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Do Layoffs Encourage Quitting Among Those Who Lose Their Jobs?

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Do Layoffs Encourage Quitting Among Those Who Lose Their Jobs?

Abstract

Overview and Key Findings:

Organizations pursue layoffs for a variety of reasons, including slumping product demand, escalating costs, and personnel redundancies owing to reorganization or merger. Regardless of the motivation behind a layoff event, many employees report traumatizing consequences. Among those who lose their job (i.e., layoff victims), these disruptions include depressed lifetime earnings, reduced physical and mental well-being, and undermined work attitudes. But even as Bureau of Labor Statistics data reveal that United States employers have laid off over 33 million employees since 1994, virtually no research has addressed the behavior of layoff victims upon reemployment. In a first step toward understanding both whether and how layoffs influence work behaviors, this research investigated the impact of layoffs on subsequent voluntary turnover (i.e., quits), and found that:

- After a layoff, employees are more likely to leave organizations voluntarily by quitting.
- The influence of layoffs on voluntary turnover is substantial and persistent. First examining all jobs held after an individual’s first layoff, the researchers report that quitting is 56 percent more likely in post-layoff employment (relative to the individual’s propensity to quit prior to ever having been laid off). Next, examining only those jobs held immediately after a laid off, the researchers report that individuals are 65 percent more likely to quit these jobs (again relative to their propensity to quit prior to ever having been laid off). Among those who are laid off multiple times over their careers, each additional instance increases the likelihood of quitting in subsequent employment (although at a declining rate) up until the sixth layoff. For those who do reach six layoffs in their work history, the decision to quit is about six times more likely than it is in pre-layoff employment.
- The study results are consistent with a “psychological spillover” explanation in which a layoff by one employer negatively influences employee expectations (e.g., obligations owed to an employer) and perceptions (e.g., job security) surrounding post-layoff employment. In fact, only about 10% of the layoff effect on voluntary turnover is explainable by a layoff’s influence on subsequent job quality, as measured by underemployment and job satisfaction.
- The results demonstrate that employee quit behavior is evolving as a function of the downsizing strategies that are now standard business practice. Given that layoff victims represent an increasingly large proportion of the workforce (and thus the talent pool upon which virtually all organizations rely) and given that voluntary turnover is notoriously expensive and, in the aggregate, a critical predictor of a variety of organizational performance outcomes, the findings indicate that layoffs are relevant not only for the organizations that engage in them, but for all organizations.
Keywords
layoffs, quitting, voluntary turnover, psychological spillover

Disciplines
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DO LAYOFFS ENCOURAGE QUITTING AMONG THOSE WHO LOSE THEIR JOBS?

Overview and Key Findings

Organizations pursue layoffs for a variety of reasons, including slumping product demand, escalating costs, and personnel redundancies owing to reorganization or merger. Regardless of the motivation behind a layoff event, many employees report traumatizing consequences. Among those who lose their job (i.e., layoff victims), these disruptions include depressed lifetime earnings, reduced physical and mental well-being, and undermined work attitudes. But even as Bureau of Labor Statistics data reveal that United States employers have laid off over 33 million employees since 1994, virtually no research has addressed the behavior of layoff victims upon reemployment. In a first step toward understanding both whether and how layoffs influence work behaviors, this research investigated the impact of layoffs on subsequent voluntary turnover (i.e., quits), and found that:

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**Topic: Do Layoffs Beget Quitting?**

The researchers proposed that the experience of a layoff influences subsequent quit behavior through two general pathways (see Figure 1, page 3). First, quitting may be more likely after a layoff if the quality of jobs held after the layoff falls (e.g., a layoff victim may be compelled to accept a low quality job as a stopgap strategy against income losses, intending to move on from that job once employment that is better aligned to the individual can be secured). However, results indicated that only about 10 percent of the total influence of layoffs on quit likelihood could be explained by the quality of the post-layoff job, where quality was assessed in two ways—as wage underemployment (i.e., a 20% or greater decline in wages) and as employee-reported job satisfaction. Instead, their findings suggest that layoffs influence voluntary turnover primarily through a second proposed pathway, by weakening the psychological ties that individuals form with post-layoff employers, encouraging these workers to attend to and pursue alternative opportunities. Evidence for this process,
which the researchers term “psychological spillover”, is found in several streams of the academic literature, including those surrounding psychological contracts, trust, the unfolding model of turnover, and job insecurity.

The psychological spillover process and the study’s findings are additionally consistent with the lay business press’ frequent characterization of layoffs as precipitating a free agent mentality, leaving the workplace replete with employees with low levels of commitment and loyalty to the employer. For example, even after accounting for the influence of job quality, the data indicated that a history of layoffs increases both the likelihood that employed individuals quit after seeking out alternative employment and the likelihood that they quit after receiving an unsolicited job offer.

**Figure 1**

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Psychological Spillover
- Weakened ties to post-layoff employers.
- Increased attention to alternative job opportunities.

Layoff → Lower Job Quality
- Underemployment
- Job Satisfaction

Voluntary Turnover
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**Study Questions**

- Do layoffs increase the probability of voluntary turnover?
- Does the influence of layoffs on voluntary turnover attenuate after multiple layoffs?
- What proportion of the influence of layoffs on voluntary turnover is attributable to post-layoff wage underemployment?
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- What proportion of the influence of layoffs on voluntary turnover is attributable to post-layoff job dissatisfaction?

- Is the influence of layoffs on voluntary turnover different for alternative “quit pathways” (e.g., quitting to take an unsolicited job offer, quitting to search for jobs, quitting after searching for and securing a job)?

Method

The study draws data from the National Longitudinal Survey of Youth, 1979 Cohort (NLSY79; Center for Human Resource Research, 2000), a panel survey that documents the complete work histories of a nationally representative sample of over 12,000 individuals.

Approximately one third of NLSY79 respondents reported at least one layoff across the duration of their job histories, and approximately 10% reported more than one layoff.

For this study, the researchers sampled all jobs held between 1978 and 2010 by each individual who had reported at least one layoff during that 33-year period. The sample included 12,035 jobs held by 2,439 individuals. Of these jobs, 4,907 ended with a layoff. Across person-job-years, the sample was 66.2% male and 48.4% White, and ages ranged from 18 to 53 years.

Because all individuals experienced at least one layoff, the layoff effects could be estimated by comparing each individual’s pre- and post-layoff quit behavior. Statistical analyses additionally removed the influence of local and national economic conditions and sample demographic characteristics (e.g., age, education, marital status, and number of children) from estimates of layoff effects on voluntary turnover likelihood.

Discussion

These findings apply specifically to layoffs in which business-level concerns (e.g., cost reduction) have motivated the reduction of some, but not all, of workplace headcount. Layoffs due to workplace closures were not included in
the study and may carry different effects on quit behavior. Additionally, employee dismissals for cause (e.g., for theft or poor performance) that were not part of a broader downsizing effort were not considered.

The results of this study provide a nuanced assessment of the relationship between layoffs and their victims’ voluntary turnover behavior upon reemployment. The research shows that:

- A layoff increases the likelihood of voluntary turnover from post-layoff jobs. For those with multiple layoffs, each additional layoff carries a smaller effect. That is, although the cumulative effect of multiple layoffs is an increase in quit likelihood, the effect of the second layoff is not as strong as the first, the effect of the third layoff is not as strong as the second, etc. See Figure 2, page 6 for an illustration of this “decreasingly positive” effect.

- Layoffs do not influence the likelihood that employees quit to search for new employment. Instead, layoffs influence quit behavior by increasing the likelihood that employees quit after securing alternative employment, either by searching while employed or receiving an unsolicited offer, and by increasing the likelihood that employees quit for family reasons (e.g., to remain home with children).

- The layoff effect is only partially explained by victims’ tendencies to work in lower quality post-layoff jobs.

The finding that the layoff effect endures across all post-layoff jobs is particularly amenable to the psychological spillover argument—should a layoff alter victims’ general expectations and perceptions surrounding employment and their attention given to alternative employment opportunities, the influence of the layoff would be expected to persist across multiple post-layoff employment relationships.

The declining positive effect associated with multiple layoffs is consistent with the authors’ expectation that psychological spillover and the resulting loosening of ties to subsequent employers are each bounded by the natural range of variation available to individuals’ trust and job security perceptions and to workers’ capacity to attend to alternative employment opportunities. That is, with repeated layoffs, felt trust and expectations of job security are likely to approach floor values while attention to other opportunities is likely to reach a
ceiling value, limiting the influence of additional layoffs and thereby allowing for the declining marginal effect illustrated in Figure 2.

**Figure 2**

*Effect of Accumulated Layoffs on Voluntary Turnover Hazard*

Figure 2 charts the change in the likelihood of voluntary turnover (relative to that under the condition of no layoffs) as total accumulated layoffs increase. Change is given in raw survival hazard. Analysis of the plot’s simple slopes provides a formal assessment of effect attenuation (a simple slope is the tangent to the curvilinear plot at a particular level of Accumulated Layoffs). Results indicated positive and statistically significant simple slopes—and thus a significant effect of layoffs on voluntary turnover—for each additional layoff up to the sixth instance. Subsequent to the sixth instance, additional layoffs did not affect the likelihood of voluntary turnover (i.e., the simple slopes were not statistically different from zero), suggesting a plateauing quit hazard. All else equal, the hazards presented in Figure 2 indicate that those with four, five, and six layoffs in their work histories are 3.5, 4.7, and 5.9 times more likely to quit (relative to their quit likelihood in pre-layoff employment).

Notably, to the degree that psychological spillover (and the associated negative effects on employee expectations of job security and their trust in post-layoff
employers) are valid, layoffs may also encourage permanent withdrawal from the workforce. Indeed, analyses indicated that layoffs made it easier for workers to embrace the lure of staying home for family reasons, presumably due to a reduced attachment to the job that simplifies the response to the outside, family related pull. Thus, should permanent exit from the labor force offer a similar pulling force (e.g., via reduced stress from unsuccessful search, the opportunity to pursue non work initiatives), layoffs may be even more damaging to the external talent pool than implied by these results.

**Future Research**

The general absence of research addressing the impact of layoffs on victims’ subsequent work behaviors leaves intriguing avenues available for future study. Layoffs could, for instance, carry positive effects for job performance in ensuing employment, as it is not unreasonable to expect layoff victims to redouble their efforts as an inoculation strategy against future layoffs.

In fact, to the extent that layoff victims worry that their past layoffs are a signal of low quality, these individuals may be motivated to perform in order to shed the negative association. Similar arguments can be applied to the effect of layoffs on alternative withdrawal behaviors, including absenteeism and tardiness.

Psychological spillover allows that employees who survive a layoff initiative (i.e., those who do not lose their job) may follow the trend observed among victims toward voluntary turnover in subsequent employment. Given the unknown but certainly enormous number of layoff survivors in the labor force, survivors’ turnover behavior in subsequent jobs could have a massive, disruptive impact on workforce stability in the U.S. economy. As such, the future investigation of layoff effects should expand beyond the study of layoff victims to consider behavioral consequences for layoff survivors upon turnover and reemployment.

**The Takeaway**

Given that the broad and generally indiscriminant reach of layoffs affects tens of millions of American workers, the study speaks to the potentially highly consequential effects of institutionalized downsizing on the subsequent stability of the modern American workforce.
The study suggests that although layoffs do not push the reemployed worker out the door, they make it easier to step through a door that is open. In other words, layoffs did not so much lead employees to quit post-layoff jobs in which they were unhappy, but rather freed them to quit when job opportunities were readily available.

Nevertheless, with virtually no other research examining layoff effects on employee work behaviors, the implications of the study’s findings for human resource management practitioners remain somewhat unclear. For example, although layoff victims are more likely to quit in post-layoff employment, they may also be more motivated to perform (e.g., as a hedge against future layoffs). Until researchers address this question of performance, the “net effect” of layoffs on employee work behaviors will remain unknown. Moreover, given the prevalence of layoffs as a business strategy, it may be increasingly impractical to avoid hiring employees who have never experienced a layoff.

In fact, given that layoff victims are so prevalent within the labor pool, and given the psychological spillover rationale developed in this work, the most efficient approach to the problem of increased voluntary turnover likelihood among layoff victims may be to reestablish perceptions of job security and employee-employer trust in post-layoff employment.

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