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Discharges, Poor-Performer Quits, 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, resulting in a potentially important new way to think about these leavers. For each of three valued exit (VE) types (discharges, poor-performer quits, and layoffs) we examine incidence, construct similarities and differences, and antecedents. We also summarize and critique the literature on VE consequences for the organization. In doing so we discuss how an underlying tension must accompany the analysis of VEs. Specifically, the intuitive notion of addition by subtraction must be considered relative to important contextual considerations and to evidence that the operational disruption created by VE departures may at times mitigate or even outweigh the VE benefits. Underlying our analysis is the stipulation that the formal consideration of VEs is in its infancy and is thus laden with conceptual and methodological challenges that scholars must address if we are to benefit from this new approach to employee exits from the firm.

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 or remove bad apples. Second, while voluntary turnover is generally counterproductive, the poor-performer subset of these leavers is often assumed to yield turnover that is functional or advantageous for the firm (Abelson & Baysinger 1984; Dalton et al. 1981, 1982). Together, both these forced exits and the poor-performer quits are seen as human capital losses whose benefits outweigh costs and thus comprise a category we refer to as valued exits (VEs). Yet, a close analysis of the conceptual and empirical evidence suggests a more nuanced and potentially counterintuitive interpretation of many of the presumed VE ramifications.

Our goal is to critically examine what we do know about VEs, which is relatively limited; identify what we do not know about VEs, which is a great deal; and suggest where researchers might go from here. The topic warrants closer examination for several reasons. First, VEs occur in virtually every organization and often with great frequency. A new unifying framework to study these discharges, poor-performer quits, and layoffs offers promise in terms of understanding each from both the research and applied perspectives. Second, the implications of such exits are multifaceted, 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 consistent with the complex consequences and the heretofore lack of a unifying framework, the relevant research on the VE subgroups, as a whole, lacks cohesion and has been less informative than has typically been assumed. Finally, as might be expected given our early stage of VE study, VE consequences are likely subject to an array of moderating conditions that scholars and management may not be accounting for (e.g., replacement costs, work interdependencies, and learning curves). In sum, because understanding VEs requires a subtle lens, researchers and practitioners would benefit from an integrated review of VEs that carefully addresses definitions, antecedents, consequences, contextual factors, methodological considerations, and a suitably nuanced conceptual framework.

We emphasize here that, while VE may be a simple concept at first blush, in actuality conceptual and methodological complexities, including the assumptions required to delineate just who is and is not a VE, ultimately yield a complicated framework in its infancy. In short, although we foresee substantial benefit to studying VEs, we currently know relatively little about them, which is the rationale behind this article. We need to understand the construct better for the reasons stated above (i.e., incidence, complex implications of significance, and fragmented and indirect research ripe for misinterpretation). This early endeavor in that direction, rather than a literature review of VEs per se, is more a research-driven introduction to the concept and a roadmap for how scholars can begin to formulate VE-relevant theory and investigate how VEs affect the bottom line.

Definitions and Article Scope

To that end, we begin by more formally addressing the VE construct and constituent parts. We define VEs as employee separations whose benefits are presumably perceived by management to outweigh the costs. This informal cost-benefit analysis drives our notion of what managers value. 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 that their likely replacements would be expected to be of average quality (and thus an upgrade), 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 VEs as comprising three separate types of exits.

First, and perhaps most obviously, we view involuntary turnover as one subset of VEs. 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 VEs 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 is not always the case (i.e., an employee performing at the tenth percentile in one company might be at the thirtieth percentile in a company that is much less adept at employee attraction and motivation; similarly, a dischargeable offense in one company may yield only a warning in another). While both discharges and poor-performer 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. We view discharges and poor-performer quits as idiosyncratic in nature, in that there is little or no firm-level planning establishing the individual's exit reason(s). In contrast, considerable planning precedes the formal layoff that systematically creates layoff victims, the third and final employee group we classify as VEs. In contrast to the first two types of VEs, 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 VEs as a multifaceted construct that incorporates different types of exits.

VEs can be considered as all employee exits for which, from the firm's perspective, the total benefits are believed to outweigh the costs. Consequently, our review focuses on all poor-performer 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

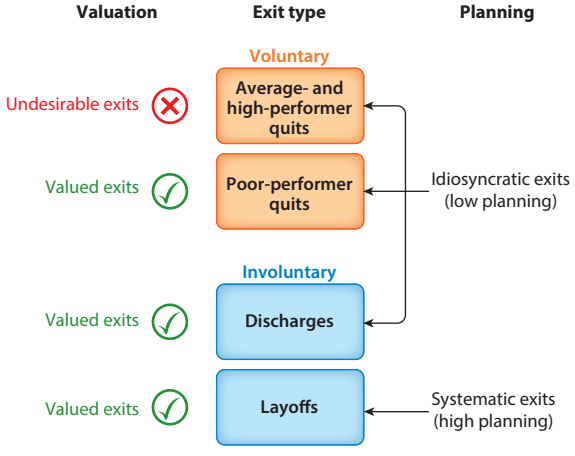

Figure 1

Employee exit types (i.e., high-, average-, and poor-performer quits, discharges, and layoffs) as a function of valuation (i.e., perceived functionality), voluntariness, and planning.

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-performer and high-performer 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 (and the Assumptions Behind Its Estimation)

Given that the VE is a new approach to thinking about a certain subset of all employee exits, beginning to understand VE relevance requires that we gain a sense of VE incidence. In terms of all forced VEs (i.e., summed discharges and layoff victims) and total exits, the Bureau of Labor Statistics (BLS) Job Openings and Labor Turnover Survey website provides excellent data. It is straightforward from this website to glean, for example, that there were approximately 22 million combined layoff and discharge events out of about 66 million total separations (i.e., exits) across all nonfarm industries in 2018 (though see the caption to **Figure 2** for an important caveat), thereby indicating that approximately 33% of all 2018 employee exits were forced exits (US Dep. 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. How many of these were poor performers, and thus VEs, is unknown. Overall, 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 three VE types identified in **Figure 1**. To our knowledge, no studies, and no single sources, have systematically isolated the levels or rates of poor-performer quits, discharges, and layoffs in the US workforce. Consequently, to gain reasonable inference regarding VE incidence in the respective categories, we needed to develop our own estimates. Given how little we currently know about VEs, this estimate development required several assumptions and subjective decisions that, while influenced by existing research, published data, and our knowledge of relevant employee exit relationships, are quite open to debate. Please refer to the sidebar titled Key Valued Exits Assumptions for a summary of the substantive assumptions related to our incidence estimation as well as to our broader approach to understanding VEs. In considering the noise and uncertainty associated with our estimation of VE incidence, it is important to recall that our goal, specified at the beginning of this section, is simply to gain a sense of VE incidence as a step toward an improved understanding of VE relevance. In other words, we fully realize that our incidence estimates reflect only an educated guess at the degree to which discharges, layoffs, and (especially) poor-performer quits exist in the US economy, but we also believe that our numbers are sufficiently informative at this early stage of examining the VE construct.

Estimating the amounts of the three VE types relied on many steps. The Appendix provides a detailed description of the process for the interested reader. Very generally, we made use of published studies and data to construct our best approximation of the prevalence of each of the three VE types. As noted above, BLS data provide combined discharge and layoff numbers. We drew upon a variety of sources to estimate discharges in the population, which were then subtracted from the BLS combined data to yield layoff totals. Estimating poor-performer quits necessitated a more indirect method, as well as the simplifying assumption that employee performance, typically conceived of as a continuous variable, could be thought of as poor or not (with not poor represented by average and high performers). Here, based on relevant literature, although still

KEY VALUED EXITS ASSUMPTIONS

1. Managers value the departure of discharges, poor performers, and layoff victims, with value defined as perceiving that the exit benefits outweigh any exit costs.
2. The bottom 15% of the performance distribution in firms, and in the entire US workforce, can be classified as poor performers. This invokes three caveats. First, while this artificial dichotomization (i.e., relatively continuous performance data recast as poor or not poor) simplifies our discussion of VEs, the degree to which managers actually think of exits in this way is unknown. Second, we are assuming that poor-performing employees in one firm would tend to perform poorly in other firms as well. Third, the fifteenth percentile is a somewhat arbitrary cutoff (see the Appendix for how we ended up at that number).
3. The US population discharge rate is 5% and constant across time (see the Appendix).
4. The Sturman et al. (2003) relationship between specific performance level and quit probability, which allowed us to infer poor-performer quit rate from the 15% poor-performer incidence (see the Appendix), generally applies to the US workforce as a whole.
5. While more poor-performer quits, all else equal, may be incorrectly valued due to operational disruption, they likely enhance firm performance (i.e., are correctly valued) if the overall quit rate does not change but the proportion of quits who are poor performers increases (i.e., if an increase in poor-performer quits is offset by an equal-sized decrement in quits from those who are not poor performers).
6. Despite our skepticism regarding the functional turnover perspective, losing poor performers, all else equal, would be more likely to yield net benefits if the opportunity cost of poor performance is high; if turnover, replacement, and operational disruption costs are sufficiently low (e.g., as might be the case with simple, independent jobs when the labor supply is plentiful); and if the costs of any counterproductive work behaviors exceed any benefits produced by the low level of task performance.

somewhat arbitrarily, we labeled the lowest 15% in the performance distribution as poor performers. This allowed us to then use a nonlinear link between performance level and quit likelihood that was established in the literature to estimate poor-performer quits and poor-performer quit rate (defined here as poor-performer quits as a percentage of the workforce, as opposed to poor-performer quits as a percentage of all quits or the percentage of poor performers who quit). Our Appendix processes yielded estimates, in 2018, of a discharge rate of 5%, a layoff rate of 9.6%, and a poor-performer quit rate of 7.2%.

Figure 2 reveals the estimated relative rates and trends of VE incidence over the past decade. For context, we also include all quits, as well as the difference between all quits and poor-performer quits, which are the average-and-high-performer quits (AHPQs) often deemed to be dysfunctional turnover. While **Figure 2** reveals percentages of the employed US workforce, we note that, in 2018, the figure represented approximately 10.7 million poor-performer quits, as compared to 40.1 million total quits and 29.4 million dysfunctional quits who were average or high performers (obviously, these performance-specific quit estimates would change if we altered our assumption 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 described in the Appendix, we constrained the discharge rate, which is an aggregate of relatively idiosyncratic exits, to be constant over time. The BLS data indicate, however, that the overall quit rate increased 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

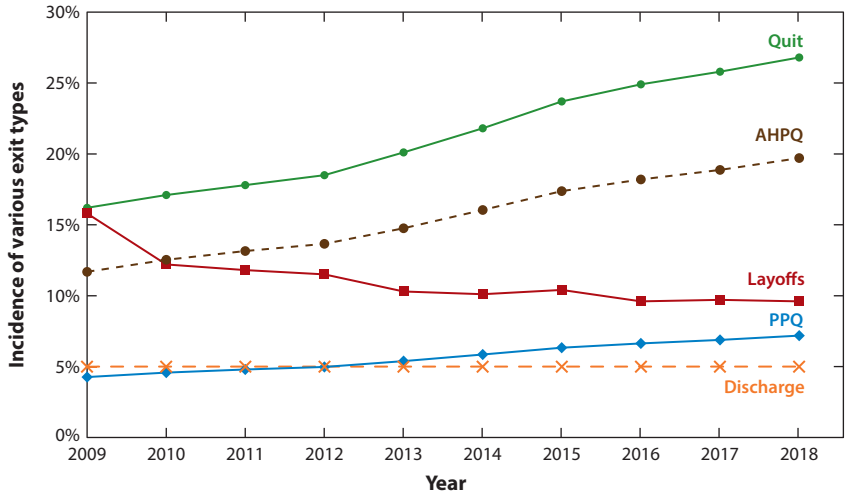

Figure 2

Valued and undesirable exits in US employment from 2009 to 2018. Rates are computed by dividing the number of each type of employee exit by US employment level and multiplying that quotient by 100. Layoff estimates here likely exceed those from certain other sources because the Bureau of Labor Statistics numbers include involuntarily separated short-term and seasonal employees (which is in contrast to our conceptual definitions, as we address in the text). Abbreviations: AHPQ, average-and-high-performer quits; PPQ, poor-performer quits.

voluntary turnover in response to a tightening labor market. Specifically, between 2009 and 2018, the average unemployment rate declined from 9.3% to 3.9% and the average level of job openings rose from 2.5 million to 7.2 million (US Dep. Labor 2019). Of interest to firms should be the recognition that more poor-performers are quitting and moving into the labor pool. Since firms tend to have particularly acute hiring needs in a strong economy, this heightens the importance of investment into valid recruitment and selection practices. In terms of layoff trends, 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 (see the caption to **Figure 2**, however, indicating that the BLS layoff inclusion criteria differ from our own and that their counts may exceed those seen elsewhere). Overall, the BLS data and our own estimates indicate that there were approximately 32.6 million VEs from a workforce of 162.1 million in 2018, as compared to 33 million VEs from a workforce of 154.1 million in 2009. Thus, in 2018 about 49.3% of all 66.1 million employee exits and 20.1% of the workforce 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-performer quits, and layoffs are ultimately functional, or beneficial, for the organization. Indeed, this position is why we use the term VEs, as it is the assumption of functionality that yields the perception of these exits having value

for the firm. The question of whether VEs 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, human resource (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. While reflecting on the broad VE and VE functionality constructs is helpful in guiding our thinking here, at this early stage the analysis of such nuance is best undertaken at a lower level of abstraction than the VE construct. That is, there are crucial differences between poor-performer quits, discharges, and layoff victims that must be considered when examining the broad functionality question. Hence, we address that issue in the exit-specific sections of the article that follow.

DISCHARGES AND POOR-PERFORMER QUITS AS VALUED EXITS

Clarification of Discharge and Poor-Performer 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 narrower (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 VEs 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-performer 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-performer 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 that they 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, an exit coded as poor-performer quit and an exit coded as discharge are likely to have been similar performers up until the formal exit descriptor was determined. Accordingly, traditional perspectives indicate that poor-performer 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, 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 (e.g., consider reference checks). The difference is also important from a legal perspective, as exit reason has implications for unemployment benefits as well as various aspects of postemployment 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 (Employ. Dev. Dep. 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 (Empl. Advocates 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-performer 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-performer quits as voluntary leavers who are in the bottom portion of the performance distribution (we adopted the lowest 15% as the cutoff in the Appendix 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 the subsequent section titled Contextual Factors Surrounding Valued Exits.

Antecedents of Discharges and Poor-Performer Quits

As is evident from the discussion thus far, poor performance is a strong predictor of both discharges and quits. In this section we expand on this and highlight VE antecedents that tend to apply only to discharges; only to poor-performer quits; and, in the case of certain HR practices, to both. In terms of discharges, a study from the managers' perspective reported that discharge decisions are influenced by formal policies and informal norms of the organization. Specifically, Klaas & Dell'omo (1997) found that less restrictive disciplinary procedures (e.g., weak evidence requirements and the lack of neutral appeal systems) were associated with greater managerial willingness to discharge when there was ambiguity surrounding just cause (e.g., uncertainty of guilt, lack of corroborating evidence). Furthermore, the absence of informal norms against discharges enhanced the managers' willingness to discharge regardless of whether threats to just cause existed.

Moving now to the employee's perspective and the decision to quit, many academic approaches to turnover owe their conceptual roots to the March & 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 & Simon (1958) 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. We reiterate 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 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-performer 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 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 the 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 in 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 HR practices are particularly important to poor-performer quits and discharges. The HR systems research has identified broad sets of HR practices as primary antecedents of idiosyncratic VEs (discharges and poor-performer quits). Batt & 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) had significantly lower discharge rates. Conversely, firms that use more expectation-enhancing practices (e.g., electronic monitoring) faced higher discharge rates. Shaw et al. (1998), meanwhile, found that a more favorable selection ratio predicted lower discharge rates when accompanied by more extensive valid selection procedures. They also found a positive association between training and discharge rate, although 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 were 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 a 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 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, discharges and poor-performer quits are driven by management practices that either improve the overall workforce quality or demand and reward high levels of task performance, all of which suggest heightened movement desirability for the poor performer.

Consequences of Discharges and Poor-Performer Quits

The functional turnover perspective maintains that both discharges and poor-performer 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 propose that these VEs can remove employees whose salaries (i.e., retention costs) exceed their marginal productivity (Abelson & Baysinger 1984, Dalton & Todor 1982). In terms of employee outcomes, VEs may also increase morale and reduce entrenched conflicts if undesirable coworkers or supervisors leave the organization (Staw 1980). Similarly, turnover of employees exhibiting high levels of counterproductive work behaviors (CWBs) 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-organization or person-job fit (Burdett 1978, Jovanovic 1979).

These reasons for why discharges and poor-performer quits should be considered VEs largely tend to either explicitly or implicitly adhere to the notion that replacement hires will be of higher quality than those low-quality employees who left. 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 it demonstrates the damaging effect of losing high-quality employees while also providing some support for the positive relationship between replacement quality and unit performance.

At this point, it seems straightforward to conclude that, if replacement quality produces positive outcomes at the collective level, and if VEs tend to be replaced by higher-quality employees, we should expect that more VEs will lead to better collective outcomes. To assess this position, we turn to **Table 1**, which contains collective-level studies examining the effects of poor-performer quits and discharges. Only two of these studies appear to be consistent with the turnover functionality argument. Shaw (2015) found that poor-performer quit rates predicted an increase in sales, and Lee (2018) reported a positive association between discharge rates and employee-rated unit performance. Primarily, however, and contrary to the traditional perspective that discharges and poor-performer quits should provide functional benefits to the organization, most collective turnover studies instead indicate that idiosyncratic VEs have no effect on or are negatively associated with firm performance and desirable unit-level outcomes (Hausknecht 2017, Hausknecht & Trevor 2011), such as customer satisfaction (Subramony & Holtom 2011), productivity (Shaw et al. 2013), and good-performer retention (Shaw et al. 2009). Two significant conceptual explanations exist for these empirical findings that, overall, conflict with the functional turnover thinking and bring into question the degree to which VEs should in fact be valued.

First, 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

Table 1 Studies examining the effects of discharges and poor-performer quit rates

Reference	Sample	Panel data	Antecedent	Consequence(s)	Effect(s)	Measures staffing	Measures HRM practices	Measures worker types	Measures worker quality
Batt & Colvin 2011	339 call centers	No	Discharge rates	Customer satisfaction	Nonsignificant	Yes	Yes	No	No
Hesford et al. 2016	527 hotels	Yes	Discharge rates	Complaints, costs, revenue, and profit	Positively linked to complaints and costs; negatively linked to revenue and profit	No	No	Yes	No
Hur 2013	409 municipalities	No	Discharge rates	Crime rates	Nonsignificant	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-performer 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- and poor-performer quit rates	Positively linked to poor-performer quits	Yes	Yes	No	Yes

(*Continued*)

Table 1 (*Continued*)

Reference	Sample	Panel data	Antecedent	Consequence(s)	Effect(s)	Measures staffing	Measures HRM practices	Measures worker types	Measures worker quality
Shaw et al. 2009, study 1	209 trucking firms	No	Poor-performer 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- and poor-performer quit rates	Nonsignificant	Yes	Yes	Yes, only full-time	Yes
Shaw et al. 2009, study 2	93 grocery stores	No	Poor-performer quit rates	Good-performer quit rates	Nonsignificant	Yes	Yes	Yes, only full-time	Yes
Shaw et al. 2013, study 1	243–273 supermarkets	No	Discharge rates	Productivity and accident rates	Negatively linked to productivity; nonsignificant with accidents	No	Yes	Yes	No
Shaw et al. 2013, study 2	287–363 firms from many industries	Yes	Discharge rates	Productivity, return on assets, and profit	Nonsignificant	No	Yes	Yes	No
Subramony & Holtom 2011	46 staffing offices	No	Discharge rates	Customer satisfaction and profits	Negatively linked to customer satisfaction and profit	No	No	Yes, only full-time	No

Staffing refers to selection and staffing practices. HRM practices refer to other practices that fall under the broad concepts of (*a*) high-involvement practices, (*b*) inducement and investment practices, or (*c*) expectation-enhancing practices. Worker types refer to classifications such as full- versus part-time workers, managers versus nonmanagers, or college graduates versus noncollege graduates. Worker quality refers to measures such as hiring scores, job performance, or supervisor ratings. Abbreviation: HRM, human resource management.

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-performer 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, poor-performer quits, and their superior replacements.

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 necessarily isomorphic to the collective level (i.e., not necessarily yielding equivalent meaning across levels of analysis). A single poor-performer quit or discharge event may create a good chance for higher-quality replacement to occur. At the collective level, however, both discharge rates and poor-performer quits may be reflecting the extent to which the overall workforce engages in CWBs 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-performer 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 that refute and fail to support VE functionality actually are not surprising, 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 VEs being functional at the collective level, important questions for the firm entail how to reduce overall exits, the number of employees requiring discharge, and the number we consider to be poor performers. These are classic management questions, of course, and they bring into play individual HR 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 VEs, as this typically is associated with having fewer total exits and 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 more poor-performer quits to result in enhanced firm performance (i.e., we would expect VEs 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 productive 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 labor costs and that nothing else changed

(e.g., total quits remained constant, the applicant pools and resultant replacement quality remained constant), the firm with the most poor-performer quits would enjoy a higher-quality workforce and, likely, greater success, consistent with the functional turnover framework. The key consideration here is that the number of poor-performer quits increased only to the extent that the number of high-performer quits decreased, thereby leaving overall quits 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 at the collective level, as the VEs were rightfully valued, but only because their increase was offset by an equivalent decrease in high-performer quits. Indeed, absent this offset we would predict that the new pay plan may yield a net-negative effect, given the heightened operational disruption. Importantly, however, this scenario does reveal that the functional perspective appears to have merit when, ceteris paribus, the performance composition of exits changes but the exit incidence does not increase. We recognize that, while perhaps conceptually satisfying, actually realizing such a scenario may be a challenging undertaking.

Similarly, there are circumstances under which discharge rate increases might yield functional outcomes. To understand these circumstances, it is instructive to first speculate as to why the discharge rates in **Table 1** typically are associated with unwelcome consequences. Although the operational disruption argument may be somewhat less compelling for discharges, given their relatively low incidence compared to quits, the workforce quality explanation likely applies. For example, higher discharge rates may tend to reflect either more dysfunctional applicant pools or poor HR management that somehow selects for or encourages misconduct. As such, lower-quality workforces may act as omitted variables by driving both the higher discharge rate and the poor firm performance. Partialing out workforce quality might allow for a cleaner test of discharge rate effects. Indeed, in the only **Table 1** study that found clear support for discharge rate functionality, Lee (2018) conducted fixed effects analyses with panel data that would have parsed out any workforce quality effects that were time invariant. One concern here is that the dependent variable measure of employees' perceived agency performance could be a function of the perception of discharges (i.e., seeing the discharges as performance-relevant indicators of becoming more disciplined and ridding ourselves of bad apples) rather than of the discharges themselves. That said, this study attests to our belief that the net impacts of VEs in general and discharges in particular are nuanced issues well worthy of study.

As another example, it could be that 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 firms' increased number of discharges, and subsequent replacements, relative to those in comparison firms, would produce enough performance gains to offset the greater operational disruption associated with exits of any kind (such issues as replacement costs, time to proficiency, and work interdependence would be key factors in answering this question). In sum, while more research is required to tease out the causal implications of idiosyncratic VEs, our reading of the operational disruption and workforce quality perspectives as well as the empirical work to date casts considerable doubt on the tendency to adopt unqualified support for either the dysfunctional or the functional turnover positions.

Methodological Issues and Future Research Directions

We next highlight several methodological issues that are important to the future study of poor-performing quits and discharges. Research on all VEs would considerably 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, and planned departures of temporary workers, and they 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. 2019). Regarding the study of poor-performer 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 the 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 not only facilitates 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.

The assessment of worker quality also is particularly relevant to studies of turnover consequences. From a utility standpoint, whether an exit 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.

Finally, as is evident in **Table 1**, various studies by Shaw and colleagues have broken new ground by incorporating performance-specific quits into collective turnover research. This commendable work typically uses poor-performer quit rate, defined as the percentage of the workforce that are poor-performer quits, as the key independent variable. While a sensible first step, this measure can mean different things, depending on context. A high poor-performer quit rate may simply reflect a firm with a large number of poor performers and thus a large number of poor-performer quits. In contrast, the high rate may be achieved in a firm with average or even low numbers of poor performers but with HR practices (e.g., high pay for performance) or a culture or a friendly job market that strongly encourage those who are poor performers to quit. In the former case, a higher poor-performer quit rate would suggest a less able workforce that should be detrimental to the firm, while in the latter case a higher poor-performer quit rate would suggest successful sorting and a more able workforce that should enhance the firm. Finally, a high poor-performer quit rate may simply reflect a firm undergoing high turnover across the performance domain, which would presumably result in considerable operational disruption that hampers the firm. While the studies by Shaw and colleagues likely mitigated these concerns through their control variable choices, we believe that there are insights to be gained through alternative measurement approaches to poor-performer quits at the collective level (e.g., the percentage of all quits who were poor performers, the percentage of all poor performers who quit, the ratio of poor-performer quits to poor-performer stayers, the average performance level of all quits, etc.).

LAYOFF VICTIMS AS VALUED EXITS

The third VE type in **Figure 1** is 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 VEs. What makes these victims VEs then is the recognition

that the loss of human capital, although regrettable in one respect, is a necessary step toward financial rebound or continued success through restructuring. That is, on balance, the layoff victims are VEs because the employee losses are seen as outweighed by the advantages of labor cost savings, of 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. The non-temporary qualifier serves to exclude contingent and seasonal employees, as these workers do not have an explicit or implicit contract for long-term employment, given that their departures are preplanned (Kalleberg 2000, Polivka & Nardone 1989) (although they are unavoidably included in **Figure 2** due to BLS data collection decisions). 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 turnovers, viewing the latter as responses to employee behavioral problems and the former as more structured responses 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, although 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 because of the headcount reduction strategy, while survivors are the continuing employees who managed to avoid that fate.

The question of layoff antecedents at first appears to be a simple matter. Layoffs are undertaken primarily as a cost-cutting measure (Cascio 1993, 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 decision makers can be a function of pay incentives (e.g., Gerhart & Trevor 1996, Hoskisson et al. 1993). As it is the short-term balance sheet savings that are particularly salient and reliable when engaging in layoffs, Gerhart & 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) even though a layoff strategy may not fit with follower firms' circumstances. Layoffs are a drastic step, and the evidence suggests that successful layoff 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 is equal is problematic. Based on multiple years of data on S&P 500 firms, Cascio concluded, "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" (Cascio 2002, p. 81).

Consequences of Layoffs

All else being 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, measurable, 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 VEs.

Two key assumptions provide the foundation for seeing layoffs as VEs. 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 Gen. Account. Off. 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 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 VEs also rests on layoffs, on balance, being beneficial to the firm. This is a complicated matter, as a variety of factors need to be considered in a cost-benefit analysis of this type of VE. Although some of the 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 evidence on the intermediate (i.e., people-based) effects of layoffs that clearly jeopardizes 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. VEs 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). However, pursuing layoffs purely as a cost-cutting measure does not seem to work (Cascio 2002). Furthermore, Datta et al. (2012, p. 212) reviewed the literature and reported that, in general, both market value and profitability decline in the wake of layoffs; they also noted 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 clearer, 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 VEs 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, with costs including replacement recruitment and selection, training, initial subpar job performance, and so on. 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. Thus, 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, the firm-level outcomes of aggregated employee attitudes and turnover rates suggest that layoffs, while cost saving in one important respect, will likely ultimately restrict revenues through various pathways. 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 VEs do in fact reflect a net positive for the firm.

CONTEXTUAL FACTORS SURROUNDING VALUED EXITS

We have thus far examined three types of VEs with regard to construct definitions, antecedents, consequences, and the degree to which the VE also appears to be of actual value. On this last 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-performer quits, how VEs 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 VEs forward.

Multidimensional Employee Performance as an Indicator of Quality

One of the most important factors in determining whether a VE is of actual value to the firm is employee quality. The overall quality of any individual employee is composed of important characteristics including but not limited to knowledge, skills, abilities, personality, demographics, and social and relational capitals. 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, p. 10). 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 extrarole behaviors (Van Dyne et al. 1995, Van Dyne & LePine 1998).

The third performance dimension of interest here is CWBs, 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 CWBs are negatively correlated with contextual performance, and CWBs have a strictly detrimental effect on the organization (Sackett 2002, Sackett et al. 2006). Examples of CWBs 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 CWBs.

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 VEs 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., that the opportunity cost of poor task performance is high, that turnover and replacement costs are sufficiently low, and that the costs of high CWBs exceed any benefits produced by the 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 costs that

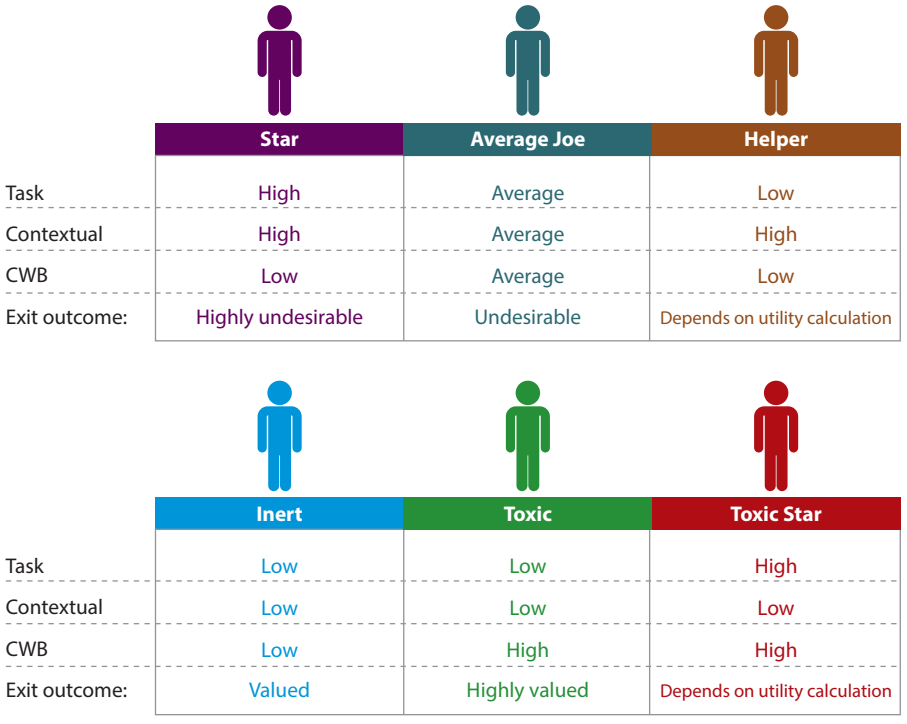

Figure 3

Examples of employee performance profiles and proposed exit outcomes. Abbreviation: CWB, counterproductive work behavior.

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.

Environmental Complexity

In CET theory, environmental complexity is an important moderator of the dynamic relationships among collective turnover, human capital resources, and firm performance (Nyberg & Ployhart 2013). Defined as "the nature of interconnections and interdependence required by unit task demands" (Nyberg & Ployhart 2013, 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 VEs, 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 outlines how the effect of turnover depends on collective gains and losses in proficiencies, which Hausknecht & 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 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 that occurs as replacement hires are still learning. Such costs can manifest in 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 VEs from jobs or roles where the time to proficiency is longer, all else equal, will be less likely to be of actual value to the firm, as costs incurred by replacements will be higher. As such, VEs in this situation may tend to be incorrectly valued.

The Importance of Processes

The final major contextual factor we consider regarding VEs is 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 VEs 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 VEs in many circumstances. A few examples include whether all poor performers faced equal likelihoods of termination, whether layoff 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.

Figure 4 depicts our conceptualization of two important general relationships involving organizational justice and VEs. 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

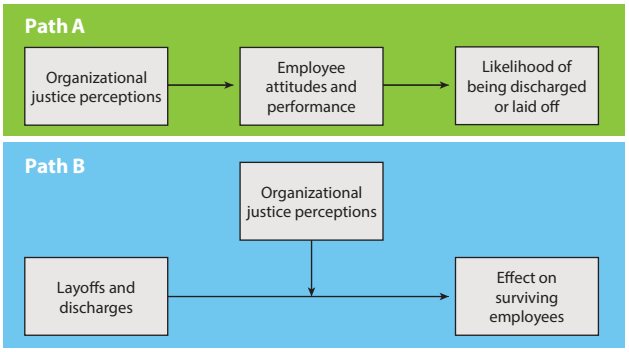

Figure 4

The mediating and moderating roles of organizational justice in relation to valued exits at the individual and group levels.

1998). In sum, employees treated in unfair and unjust manners are more likely to engage in CWBs 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 VEs (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 & Nyberg (2008) found that the positive relationship between the two variables is approximately 3.5 times stronger at low levels of HR management 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 eroded the employees' perceptions of trust and organizational support when procedural fairness was low, but the effect was nonsignificant 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, reported 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."

CONCLUSION

Discharges, poor-performer quits, and layoffs have all received considerable attention 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 VEs 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 VEs are actually a net positive for the firm. The answer is not a simple one. It does appear that VEs often are not in fact reliably of value. In particular, operational disruption offers a compelling reason for VEs to return less value than might be expected. That said, we also identified circumstances and research scenarios under which VE functionality would be more likely to emerge. 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 VEs. In turn, such research and subsequent understanding will provide a foundation for examining VE impact on collective-level outcomes of importance to the firm.

APPENDIX

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 very likely an overestimation of the true discharge rate. 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 to 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-performer 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 VEs. Our literature search yielded only six studies with information on poor-performer quits. Shaw and colleagues provide much of the available data, with their studies showing poor-performer quit rates (i.e., the percentage of the workforce classified as poor-performer 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-performer quits and firm size). Alternatively, we can think about poor-performer quits as a percentage of total quits, with Fleisher (2011) reporting that poor-performer quits made up 10.8% of all quits, and the Shaw & Gupta (2007) data suggesting that poor-performer 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-performer 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-performer 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-performer 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 (Gen. Electr. Co. 2001), 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-performer 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-performer quits.[1]

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-performer 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. (2003), 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-performer information to the BLS data on all quits allows us to complete the estimate of a poor-performer quit rate. Specifically, we multiplied the number of total quits in a year (from the BLS) by 0.2672 (the proportion of all quits labeled as poor performers from our process above) to get total poor-performer quits, which was then divided by total employment to yield poor-performer quit rate.

[1]While this statement may be complicated to some degree by various authors' findings 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-performer quit rates exceeding the proportion of poor performers remains unchanged.

FUTURE ISSUES

1. Researchers should clearly distinguish, both conceptually and empirically, among quits, discharges, and layoffs to provide better estimates of VE incidence.
2. Researchers should attempt to gain actual measurements of operational disruption in response to the three valued exit (VE) types and then compare these values against each other and against disruption levels associated with dysfunctional turnover.
3. When possible, researchers should measure the quantity and quality of employee exits, replacements, and the remaining workforce to obtain a more comprehensive picture of human capital stock and flow in the organization. Although we used a dichotomous VE approach here for simplicity, researchers should use continuous measures when possible.
4. Researchers should provide information on employee performance criteria and clearly define what constitutes good, average, and poor performers in terms of achievement and distribution positions.
5. In addition to task performance, contextual performance and counterproductive work behaviors should also be considered when assessing employee quality and VEs.
6. The decision-theoretic utility framework can potentially serve as a comprehensive model of employee acquisition and retention utility (Boudreau 1983, Boudreau & Berger 1985, Boudreau & Ramstad 2003). While this utility analysis has been shown to be particularly useful when estimating the financial impact of employee retention efforts under various conditions (e.g., Klaas & McClendon 1996, Sturman et al. 2003), adaptation of the approach to VEs could yield a sophisticated mechanism for determining circumstances under which VEs are actually of value.
7. It may be worth exploring the conditions under which our predictions on the contextual factors of VEs may not hold true. For example, are disruption costs always greater under a highly complex environment? Similarly, losing a single toxic employee (see **Figure 3**) should produce net benefits, but would this still be the case when the firm loses a group of toxic employees in rapid succession?
8. In **Table 1**, 12 out of 14 studies utilized samples from the United States. As such, the topic of VEs would benefit from research conducted in more international settings. Doing so will help us to explore how factors such as employment laws, labor costs, cultures, and market economies may influence the relationship between VEs and various outcomes of interest (Hancock et al. 2017).

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Errata

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