous for the firm (Abelson & Baysinger 1984, Dalton et al 1981, Dalton et al 1982). Together, both these forced exits and the poor-performing quits are seen as human capital losses whose benefits outweigh costs, and thus comprise a category we refer to as “valued exits” (VE). Yet, a close analysis of the conceptual and empirical evidence suggests a more nuanced and potentially counterintuitive interpretation of much of the presumed VE ramifications.

Our goal here is to critically examine what we do and do not know about VE’s. The topic warrants closer examination for several reasons. First, VE occurs in virtually every organization and often with great frequency. Second, the implications of such exits are multi-faceted, manifesting in a complex web of important positive and negative consequences for the firm (e.g. changing the workforce quality in a variety of ways, saving and generating considerable costs, and disrupting and improving individual and firm performance). Third, and likely as a result of this complexity, the relevant research often addresses VE’s in an indirect or fragmented manner and thus has been less informative than has typically been assumed. Consistent with these notions, VE consequences are likely subject to an array of contingent factors that management may or may not be aware or in control of (e.g. replacement costs, work interdependencies, and

learning curves). Because understanding the impacts of VE's requires a subtle lens, focusing on particular dimensions of VE's in a vacuum may lead to improper inferences regarding their impact. Consequently, researchers and practitioners would benefit from an integrated review of VE's that carefully addresses definitions, antecedents, consequences, contextual factors, methodological considerations, and a conceptual framework that accounts for the inherent nuance in VE dynamics.

### **Definitions and Paper Scope**

To that end, we begin by more formally addressing the VE construct and constituent parts. We define valued exits as employee separations whose benefits are presumably perceived by management to outweigh the costs. Our inferences regarding managerial perceptions are grounded in the reasonable assumptions that managers tend to (a) value the departures of poorly performing and misbehaving employees, particularly given their likely replacements, and (b) value the critical labor-cost savings earned through headcount reduction when context appears to dictate the necessity of layoffs or restructuring. As such, our conceptualization characterizes VE's as comprised of three separate types of exits. First, and perhaps most obviously, we view involuntary turnover as one subset of VE's. These are employee discharges for cause (also sometimes called dismissals), with the employer-initiated separation attributed to poor performance or unacceptable behavior (e.g., theft, violation of an absence policy) (McElroy et al 2001). Second, we view VE's as also including the voluntary turnover (i.e. quits) of poor-performing employees. An underlying assumption as we discuss these terms economy-wide is that employees viewed by management as poor-performing would tend to be poor-performing in other firms as well, although we acknowledge that this would not always be the case (i.e., an

employee performing at the 10<sup>th</sup> percentile in one company might be at the 30<sup>th</sup> percentile in a company that is less adept at employee attraction and motivation). While both discharges and poor-performing quits have at times been described as “functional turnover” (e.g. Dalton et al 1981), our position is that actual functionality remains an open question and that we can have more confidence that such exits are valued, or thought to be functional, than that they are actually a net positive. The third and final employee group making up VE’s are layoff victims. In contrast to the first two types of VE’s, layoff victims are not necessarily low performers or problematic employees and their loss is often accompanied by some indication of the organization’s regret that good people had to be let go (Cascio 1993). Thus, the exits are seen as unfortunate but also as valued, as they serve the strategic interests of the firm. Figure 1 illustrates our characterization of VE’s as a multifaceted construct that incorporates different types of exits.

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Figure 1 about here  
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VE’s can be considered as all employee exits for whom, from the firm’s perspective, the total benefits are believed to outweigh the costs. Consequently, our review focuses on all poor-performing quits and all forced (i.e., firm-initiated) exits, which Figure 1 identifies as discharges and layoff victims. Importantly, our VE definition and conceptualization do not rely on post-hoc evaluation of the consequences and utility that actually result from an employee’s exit. That is, we emphasize that we conceive of these exits as “valued,” but not necessarily rightly so. In fact, we argue here that the evidence does not always support the “valued” position. Except where necessary for comparison or context, we do not address Figure 1’s “undesirable exits,” which are the average-performing and high-performing quits that have also been characterized as

“dysfunctional turnover” (e.g. Dalton et al. 1981, Park et al. 1994) . Similarly, we do not review voluntary turnover in general, but note that comprehensive reviews at the individual and collective levels are readily available (Hausknecht 2017, Hausknecht & Trevor 2011, Holtom et al 2008, Hom et al 2017, Rubenstein et al 2018).

### **Valued Exit Incidence**

Given that valued exits is a new approach to thinking about a certain subset of all employee exits, beginning to understand VE relevance requires gaining a sense of VE incidence. In terms of total exits and total forced VE’s (i.e., discharges and layoff victims), the Bureau of Labor Statistics Job Openings and Labor Turnover Survey provides excellent data. It is straightforward from this website to glean, for example, that there were approximately 22 million layoffs and discharge events out of 66 million total separations (i.e., exits) across all non-farm industries in 2018, thereby indicating that approximately 33% of all 2018 employee exits were forced exits (U.S. Department of Labor 2019). Unfortunately, the BLS does not differentiate between discharges and layoffs in these numbers. The site also provides overall quit numbers, indicating that the roughly 40 million quits in 2018 comprised about 61% of all exits. Hence, 94% of all 2018 exits were quits, layoffs, or discharges (the remaining 6% were exits as a function of retirement, death, disability, or transfer to another location).

These BLS data, however, while helpful for context, tell us little regarding the relative proportions of the VE types identified in Figure 1. To gain reasonable inference regarding VE incidence in the respective categories, we needed to develop our own estimates. To our knowledge, no studies, and no single sources, have systematically isolated the levels or rates of poor-performing quits, discharges, and layoffs in the U.S. workforce. To differentiate between

the discharges and layoffs aggregated in the BLS data, we first estimated the amounts of discharges from published research. Based on two meta-analyses of turnover rates (Heavey et al 2013, Park & Shaw 2013), our literature search revealed 18 articles containing 23 discharge rates. Given that discharge rate clearly would vary widely across firms and industries, and given that our small sample yielded two outlier rates that substantially influenced the mean, we assumed that the median rate of 5.98% from this distribution was more representative of discharge rates in the population. Indeed, three major benchmarking surveys suggested a value roughly in this neighborhood. The 2018 North America Mercer Turnover Survey of over 150 US organizations and the 2017 Society for Human Resource Management survey of 883 membership firms both reported mean involuntary turnover rates of 6% (Mercer 2018, SHRM 2017). Both surveys, however, included layoff victims in their calculation of involuntary turnover rates (i.e., the firm's layoff victims during the survey year, if any, were included in the numerator when computing rate). This indicates that 6% is likely an overestimate of the true discharge rate that we are attempting to estimate. In contrast, the Management Association's 2016 survey of 173 member firms explicitly excluded layoffs from the calculation of involuntary turnover rates and found an average rate of 5.4%. Overall then, we found it reasonable to estimate that approximately 5% of all employees, and thus 7.4 million employees, were discharged in 2018. Further, given that discharges are a function of individual performance and behavior problems, rather than economic trends, we assumed this rate generally held constant throughout a 10-year window from 2009-2018. These discharge estimates also allowed us to subsequently estimate layoffs over that time span, given the BLS reporting of combined layoffs and discharges (see Figure 2).

Estimating poor-performing quits is arguably less straightforward. While the BLS data very clearly tell us overall quits per year (or month), of interest here is what portion of those quits are poor performers and thus VE's. Our literature search yielded only 6 studies with information on poor-performing quits. Shaw and colleagues provide much of the available data, with their studies showing poor-performing quit rates (i.e., the percentage of the workforce who were classified as poor-performing quits) of 4% (Shaw 2015), 3.92% and 17.98% (Shaw et al 2009), and 13.8% (Shaw & Gupta, 2007; we estimated this percentage from the number of poor-performing quits and firm size). Alternatively, we can think about poor-performing quits as percentage of total quits, with Fleisher (2011) reporting that poor-performing quits made up 10.8% of all quits, and the Shaw and Gupta (2007) data suggesting that poor-performing quits comprise 38.3% of all quits. Given the small sample of studies and the variety of contexts from which these samples are drawn, estimates of poor-performing quits vary dramatically and do not adequately suggest valid population estimates for this VE type. Apparently, while scholars and managers are quick to consider job performance in relation to turnover, actually designating leavers as poor performers is relatively rare.

Because the extant research specifically addressing poor-performing quits does not provide a basis for generalizing to the population, we instead draw upon an alternative approach. Here, we first estimate the number of poor-performers in the population and then use what we know about the relationship between job performance and voluntary turnover to gain estimates of Figure 1's poor-performing quits. We begin by drawing upon well-publicized examples of the widely adopted forced distribution rating systems through which a firm identifies poor-performers (Scullen et al 2005). Notable classifications of poor-performers may range from the bottom 10% at Ford Motor Co. (Siegel v. Ford Motor Co. 2001), General Electric (General



Electric Company 2000), and Goodyear Tires (Jones v. Goodyear Tire & Rubber Co. 2004) to the bottom 5-15% at Yahoo (Carlson 2015) and the bottom 20% at American International Group and Microsoft (Kwoh 2012, Moussouris v. Microsoft Corp. 2019). Thus, we estimate that somewhere between 10% and 20% of the workforce might be deemed to be poor performers. Choosing 15%, while acknowledging that the number is arbitrary and that “poor-performing” is without adequate definition in most of the relevant academic and applied literatures, gives us a starting place from which to then estimate poor-performing quits.

The second step is to draw upon research’s established relationship between job performance and quitting. If there were no relationship between the two, an estimate of 15% of the population being poor performers would also tell us that 15% of all quits were poor performers. Given the well-established negative relationship between job performance and voluntary turnover (Bycio et al 1990, Griffeth et al 2000, McEvoy & Cascio 1987, Williams & Livingstone 1994), however, we can expect the quit rate of poor-performers to exceed the proportions of the workforce that are classified as poor-performing. That is, it has long been accepted that, all else equal, a poor-performer is more likely than other employees to quit, presumably due to fear of discharge (Jackofsky 1984) and a variety of low intrinsic (Steers & Mowday 1981) and low financial returns to poor performance. Consequently, any estimate of the percentage of poor performers in the workforce should be an underestimate of the percentage of poor-performing quits.<sup>1</sup>

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<sup>1</sup> While this statement may be complicated to some degree by various authors’ finding of a curvilinear relationship in which high performers and low performers were more likely to quit than were average performers (e.g., Salamin & Hom 2005, Trevor et al. 1997), analysis of the performance-turnover distributions from those studies indicates that the basic premise of poor-performing quit rates exceeding the proportion of poor-performers remains unchanged.

Sturman et al (2003), in a utility analysis examining whether the retention benefits of performance-based pay exceeded the costs of the pay program, provide enough data on quit likelihoods at numerous performance levels for us to formulate a general rule for relating any poor-performance threshold (in terms of percentile in the firm’s performance distribution) to a reasonable estimate of subsequent poor-performing quits. That is, based on the performance-quit relationship in a sample of over 5,100 employees from all exempt jobs in a major corporation, which was revealed in considerable performance-specific detail by Sturman et al., we calculated that a “lowest 15% of distribution” poor-performance threshold yielded an estimate of 26.72% of all quits as poor performers. For comparison’s sake, 10% and 20% poor-performance thresholds predicted that 19.35% and 34.09% of all quits, respectively, would be poor performers. Applying this 15% threshold and subsequent 26.72% of all quits as poor-performers information to the BLS data allows us to complete the estimates of our VE categories of interest. We illustrate in Figure 2 our estimates of VE incidence over the last decade. For context, we include all quits, as well as the difference between all quits and poor-performing quits, which are the average-and-high-performer quits (AHPQ’s) often deemed to be dysfunctional turnover.

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Figure 2 about here  
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Figure 2 reveals the estimated relative rates and trends of VE incidence over the past decade. While the Figure is presented so as to reveal percentages of the employed U.S. workforce, we note that, in 2018, the figure represents approximately 10.7 million poor-performing quits, as compared to 40.1 million total quits and 29.4 million dysfunctional quits who were average or high performers (once again, this is based on an initial estimate that 15% of the workforce are classified as poor performers). In contrast, there were about 14.3 million layoff

victims in 2018 (9.6% of the employed workforce) and 7.5 million discharges (5% of the employed workforce).

In terms of trends, as noted earlier we constrained the discharge rate, which is an aggregate of relatively idiosyncratic exits, to be constant over time. The data indicate, however, that overall quit rate has increased to from 16% to 26.8% over the last decade, consistent with what would be expected given the generally improving economy and the tendency for heightened voluntary turnover in response to the tightening labor market. Specifically, between 2009 and 2018, the average unemployment rate has declined from 9.3% to 3.9% and the average level of job openings has risen from 2.5 million to 7.2 million (U.S. Department of Labor 2019). Of interest to firms should be the recognition that more poor-performers are also moving into the labor pool at any one time. Since firms tend to have particularly acute needs to hire in a strong economy, this heightens the importance of investment into valid recruitment and selection practices. Over the last half of the decade the layoff rate appears to have stabilized. While the healthy economy may have reduced the pressure to cut labor costs, as the overall layoff rate was 6.2 percentage points (and 64.6%) greater in 2009 than in 2018, it is noteworthy that we still are seeing about 14 million people victimized by layoffs on an annual basis. In sum then, the 2018 BLS data and our own estimates indicate that there were approximately 32.6 million VE's in 2018, down from 33 million in 2009. That is, about 49.3% of all 66.1 million employee exits in 2018 were likely to be deemed by management as a net plus for the firm. A crucial issue then becomes the degree to which such an inference by management is likely to be valid.

### **Valued Exit Functionality: Fact or Fiction?**

An enduring position in the scholarly (e.g. Dalton et al. 1982, Love & Nohria 2005, McElroy et al. 2001, Park et al. 1994) and popular business (e.g. Conger & Church 2018, Fatemi, 2016, La Monica 2013) literatures is that discharges, poor-performing quits, and layoffs are ultimately functional, or beneficial, for the organization. Indeed, this position is why we use the term “valued exits,” as it is the assumption of functionality that yields the perception of these exits having value for the firm. The question of whether VE’s are in fact functional, however, remains largely unanswered. We contend that adequately considering the question, and the research that directly or indirectly addresses it, necessarily entails a sophisticated analysis of numerous concerns, such as VE characteristics, stayer characteristics, the relevant labor market, separation and replacement costs, job type, operational disruption, level of analysis, HR practices, and context. As such, we maintain that analysis of VE functionality is riddled with conceptual and methodological nuance that is largely missing in the relevant literature. Further, the analysis of such nuance is best undertaken at the level of a lower level of abstraction than the VE construct, as there are crucial differences between poor-performing quits, discharges, and layoff victims that must be considered when examining the functionality question. Hence, we address that issue in the exit-specific sections of the paper that follow.

## **II – DISCHARGES AND POOR-PERFORMING QUILS AS VALUED EXITS**

### **Clarification of Discharge and Poor-Performing Quit Constructs**

Although the notion of employee “discharge” appears to be rather unambiguous, misunderstanding associated with differentiating discharge from both of the other two VE types is not infrequent. First, while involuntary turnover is often defined in terms of the organization’s

decision to discharge the employee (Shaw et al 1998), some in the academic and popular business press also include layoffs in the involuntary turnover conceptualization. Hence, although we prefer the more narrow (i.e., excluding layoffs) approach to the term “involuntary turnover,” to avoid confusion we focus on “discharges,” as this term most clearly identifies only those employees dismissed from employment due to poor job performance or unacceptable behavior. Discharges are a function of poor individual standing relative to some expectation, while layoffs represent deliberate attempts to downsize the workforce (McElroy et al 2001). That is, while both represent VE’s that are forced exits, discharge is an employer action to remedy an employee problem, while layoffs are an employer action to remedy an employee surplus. In short, in contrast to a layoff, a discharge can be seen as the employee’s fault.

Having differentiated discharges from layoffs, however, we also recognize that the distinction between discharges and poor-performing quits, the two VE types identified as “idiosyncratic” in Figure 1, is not as simple as is often thought. The line between discharge and poor-performing quits can be blurred because the perceived possibility of discharge may drive some poor-performers to quit before they are terminated (Jackofsky 1984). These employees may recognize that discharge is imminent if they do not resign and thus have little power to extend their employment. Yet, their departures may be officially recorded as quits rather than discharges to avoid creating negative records and job market stigmas for these employees (Campion 1991, Jackofsky 1984). Clearly, many employees coded as poor-performing quits and discharges are similar performers up until the final exit descriptor is determined. Accordingly, traditional perspectives indicate that poor-performing quits can be similar to discharges in terms of the potential impacts on the organization (e.g. costs or productivity) (Campion 1991, Dalton et al 1981, Dalton et al 1982).

While the incidence of poor performers choosing resignation to avoid being discharged is unknown, the distinction can be a meaningful one. First, as noted, being officially discharged can be quite detrimental in terms of securing future employment, reference checks, etc. The difference is also important from a legal perspective, as exit reason has implications for unemployment benefits as well as various aspects of post-employment legal recourse. Here, the term “quit in lieu of discharge” is sometimes used to indicate an exit in conjunction with a negative response to the question of whether continuing work was available had the employee not quit. Such a response can result in characterizing, for legal purposes, the ostensible quit as a discharge (Employment Development Department 2019). Also of relevance in determining whether an exit was legally a quit or a discharge is whether the employee or the employer first moved to end the relationship; the “moving party” concept is typically applied whenever the reason for leaving is contested (Employer Advocates LLC 2006). This moving party determination is not always clear-cut, as might be seen with a resignation in which the employee gives two weeks notice but then is asked to leave immediately. Often central to these legal concerns is the determination of eligibility for unemployment benefits. These can be available to both quits and discharges if the employee can reasonably argue that there was a compelling reason to leave. Such reasons vary considerably by state, but in general we can conceive of unemployment benefits tending to be made available if someone was discharged without cause. In terms of quits, the individual would need to be able to argue “constructive discharge,” which indicates that the leaver should be treated as if discharged without cause because working conditions were so intolerable, as might be the case with sexual harassment or unsafe surroundings, that no reasonable person would stay (Jacobs 2013).

The surprisingly complex relationship between poor-performing quits and discharges as VE types does suggest that we more explicitly address the potential fluidity between the two statuses and at least a portion of the legal foundations in our construct definitions. Consequently, we define poor-performing quits as voluntary leavers who are in the bottom portion of the performance distribution (we adopted 15%, somewhat arbitrarily, when examining incidence), who are viewed by management as likely to be replaceable by better employees but not as performing badly enough to warrant firing, and who have not felt compelled to quit due to likely impending discharge. For those who have felt such compulsion and quit as a result, we follow the legal perspective of viewing “quits in lieu of discharge” as actual discharges. Similarly, we consider those poor performers who quit due to constructive discharge (i.e., intolerable conditions) as discharges, given that the legal position is that these quits should be treated as if discharged for the purposes of considering unemployment benefits and the potential to file wrongful termination suits. We add that our use of the term “performance” in this context tends to represent task performance, but that there are more dimensions of performance that would be relevant, as we discuss in a subsequent section on contextual factors.

Finally, we add that we do not consider the separation of contingent workers to fall within the scope of discharges, unless their exits are due to dismissal for cause (i.e., unacceptable performance or behavior). These workers do not have an explicit or implicit contract for long-term employment, as their departures are pre-planned (Kalleberg 2000, Polivka & Nardone 1989). As such, contingent worker exits would not typically fall under the coverage of our VE framework.

### **Antecedents of Discharges and Poor-Performing Quits**

From the managers' perspective, evidence suggests that discharge decisions are influenced by formal policies and informal norms of the organization. Specifically, Klaas and Dell'omo (1997) found that strict procedures (e.g. strong evidence requirements and appeal systems) are negatively associated with managers' willingness to discharge when there is ambiguity to just cause (e.g. lack of evidence, documentations, or prior offenses). Furthermore, informal norms against discharges reduce the managers' willingness to discharge regardless of whether threats to just cause exist.

As for the employee's perspective, many academic approaches to turnover owe their conceptual roots to the March and Simon (1958) turnover model that identifies perceived desirability of movement and perceived ease of movement as the fundamental drivers of quit behavior (Trevor 2001). While we do not address general antecedents of turnover here, which typically predict quits across all levels of the employee performance domain, it is helpful to leverage the March and Simon fundamentals to better understand performance-specific turnover. Thus, we highlight factors that are particularly likely to invoke movement desirability or movement ease for poor performers. First, we note that there is extensive evidence that poor performance is a primary driver of both discharges (Dalton et al 1981, McEvoy & Cascio 1987, Wanous et al 1979) and quit likelihood (Griffeth et al 2000, Rubenstein et al 2018, Stumpf & Dawley 1981, Williams & Livingstone 1994). But just why does poor performance make exits much more likely?

In general, scholars have endorsed the movement desirability explanation when identifying turnover antecedents of particular relevance to poor performers. Poor-performing quits often are attributable to factors such as low satisfaction with the job's intrinsic rewards (Steers & Mowday 1981), issues with one's supervisor (Trevor et al 2007), or with being



“pushed out” because of “actual or perceived threat of administrative action” (Jackofsky 1984, p. 79). Such factors should leave them with high movement desirability and subsequently high quit rates (Trevor et al 1997). While the antecedents above involve movement desirability that is specifically heightened for poor performers, evidence also indicates that poor performer quitting may be particularly responsive to factors that enhance these employees’ (typically low) ease of movement in the job market. Trevor (2001), who studied human capital rather than performance, reported that unemployment rate’s constraining effects on quitting were stronger for those employees low in cognitive ability, education, and vocation-specific training (who, presumably, would tend to be lower performers). In a more direct examination of the ease of movement effect, Trevor et al (1997) found that, once the pay associated with promotions was controlled for, promotions themselves appeared to serve a more salient signaling function on the job market for poor performers, as the positive effect of promotions on quitting was greatest when performance was lowest.

Also consistent with these findings are the indications that HRM practices are particularly important to poor-performing quits and discharges. The HR systems research has identified broad sets of HRM practices as primary antecedents of idiosyncratic VE’s (discharges and poor-performing quits). Batt and Colvin (2011) found that firms with greater utilization of high-involvement work practices (e.g. high employee discretion, self-directed teams) and inducement and investment practices (e.g. internal hiring, valid selection procedures, and low selection ratio) have significantly lower discharge rates. Conversely, firms that use more expectation-enhancing practices (e.g. electronic monitoring) face higher discharge rates. Shaw et al (1998), meanwhile, found that a more favorable selection ratio predicts lower discharge rates when accompanied by more extensive valid selection procedures. Shaw and colleagues also found a positive association

between training and discharge rate, though they were unable to identify the causal direction of this relationship. In a separate study, Shaw et al (2009) studied the antecedents of good- and poor-performer quits among trucking firms and supermarkets. The researchers found that inducement and investment practices are negatively linked to poor-performer quits among supermarket workers and that expectation-enhancing practices were associated with higher poor-performer quit rates in both samples.

Related to the issue of expectation enhancing HR practices is the pay-for-performance incentive system. Here, the compensation literature suggests that pay-for-performance schemes aid in the sorting (attraction and retention) of high-performers (Cadsby et al 2007, Gerhart & Rynes 2003, Gerhart et al 2009), thereby also indicating that attraction and retention of poor performers may be reduced under such schemes. Tournament theory is often the cited explanation for how pay dispersion that is tied to performance has a motivational effect on the workers. Under such system, tournament “winners” (i.e. high performers) can be expected to stay with the organization and receive extensive compensation relative to the “losers” (i.e. poor performers) who may choose to quit the organization (Lawler 1971, Lazear & Rosen 1981). Similarly, expectancy theory (Vroom 1964) predicts that the expectancy and or instrumentality, and thus the motivation, to remain in a job in which one is a poor performer will be reduced when pay-for-performance is high. In support of these perspectives, evidence indicates that poor performance is more likely to lead to quits under heightened pay-for-performance (Lazear 2000, Shaw 2015, Shaw & Gupta 2007, Trevor et al 2012). In sum, we can conclude that discharges and poor-performing quits are driven by management practices that either improve the overall workforce quality or practices that demand and reward high levels of task performance, all of which suggest heightened movement desirability for the poor performer.

## **Consequences of Discharges and Poor-Performing Quits**

The functional turnover perspective maintains that both discharges and poor-performing quits should improve collective-level performance as poor-performers are replaced by new hires with potentially greater abilities, motivation, and training (Staw 1980). Several theorists also proposed that these VE's can remove employees whose salaries (i.e. retention costs) exceed their marginal productivity (Abelson & Baysinger 1984, Dalton & Todor 1982). In terms of employee outcomes, VE's may also increase morale and reduce entrenched conflicts in the event that undesirable coworkers or supervisors leave the organization (Staw 1980). Therefore, turnover of employees exhibiting high levels of counterproductive work behaviors should yield net-positive value to the organization and the remaining employees. Further, the employee's underlying quality is imperfectly known at the point of hiring. Thus, from a labor market job matching viewpoint, some turnover is necessary to correct selection mistakes by removing poor-performers and those with low person-organizational or person-job fit (Burdett 1978, Jovanovic 1979).

These rationales for why discharges and poor-performing quits should be considered valued exits depend on two critical assumptions: (1) discharged employees are low-quality and (2) replacement hires are higher-quality than those who left. Although high performers can be discharged in certain cases of gross misconduct (e.g. absenteeism, drugs, theft, sexual harassment), empirical evidence suggests that the first assumption is a tenable one. A meta-analysis by McEvoy & Cascio (1987), for example, revealed a strong negative correlation between job performance and involuntary turnover ( $r = -.51$ ). As for the second assumption, scant empirical evidence exists for the idea that, at the organizational level, discharged

employees and poor-performing quits will be replaced by employees of “average” or superior quality. Although two studies found that replacement employee quality has a positive relationship with future firm profits (Call et al 2015, Ployhart et al 2009), only Call et al (2015) were able to measure the types, quantity, and quality of both quits and replacements in tandem. The Call et al study is noteworthy in that, while not necessarily refuting assumption two, it clearly demonstrates the deleterious effect of losing high quality employees while also providing some support for the positive relationship between replacement quality and unit performance.

Table 1 contains all collective-level studies examining the effects of poor-performing quits and discharges that we have found in our literature review. Contrary to the traditional perspective that discharges and poor-performing quits should provide functional benefits to the organization, most collective turnover studies instead indicate that idiosyncratic VE’s are negatively associated with firm performance and unit-level outcomes (Hausknecht 2017, Hausknecht & Trevor 2011). Two exceptions to this tendency are Shaw (2015) who found that poor-performing quit rates predict increase in sales, and Lee (2018) who found a positive association between discharge rates and employee-rated unit performance. Two primary conceptual explanations exist for these empirical findings that, overall, conflict with the functional turnover thinking and bring into question the degree to which VE’s should in fact be valued.

The operational disruption rationale states that the turnover of any employee, regardless of his or her quality, inflicts a series of direct costs upon the organization (e.g. separation, replacement, and training) (Allen et al 2010, Cascio & Boudreau 2011). There is also the potential for work routine disruption as the remaining employees must shoulder greater job demands due to the loss of personnel and the burden of new employee socialization (Batt &

Colvin 2011, Hausknecht et al 2009, Reilly et al 2014, Summers et al 2012, Watrous et al 2006). Indeed, the organization suffers from lost productivity due to both the job vacancy before the replacement is hired and the (at least) temporary performance decrement resulting from going from the leaver to the new hire (Batt 2002, Kacmar et al 2006, Koys 2001). That is, new employees must undergo a period of training and acclimation before they become fully proficient in their new roles (Kozlowski & Bell 2003). Hence, the replacement must be particularly good to fully negate the loss due to vacancy and replacement time-to-proficiency. Lastly, turnover may also lead to social capital depletion as the resources embedded in social relationships are lost when the people who comprise such relationships leave the organization (Dess & Shaw 2001, Shaw et al 2005). Given that social capital facilitates knowledge sharing, communication efficiency, trust between employees, and collective goal pursuit (Leana & Van Buren 1999), it follows that social capital depletion would impair collective performance. Altogether, these reasons suggest that the presumed net benefits of discharges and poor-performing quits may well be overstated, as disruption costs are considerably weightier than most have assumed. Hence, both conceptual analysis and the collective exits studies in Table 1 are consistent with the VE costs likely outweighing the potential benefits of discharges and poor-performing quits.

In contrast to the disruption argument, the workforce quality view focuses on the idea that extant functional turnover theories are grounded in the individual level phenomenon and thus are not isomorphic to the collective level. A single poor-performing quit or discharge event may create a good chance for higher quality replacement to occur. At the collective level, however, both discharge and poor-performing quit rates tend to simply reflect the extent to which the overall workforce engages in counterproductive work behaviors and underperforms. Assuming both the applicant pool and the organizational selection strategy remain constant, the

quality of replacement hires should not differ from the quality of the original workforce that produced certain levels of discharges and poor-performing quits in the first place (Hollenbeck & Williams 1986). In other words, “high involuntary turnover rates [and poor-performing quit rates] may partially proxy a dysfunctional workforce.” (Hausknecht & Trevor 2011, p. 369). As a result, the Table 1 findings are to be expected, as, all else equal, we would expect that higher levels of poor performance and of behaviors warranting discharge would tend to be detrimental to firm performance.

Given the strength of the operational disruption and workforce quality arguments against VE’s being functional at the collective level, an important question for the firm becomes one of how to reduce the discharge and poor-performing quit rates. More specifically, how can we reduce the number of employees requiring discharge and the number we consider to be poor performers. These are classic management questions, of course, and bring into play individual HRM practices as well as their bundling (i.e., fit) with each other and with firm strategy. The important takeaway here, however, is that despite the intuitive appeal of functional turnover considerations, particularly at the individual level, ultimately firms are probably better served by having smaller numbers of idiosyncratic VE’s, as this reflects having smaller numbers of problematic employees.

We do, however, recognize the need for a caveat at this point. There is a scenario in which we would expect higher poor-performing quit rates to result in enhanced firm performance (i.e., we would expect VE’s to be functional at the collective level). Recall from earlier that pay-for-performance schemes can produce a sorting effect that retains more high-performers and leads more poor-performers to quit (Trevor et al 1997). Should two firms be essentially identical, it is straightforward to envision one firm becoming more successful than the other by increasing

its pay-for-performance emphasis such that overall quit incidence did not change but the performance distribution of quitters went from, say, 30% poor, 40% average, and 30% high performers to 45% poor, 40% average, and 15% high performers. Assuming the improved performance distribution of employees over time compensated for the increased pay expense, and that nothing else changed, the firm with the higher poor-performing quit rate would enjoy a higher quality workforce and, likely, greater success, consistent with the functional turnover framework. The key component of this caveat is *why* the number of poor-performing quits has increased. First, it was not as a function of the applicant pool producing more poor performers. Over time, the quality of the replacement hires will not change and will be no different between the two firms. Second, the number of poor-performing quits only increased to the extent that the number of high-performing quits decreased, thereby leaving overall quit rate unchanged. As such, operational disruption should remain constant or even be reduced since poor performers are easier to replace. In sum, such a scenario would allow the functional turnover perspective to be supported, as the VE's were rightfully valued, in that they produced a net positive for the firm that switched its pay plan.

Why then don't we see more studies in Table 1 that support functional turnover resulting from VE's? It is important to recognize that the most supported finding from Table 1 is that discharge rates tend to be negatively related to firm performance. The causality here is questionable. Two likely explanations are that higher discharge rates tend to reflect either more dysfunctional applicant pools or poor HRM that somehow selects for or encourages misconduct. These situations suggest lower quality workforces that act as omitted variables by driving both the higher discharge rate and the poor firm performance. Thus, it is not our position that VE's in general and discharges in particular are necessarily dysfunctional, but rather that there are a

variety of reasons to suspect that functional turnover often is a problematic concept. As another example, it could be that the high discharge rate firms simply have more stringent policies that better detect dischargeable offenses. All else equal, it remains an open question as to whether the increased number of discharges (and subsequent replacements) in such firms, relative to those in comparison firms, would produce enough performance gains to offset the greater operational disruption associated with exits of any kind. In sum, while more research is required to tease out the causal implications of idiosyncratic VE's, our reading of the operational disruption and workforce quality perspectives as well as the empirical work to date casts considerable doubt on the functional turnover position.

### **Methodological Issues and Future Research Directions**

**Measurement of Unstructured Exits.** Research on VE's would greatly benefit from scholars being more meticulous about defining and coding exit type. Indeed, we found that some studies of involuntary turnover rates were unclear on the distinctions between discharges, layoffs, or planned departures of temporary workers, and sometimes combined these different types of exits into a single measure. These are important distinctions, as, for example, while collective involuntary turnover is negatively associated with unit performance (Heavey et al 2013), planned departure of temporary workers has an inverted-U shaped relationship with unit performance (De Stefano et al 2018). Regarding the study of poor-performing quits, scholars should provide information on stayer and leaver performance classifications or distributions when possible. In one example, Shaw et al. (2009) asked informants to report number of quits who rated among the top and bottom 20% on performance. In another example, Sturman et al (2003) examined the number of exits under nine different performance ratings. Such information



provides clarity as to leaver quality and thus facilitates not only better assessments of the impact of turnover at various performance levels, but also opens the door for more sophisticated study of the relative impacts of leaver and replacement quality (see the first point in the sidebar titled Recommendations for Future Research and Practice).

**Employee Quality.** The assessment of worker quality is a critical issue in studies of turnover consequences. From a utility standpoint, whether a turnover is functional or dysfunctional depends on the net difference in the workforce quantity, quality, and turnover costs (Boudreau & Berger 1985). Accordingly, the principal collective turnover theories – Context-Emergent Turnover (CET) and Turnover Capacity – have explicitly incorporated employee quality into their models (Hausknecht & Holwerda 2013, Nyberg & Ployhart 2013). In terms of empirics, several studies were able to overcome the worker quality data limitation by acquiring subjective assessments from informants (Campion 1991, Dalton et al 1981, Johnston & Futrell 1989, Park et al 1994, Shaw et al 2009) or by utilizing objective measures of hiring quality or job performance (Call et al 2015, Hollenbeck & Williams 1986, Ployhart et al 2009). We urge researchers to build on the foundations laid by these studies (see the second and third points in the sidebar titled Recommendations for Future Research and Practice).

### **III – LAYOFF VICTIMS AS VALUED EXITS**

The third VE type in Figure 1 are layoff victims. We assume here that firms engage in a layoff strategy because it is believed that the benefits associated with headcount reductions outweigh the losses associated with the departure of human capital. Such beliefs identify the layoff victims as a net positive for the firm and thus as valued exits. What makes these victims VE's then is the recognition that the loss of human capital, though regrettable in one respect, is a

necessary step toward financial rebound or continued success through restructuring. That is, on balance, the layoff victims are “valued” exits because the employee losses are seen as outweighed by the advantages of labor cost savings, reduction in redundancy, or in the ability to run lean. Indeed, this is exactly why organizations downsize. To the extent that this cost-benefit analysis reflects reality, one can argue that there is at least a defensible logic behind the trauma notoriously endured by layoff victims (Noer 1993).

### **The Layoff Construct and Layoff Antecedents**

We define layoffs here as the termination of non-temporary employment for business reasons, rather than for job performance or disciplinary reasons. Layoffs are deliberate reductions in the workforce (McElroy et al 2001), with the goal of cutting labor costs (and thus improving firm performance). As discussed earlier, layoffs have at times been included in scholarly and popular press approaches to calculations of involuntary turnover rate, a practice that we caution against. The majority of authors appear to differentiate layoffs from involuntary turnover, viewing the latter as responses to employee behavioral problems and the former as a more structured response to a need to reduce costs and, subsequently, headcount. The layoff concept is often evoked through a variety of arguably less inflammatory euphemisms, including downsizing, rightsizing, delayering, redeployment, workforce reduction, workforce optimization, reduction in force, and restructuring. Most of these terms are not entirely synonymous with layoffs, though they are sometimes used as if they were. Restructuring is of note, as we discuss later, because it also entails reorganizing operations, routines, and command, which can play a meaningful role in layoff success. Two additional constructs of interest here are layoff “victims” and “survivors.” Simply put, layoff victims are those individuals whose employment was

terminated as a result of the headcount reduction strategy, while survivors are the continuing employees who managed to avoid that fate.

The question of layoffs antecedents first appears to be a simple matter. Layoffs are undertaken primarily as a cost-cutting measure (Cascio 1993, Cascio 2002). Profits are equal to revenues minus costs, so the instrumentality associated with cost reduction is clear, assuming revenues are relatively unaffected (we return to this point shortly). More broadly, business downturns, frequently as a function of a decline in product demand, technological change, and the need to reorganize to become more efficient are classic drivers of a heightened cost focus and a subsequent decision to engage in layoffs.

It also has been suggested, however, that what could be characterized as questionable decision-making is a causal factor in some layoff initiatives. Certainly, the allure of reacting to cost pressures by engaging in layoffs is strong. Potentially compounding this incentive for managers are the personal benefits that can be gained when managerial pay is tied to short-term outcomes. Research has shown that the time orientation of managerial decisionmakers can be a function of pay incentives (e.g. Gerhart & Trevor 1996, Hoskisson et al 1993) . Given that it is the short-term balance sheet savings that are particularly salient and reliable when engaging in layoffs, Gerhart and Trevor (1996) investigated whether managers from 152 large companies appeared to more readily resort to layoffs when their pay was tied to more short-term outcomes. Their results suggest that layoffs can occur because managers are acting out of financial self-interest. Given the traumatic effects of layoffs on the victims' lives (Datta et al 2010), this is a chilling interpretation of the study. There can be reasonable rationale for engaging in layoffs, but managerial financial gain would not seem to qualify as such.

A second example of questionable decision-making on the road to layoffs involves institutional theory's prediction that managers will follow industry best practice in response to a legitimacy incentive for doing so. There is evidence that this occurs (e.g. Budros 1997, McKinley et al 1995), despite the fact that a layoff strategy may not fit with follower firm's circumstances. Layoffs are a drastic step and the evidence suggests that "successful" layoffs approaches appear to be entwined in a comprehensive restructuring strategy. Indeed, this was the key takeaway from an influential study by Cascio (2002) that provided strong evidence that simply reducing labor costs and assuming all else equal is problematic. Based on multiple years of data on S&P 500 firms, Cascio concluded that "Firms cannot simply assume that layoffs are a quick fix that will necessarily lead to productivity improvements and increased financial performance. The fact is that layoffs alone will not fix a business strategy that is fundamentally flawed." (p. 81).

### **Consequences of Layoffs**

All else equal, however, layoffs should be beneficial for the firm, as they reduce labor costs, often the company's largest single operating cost (Cascio 1993). Further, the degree of cost reduction is seen to be immediate, measureable, predictable, and potentially massive (Gerhart & Trevor 1996), while the long-term costs associated with layoffs are vague and unpredictable (Dyer et al 1985). Given this combination, it is not surprising then that management would see layoffs as valued exits.

Two key assumptions provide the foundation for seeing layoffs as VE's. One is that layoffs reduce labor costs. While this goes without saying, there are also costs associated with layoffs that can at least mildly mitigate the expected savings. First, relatively direct costs can

include severance pay, increased unemployment insurance, and outplacement services (Bolt 1983, US General Accounting Office 1985). Additionally, and somewhat less directly, should the firm perform well post-layoff, it may need to restock itself with employees and can thus face the costs of recruiting, screening, selecting, and training the layoff victims' replacements (Cascio & Boudreau 2011). All of these layoff costs, however, will tend to be easily outweighed by the concrete and formidable savings in labor costs.

The second assumption, however, is more tenuous, as the argument that layoffs should be valued exits also rests on layoffs, on balance, being beneficial to the firm. This is where things get complicated, as there are a variety of considerations that go into a nuanced cost-benefit analysis of this type of VE. Although some of these indirect costs are difficult to measure and difficult to isolate as consequences of layoffs, evidence is mounting that the cost savings and reorganization benefits associated with layoffs may not typically compensate for the potential fallout associated with this rather dramatic management strategy. Indeed, while the growing literature on the relationship between layoffs and subsequent firm performance offers little in terms of simple resolution, there is a great deal of support for intermediate (people-based) effects of layoffs that clearly jeopardize the argument that layoffs are an effective strategy.

In terms of both qualitative reviews and meta-analyses, the evidence on layoffs' effects on firm performance is inconclusive. VE's as layoffs combined with asset restructuring may reduce labor costs and yield positive market returns due to improved workforce efficiency (Cascio et al 1997, Franz et al 1998, Nixon et al 2004, Palmon et al 1997). On the other hand, pursuing layoffs purely as a cost-cutting measure does not seem to work (Cascio 2002). Furthermore, Datta et al (2012, p. 212) review the literature and report that, in general, both market value and profitability decline in the wake of layoffs, also noting that the market value

effect “is magnified when layoffs are permanent and the level of downsizing is greater.”

Certainly, the question is a complicated one with few simple and generalizable inferences, as recent treatments emphasize that context plays a telling role in layoff consequences. Properly identifying and isolating the relevant contextual conditions can be a daunting research challenge.

What is more clear, however, is that layoffs affect survivors in ways that, in turn, have implications for firm performance. First, research consistently reveals detrimental effects of layoffs on survivor attitudes. For example, layoffs have been found to lead to reduced levels of job satisfaction (Gilson et al 2004, Luthans & Sommer 1999), organizational commitment (Travaglione & Cross 2006), and trust (Brockner et al 1994), as well as heightened levels of stress and job insecurity (Brockner et al 1992, Leana & Feldman 1988). Such attitudes in the aggregate, in turn, have been linked to firm performance (e.g., Gong et al 2009, Koys 2001, Reisel et al 2005) , suggesting a viable pathway for VE’s in the form of layoffs to fail to result in a net positive for the firm.

In addition to the attitudinal fallout from layoffs, research now indicates that a critical survivor behavior is negatively affected. Turnover studies reveal post-layoff spikes in quitting behavior (Batt et al 2002, Trevor & Nyberg 2008). Why is this important? Firms downsize to reduce headcount to a target level, so unexpected subsequent turnover can leave the now-leaner firm understaffed, thereby limiting efficiency. Also, turnover is expensive (costs include replacement recruitment and selection, training, initial subpar job performance, etc.). Since layoffs are undertaken to cut costs, such unforeseen expenses can defeat the strategy’s purpose. Additionally, we know that voluntary turnover hinders firm performance (e.g., Hancock et al 2017, Hausknecht 2017). So, if layoffs produce more turnover, and turnover reduces firm performance, the layoff strategy can be counterproductive. Finally, as addressed earlier, turnover

tends to be dysfunctional due to the operational disruption associated with the loss of human capital and social capital. In short, “to the extent that turnover hinders organizational performance, the performance of downsizing companies may well suffer further through the leaving behavior that the layoffs generate.” (Trevor & Nyberg 2008, p. 273)

To summarize, it is clear that layoffs disrupt survivors. Further, aggregated attitudes and turnover rates have firm-level outcomes that suggest that layoffs, while cost saving in one important respect, will likely ultimately restrict revenues through various avenues. The cost-benefit balance is complex, as indicated by the mixed research evidence. It does seem reasonable, however, to view layoffs with considerable caution in terms of whether the VE’s do in fact reflect a net positive for the firm.

#### **IV – CONTEXTUAL FACTORS SURROUNDING VALUED EXITS**

We have thus far examined three types of VE’s with regard to construct definitions, antecedents, consequences, and the degree to which the valued exit also appears to be of actual value. On this latter issue, we have been particularly interested in the impact of operational disruption in response to the VE and, in the case of discharges and poor-performing quits, how VE’s at the collective level may actually serve as a proxy of workforce quality. We next address four major contextual factors that suggest ways in which to push the analysis of VE’s forward.

##### **Multidimensional Employee Performance as an Indicator of Quality**

One of the most important factors in determining whether a valued exit is of actual value to the firm is employee quality. The overall quality of any individual employee is comprised of important characteristics including but not limited to knowledge, skills, abilities, personality, demographics, and social and relational capitals. In order to simplify our framework, we have

focused solely on employee performance as the representation of overall quality. Performance, however, is a multidimensional construct encompassing a broad range of employee behaviors. Consequently, by enlarging our conception of performance to embrace these multiple dimensions, we can gain additional insight into our VE analysis.

*Task performance* is defined as “activities that contribute to the technical core of the organization, often prescribed by an employee’s job description” (Rubenstein et al 2018). This dimension is often equated with the employee’s overall job performance (Murphy & Shiarella 1997). Researchers, however, have also recognized the importance of *contextual performance* and how it can complement the employee’s task performance. Defined as “behaviors that contribute to the organization’s effectiveness by providing a good environment in which task performance can occur” (Aguinis 2013, p. 91), contextual performance can facilitate team effectiveness by increasing cooperation and improving the working environment of team members (Morgeson et al 2005). Examples of contextual performance include carrying out task activities beyond formal job descriptions and helping and cooperating with others. For the purpose of our discussion, we consider as part of contextual performance other related constructs such as occupational citizenship behaviors (Organ 1988), prosocial organizational behavior (Brief & Motowidlo 1986), and extra-role behaviors (Van Dyne et al 1995, Van Dyne & LePine 1998).

The third performance dimension of interest here is *counterproductive work behaviors* (CWB), which can be broadly defined as “intentional employee behavior that is harmful to the legitimate interests of an organization” (Dalal 2005, p.1241). Empirical studies have shown that CWB is negatively correlated with contextual performance, and CWB has a strictly detrimental effect on the organization (Sackett 2002, Sackett et al 2006). Examples of CWB include



absenteeism, abuse, bullying, sexual harassment, sabotage, and theft. We therefore consider deviant behaviors (Robinson & Bennett 1995), retaliatory behaviors (Skarlicki & Folger 1997), and workplace aggressions (Neuman & Baron 1998) to be subsets of CWB.

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Figure 3 about here  
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Because individuals possess different levels of these performance dimensions, each VE event may lead to different outcomes depending on the individual performance profile. We present several hypothetical profiles of employee performance in Figure 3 and suggest that the more finely grained performance information allows us to make inferences about valued exit that take the construct beyond a simple dichotomous indicator. That is, multidimensional performance allows us to attempt to determine the degree to which an exit would (not) be valued, rather than simply if an exit would be valued. Embodying the typical cases of dysfunctional turnover, the loss of employees A (Star) and B (Average Joe) should be highly undesirable and undesirable, respectively, because their departures would lead to significant declines in task and contextual performance, particularly for Star's exit, along with the cost of employee separation and replacement. In contrast, the classic functional turnover logic suggests that the departure of employees D (Inert) and E (Toxic) should be valued and highly valued, respectively, since these employees contribute little to organizational performance and, in the case of Toxic employees, are actively engaging in behaviors harmful to organizational interests. Still, our argument rests on several assumptions (e.g. the opportunity cost of poor task performance is high; turnover and replacement costs are sufficiently low; the costs of high CWB exceed any benefits produced by low-level of task performance).

The cases of employees C (Helper) and F (Toxic Star) are less clear, as determining the net impact of their exits requires careful consideration of both the levels and values of different performance dimensions. In additive (i.e. independent) task environments where collective performance is simply the sum of individual performance, the loss of Helper would likely be of little consequence (Steiner 1972). Conversely, in interdependent settings with high coordination demands, the loss of an employee like Helper with high contextual performance may be quite problematic (Griffin et al 2007), pending the impact of low task performance. As for the Toxic Star, it can be difficult to assess the benefits of the high-level task performance relative to the cost that the counterproductive behaviors inflict upon the organization. The utility calculations of the exit will inevitably be context-specific. A multidimensional approach to performance will require such calculations but will also provide a more flavored sense of the value associated with each employee exit (see the fourth point in the sidebar titled Recommendations for Future Research and Practice).

### **Environmental Complexity**

In the Context-Emergent Turnover (CET) theory, environmental complexity is an important moderator of the dynamic relationships between collective turnover, human capital resources, and firm performance (Nyberg & Ployhart 2013). Defined as “the nature of interconnections and interdependence required by unit task demands” (p. 120), environmental complexity moderates the direct effect of collective turnover on performance such that the loss of collective knowledge, skills, and abilities due to turnover is more disruptive under highly complex environments. We believe that the same relationship applies to the consequences of VE’s, as highly complex work environments require intricate sets of complementary human and

social capital along with greater coordination and communication demands among the workers (Bell 2007, Kozlowski & Bell 2003, Morgeson et al 2005). Compared to those in less complex environments where the collective performance is simply the sum of individual contributions, employee exits in highly complex environments will lead to greater disruption in member communication and coordination patterns (Dess & Shaw 2001, Shaw et al 2005, Summers et al 2012). As a result, employee departures that were presumed to be valuable may not actually be so.

### **Time to Proficiency**

In addition to the roles of leavers and stayers, scholars have increasingly paid attention to the quantity and quality of new employees (i.e. replacements) as critical components of turnover's overall effects (Hausknecht & Holwerda 2013, Nyberg & Ployhart 2013, Reilly et al 2014). In particular, Turnover Capacity theory explicitly outlined how the effect of turnover depends on collective gains and losses in proficiencies, which Hausknecht and Holwerda (2013) defined as "sets of capabilities that enable collectives to function at high levels" (p. 214). When replacement hires enter the organization, they must undergo a period of training and socialization process to develop the requisite firm-specific and social capital for proficient task performance (Huckman & Pisano 2006, Ostroff & Kozlowski 1992). Such time to proficiency varies as a function of job complexity and employee quality, in that more complex jobs require more learning and thus lengthen the time to proficiency (Argote et al 1995), while higher quality replacements learn at a faster rate and need less time as a result (Hunter 1986, Reagans et al 2005).

Ultimately, occupations or roles where more time is needed for replacements to reach full proficiency impose higher training costs upon the organization. Moreover, longer time to proficiency also increases the cost of reduced productivity which occur as replacement hires are still learning. Such costs can manifest themselves through the replacements' inefficient use of resources or through remaining employees needing to compensate for the replacements' poor performance instead of focusing on their own tasks (Cascio & Boudreau 2011). In short, we posit that time to proficiency moderates the effect of VE's such that VE's from jobs or roles where the time to proficiency is longer will be less likely to be actually valuable to the firm, as costs incurred by replacements will be higher (see the fifth point in the sidebar titled Recommendations for Future Research and Practice).

### **The Importance of Processes**

The final major contextual factor we consider with regard to VE's are the firm's surrounding processes. We consider these processes to be the sequences of organizational practices associated with all three types of VE. Central to the discussion of these processes is the framework of organizational justice, which deals with employee perceptions of fairness in response to the organization's actions (Greenberg 1990). Processes relevant to VE's map onto different dimensions of organizational justice, which include distributive justice (i.e. fairness of outcomes); procedural justice (i.e. fairness of decision-making); interpersonal justice (i.e. quality of interpersonal treatment); and informational justice (i.e. quality of explanations that the individuals received) (Colquitt 2001). These justice perceptions can be influential for VE's in many circumstances. A few examples include whether all poor-performers faced equal likelihoods of termination, whether these decisions were determined by employee performance

or by seniority, and whether layoff victims learned about these decisions via face-to-face communications or through generic company-wide announcements.

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Figure 4 about here  
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Figure 4 depicts our conceptualization of two important general relationships involving organizational justice and VE's. Path A illustrates, for example, how the lack of organizational justice could drive employee discharge likelihoods via increased frequencies of CWBs (Fox et al 2001). Here, low procedural and interpersonal justice can combine to induce retaliatory behaviors against unfair outcomes (Skarlicki & Folger 1997). Additionally, low levels of distributive and interactional justice (a combination of interpersonal and informational justices) are associated with greater likelihood of employee deviant behaviors – especially among those who are highly aggressive and low in hierarchical position (Aquino et al 1999). A great deal of support also exists for the view that perceptions of unfair treatment are associated with workplace violence and aggressive behaviors ranging from verbal hostility and obstructionism to thefts and physical assaults (Neuman & Baron 1998). In sum, employees treated in unfair and unjust manners are more likely to engage in counterproductive work behaviors that can result in discharge (or in layoffs in which the victims are determined as a function of job performance).

Figure 4's Path B reveals the important moderating role of processes in the handling of VE's (layoffs and discharges). In their comprehensive downsizing review, Datta et al (2010) covered a large volume of evidence regarding the moderating role of organizational justice. For example, in a study of downsizing's effect on surviving employees' quit rate, Trevor and Nyberg (2008) found that the positive relationship between the two variables is approximately 3.5 times

stronger at low levels of HRM practices that convey procedural justice (i.e., practices promoting fairness diminish survivor quits in response to layoffs). Similarly, Brockner et al (1994) found that layoff severity significantly erodes the employees' perceptions of trust and organizational support when procedural fairness was low but the effect was non-significant when fairness was high. Other studies report that the negative effects of downsizing on survivors' organizational attachment, commitment, and self-esteem are substantially reduced in conditions of high distributive and procedural justice (Chang 2002, Spreitzer & Mishra 2002). Altogether, the evidence indicates that organizational processes, and the justice perceptions they produce, can mitigate the detrimental effects that layoffs exert upon the surviving workforce.

We believe that this important relationship generalizes. First, justice perceptions should similarly moderate negative effects of employee discharges on remaining employees. For example, one would be less upset at a friend's dismissal for absenteeism if the policy were seen as clearly written and fairly applied. Second, research suggests that the Figure 4 relationship, with effects on survivors as the outcomes of interest, appears to extend to the level of firm performance as the dependent variable in question (not that we should be surprised that surviving employees likely influence the bottom line). Datta et al. (2012, p. 216), in summarizing the studies of downsizing and profitability, reporting that "a majority of...studies indicate that firms do not experience improved profitability following the downsizing event; however, firms that proactively downsize and where employees perceive the process as being 'fair' do better" (see the seventh point in the sidebar titled Recommendations for Future Research and Practice)

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## **V - CONCLUSION**

Discharges, poor-performing quits, and layoffs have all been addressed in the academic literature. Our approach with this article was to bring these three distinct employee separation groupings under one important umbrella. Here, we introduced the notion of valued exits as the defining characteristic of this grouping. We identified all three groups as “valued” because managerial action, and often the scholarly treatment thereof, is typically consistent with the notion that the benefits of these exits exceed their costs. A major emphasis here was examining whether or not VE’s are actually a net positive for the firm. The answer is not a simple one, but it does appear that, under a wide variety of conditions, VE’s are not in fact reliably valuable. In particular, operational disruption offers a compelling reason for VE’s to return less value than might be expected. Research that better addresses the complexities of operational disruption, as well as the issues of workforce quality, VE measurement, and the relevant VE context will be critical to enhancing our understanding of the degree of value, if any, in valued exits.

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**Table 1. Studies Examining the Effects of Discharges & Poor-Performing Quit Rates**

<b>Paper</b>	<b>Sample</b>	<b>Panel Data</b>	<b>Antecedent</b>	<b>Consequences</b>	<b>Effect</b>	<b>Measures Staffing</b>	<b>Measures HRM Practices</b>	<b>Measures Worker Types</b>	<b>Measures Worker Quality</b>
Batt and Colvin (2011)	339 call centers	No	Discharge Rates	Customer satisfaction	Non-significant	Yes	Yes	No	No
Hesford et al (2016)	527 hotels	Yes	Discharge Rates	Complaints, costs, revenue, and profit.	Positively linked to complaints & costs; negative with revenue & profit	No	No	Yes	No
Hur (2013)	409 municipalities	No	Discharge Rates	Crime rates	Non-significant	No	No	No	No
Lee (2018)	595 Federal agencies	Yes	Discharge Rates	Perceived performance	Positively linked to perceived performance	No	No	No	No
McCain et al (1983)	32 university departments	No	Discharge Rates	Voluntary turnover	Positively linked to voluntary turnover	No	No	Yes	No
McElroy et al (2001)	31 finance offices	No	Discharge Rates	Profit, customer satisfaction, profit t+1	Negatively correlated with customer satisfaction and cost-per-loan	No	No	No	No
Shaw (2015)	111 grocery stores	Yes	Poor-performing quit rates	Sales	Positively linked to sales	Yes	Yes* Pay-for-Performance	Yes* only full-time	Yes
Shaw et al (2009) – Study 1	209 trucking firms	No	Discharge rates	Good & poor performer quit rates	Positively linked to poor performer quits	Yes	Yes	No	Yes

<b>Paper</b>	<b>Sample</b>	<b>Panel Data</b>	<b>Antecedent</b>	<b>Consequences</b>	<b>Effect</b>	<b>Measures Staffing</b>	<b>Measures HRM Practices</b>	<b>Measures Worker Types</b>	<b>Measures Worker Quality</b>
Shaw et al (2009) – Study 1	209 trucking firms	No	Poor-performing quit rates	Good performer quit rates	Positively linked to good performer quits	Yes	Yes	No	Yes
Shaw et al (2009) – Study 2	93 grocery stores	No	Discharge rates	Good & poor performer quit rates	Non-significant	Yes	Yes	Yes* only full-time	Yes
Shaw et al (2009) – Study 2	93 grocery stores	No	Poor-performing quit rates	Good performer quit rates	Non-significant	Yes	Yes	Yes* only full-time	Yes
Shaw et al (2013) – Study 1	243-273 supermarkets	No	Discharge rates	Productivity & accident rates	Negatively linked to productivity; non-significant with accidents	No	Yes	Yes	No
Shaw et al (2013) – Study 2	287-363 firms from many industries	Yes	Discharge rates	Productivity, ROA, & profit	Non-significant	No	Yes	Yes	No
Subramony and Holtom (2011)	46 staffing offices	No	Discharge rates	Customer satisfaction & profits	Negatively linked to customer satisfaction and profit	No	No	Yes* only full-time	No

**Note.** *Staffing* refers to selection and staffing practices. *HRM practices* refer to other practices that fall under the broad concepts of (1) high-involvement practices, (2) inducement and investment practices, or (3) expectation-enhancing practices. *Worker types* refer to classifications such as full- vs. part-time workers, managers vs. non-managers, or college graduates vs. non-college graduates. *Worker quality* refers to measures such as hiring scores, job performance, or supervisor ratings.



## **SIDEBAR: RECOMMENDATIONS FOR FUTURE RESEARCH AND PRACTICE**

The following recommendations are research-oriented:

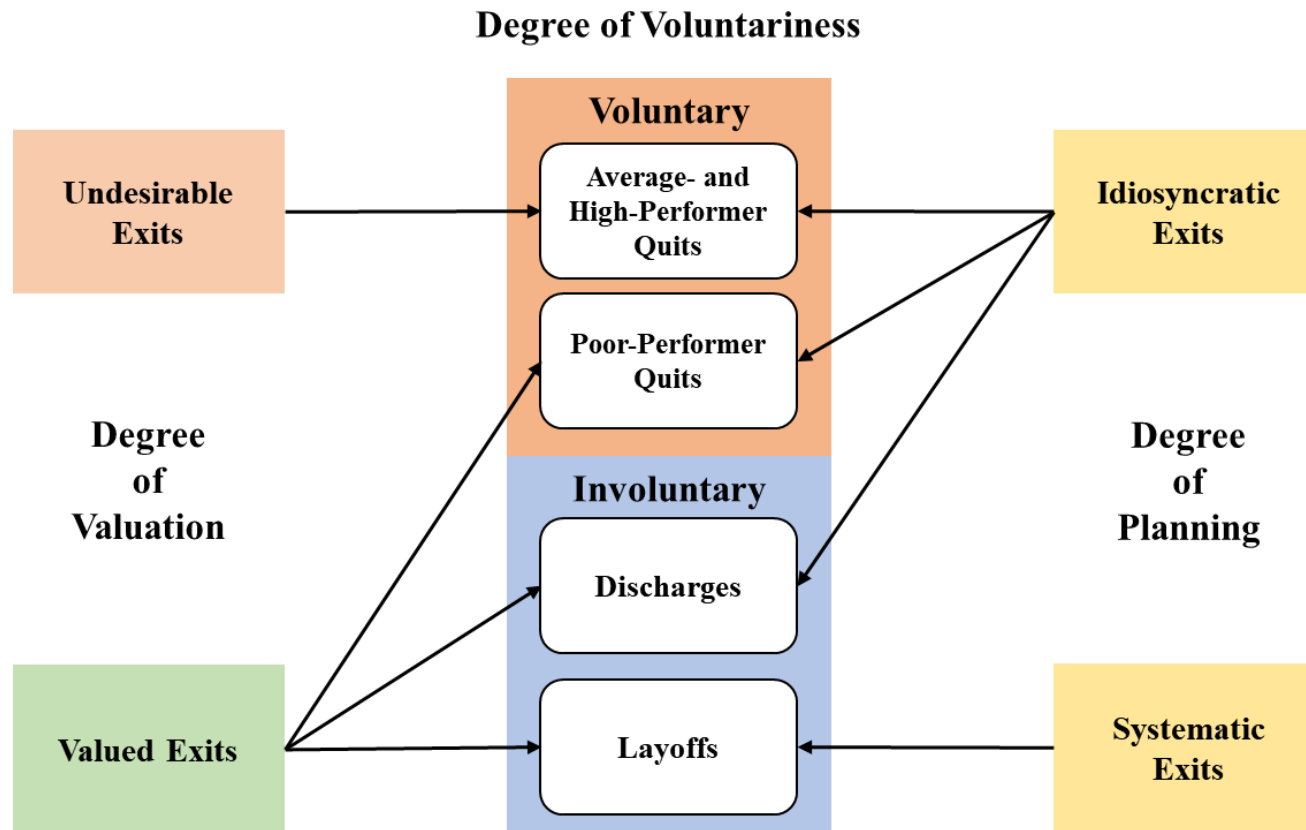
1. Clearly distinguish between various types of exits (e.g. quits, layoffs, and discharges).
2. When possible, measure both the quantity and quality of employee exits, replacements, and the remaining workforce.
3. Provide information on the performance distribution of employees and or whom the firm considers to be good-, average-, and poor-performers.

The following recommendations are aimed towards practitioners:

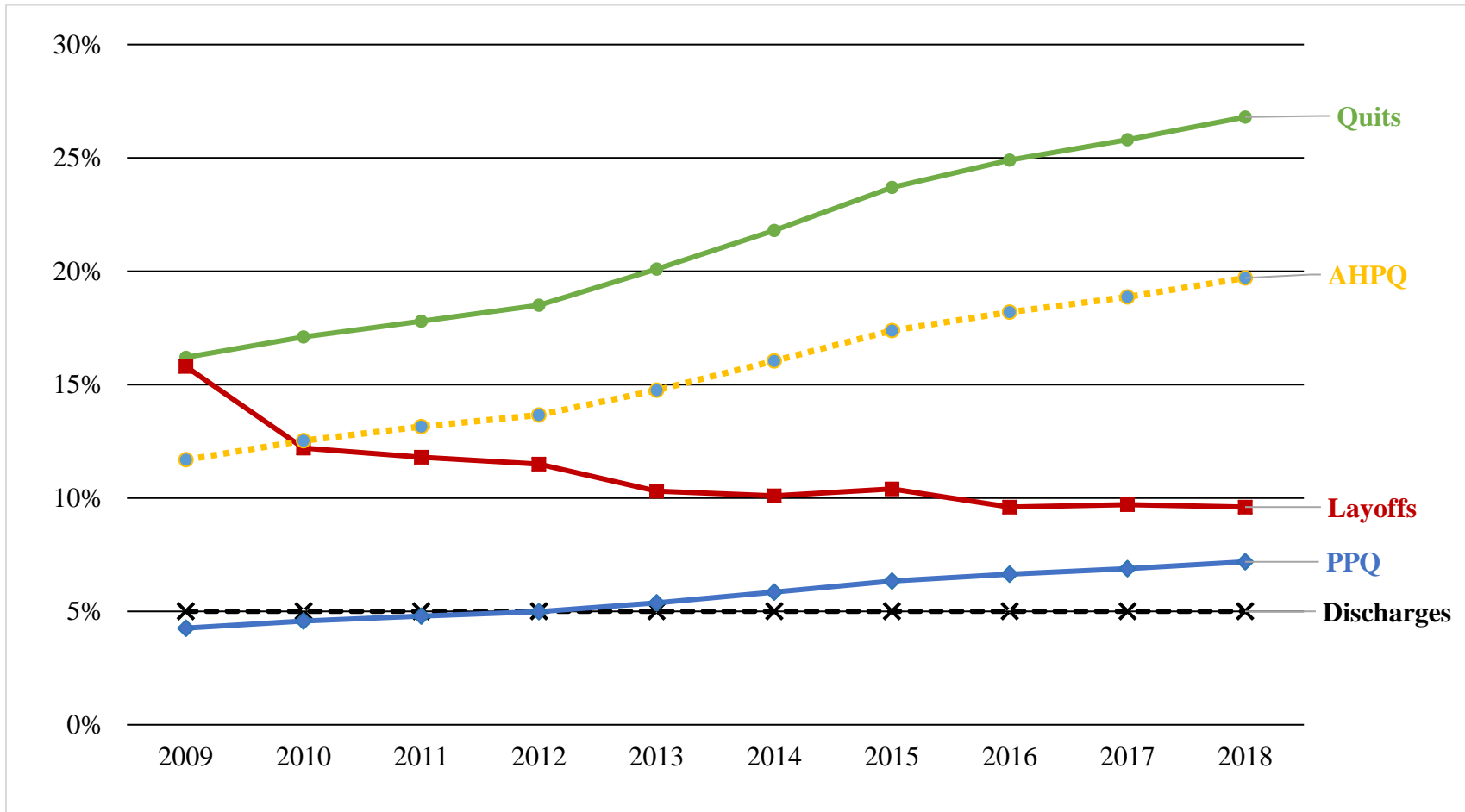
4. Beyond task performance, citizenship behaviors and counterproductive work behaviors should also be taken into account when determining the valuation of exits.
5. Be careful not to underestimate the cost of employee exits in complex jobs that require greater coordination demands or longer time to competency.
6. When dealing with poor-task-performers who did not engage in egregious misconducts, managers should first evaluate the ability and motivation of the employees. The former can be assessed via short-term assignments with measurable progress and outcomes; meanwhile, the latter is assessed by observing how the employee handles demanding tasks and asking the employee directly (Conger & Church 2018). Those who are clearly lacking in both dimensions should be discharged as a last resort.
7. When conducting layoffs, managers can engender perceptions of fairness and justice among employees by communicating in a clear and honest manner, explaining that other options had been considered, seeking their input into decision making, providing

grievances and appeals processes, and providing counseling, financial, and employment assistance to the departing employees.

**Figure 1. Employee Exit Types as a Function of Degree Valued (i.e. Perceived Functionality), Voluntariness, and Degree Planned**



**Figure 2. Levels of Valued Exits in the United States (in Thousands) 2009 – 2018**



Note: Rates are computed by dividing the number of each type of employee exit by U.S. employment level and multiplying that quotient by 100. Layoff estimates here likely exceed those from certain other sources because the BLS numbers include involuntarily separated short-term and seasonal employees (this is in contrast to our conceptual definitions, as we address in the text).

Abbreviations: AHPQ = average-and-high-performer quits; PPQ = poor-performer quits.

**Figure 3. Examples of Employee Performance Profiles and Proposed Exit Outcomes**

**Employee A: “Star”**



Performance	Level
Task	High
Contextual	High
CWB	Low
<b>Exit Outcome:</b> Highly Undesirable	

**Employee B: “Average Joe”**



Performance	Level
Task	Average
Contextual	Average
CWB	Average
<b>Exit Outcome:</b> Undesirable	

**Employee C: “Helper”**



Performance	Level
Task	Low
Contextual	High
CWB	Low
<b>Exit Outcome:</b> Depends on Utility Calculation	

**Employee D: “Inert”**



Performance	Level
Task	Low
Contextual	Low
CWB	Low
<b>Exit Outcome:</b> Valued	

**Employee E: “Toxic”**



Performance	Level
Task	Low
Contextual	Low
CWB	High
<b>Exit Outcome:</b> Highly Valued	

**Employee F: “Toxic Star”**



Performance	Level
Task	High
Contextual	Low
CWB	High
<b>Exit Outcome:</b> Depends on Utility Calculation	

**Figure 4. The Mediating and Moderating Roles of Organizational Justice in Relation to VE's at the Individual and Group Level.**

