Turnover and Organizational Performance: A Comparative Analysis of the Effects of Voluntary, Involuntary, and Reduction-in-Force Turnover

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Data were collected from 31 regional subunits of a national financial services company to examine differential effects of 3 types of turnover (voluntary, involuntary, and reduction-in-force) on measures of organizational subunit performance. Although each form of turnover exhibited adverse effects on subunit performance when examined separately, partial correlation results revealed greater and more pervasive adverse effects for reduction-in-force turnover (i.e., downsizing) in comparison with the effects of voluntary and involuntary turnover. The results confirm the negative effects of downsizing, suggesting the need to move beyond the traditional voluntary–involuntary classification scheme used in turnover research.

The purpose of the present study was to examine the effects of turnover on organizational subunit performance. This study differs from the majority of such research in that it examines turnover from the organization’s point of view rather than from that of the individual. Previous research has attempted to look at the relationship between turnover and job performance as part of the functional versus dysfunctional approach to turnover (Hollenbeck & Williams, 1986). However, little research exists on the aggregated effects of turnover on organizational performance. In addition, focusing on organizational subunit-level turnover bridges the gap between the literatures on turnover and those on downsizing.

Downsizing is, in a sense, an organizationally induced form of turnover. It is not, however, well represented in theoretical models of turnover. In documented taxonomies of turnover, downsizing is embedded within larger taxonomic categories. For example, downsizing would be considered a form of involuntary (from the individual’s perspective) turnover (Bluedorn, 1978; Price, 1977), a form of avoidable (from the organization’s point of view) turnover (Dalton, Krackhardt, & Porter, 1981), and potentially either functional or dysfunctional depending on the individuals downsized.

Subsumming downsizing within other categories of turnover is unfortunate because it can be expected to have different attitudinal and behavioral consequences for both individuals and organizations.

In this article, we separate downsizing from other forms of involuntary, avoidable turnover such as dismissals. Dismissals are a function of poor individual performance or of insubordination.

Downsizing is more often a function of the organization’s economic conditions or strategic planning efforts, such as to focus a firm on its core competencies, preempt future slowdowns, change the corporate culture, or reduce the number of levels in the organizational structure (Hitt, Keats, Harback, & Nixon, 1994). Ultimately, however, even these latter efforts are driven by the desire to improve the firm’s financial performance. Unfortunately, as discussed below, there is little empirical evidence that the pernicious practice of downsizing actually has this effect on financial performance.

Turnover and Organizational Performance

Although some evidence exists for a curvilinear relationship between turnover and performance at the individual level of analysis (Jackofsky, 1984; Trevor, Gerhart, & Boudreau, 1997), the weight of the evidence points toward a negative relationship (Cotton & Tuttle, 1986; Morrow, McElroy, Laczniak, & Fenton, 1999; Vecchio & Norris, 1996; Williams & Livingstone, 1994). Extrapolating these findings to the organization or subunit level is very difficult because of the lack of studies that partition out the various forms of turnover and their effects on more macrolevel measures of performance. Consequently, this study posits that the relationship between turnover and organizational performance is a function of the nature of the turnover in question—that is, involuntary, voluntary, or reduction-in-force.

Assessing the effects of involuntary turnover on organizational performance is complicated by the fact that terminations normally entail relatively small proportions of an organization’s workforce and thus terminations have a low base rate (i.e., are characterized by restriction in range). Terminations may need to exceed a threshold level before the benefits associated with eliminating poor performers actually result in changes in organizational performance indicators. However, assuming that poor performers are replaced with better performers, organizational performance should be enhanced. The removal of poor performers should help to maintain and preserve performance-based norms among remaining employees (Trevino, 1992). Furthermore, the attributional effect on those employees who remain should be positive (Mowday, 1981), given the knowledge that it was the leaver’s poor perfor-
mance that caused his or her dismissal, as opposed to attributions that the organization was somehow at fault. In light of evidence positively linking the removal of poor performers with improvements in the replacement and remaining employees’ work norms and attitudes, the loss of poor performers should be advantageous to the firm. Consequently, we hypothesize the following:

**Hypothesis 1:** Involuntary turnover—that is, dismissals—will be positively related to organizational performance measures.

People voluntarily leave organizations for a variety of reasons. Some leave to escape negative work environment factors and others are pulled away from the organization by more attractive opportunities. Although some research on voluntary turnover, such as Ostroff’s (1992) finding of a negative relationship between intention to quit and school unit performance, supports the generalized negative relationship between turnover and performance, the complexity of issues surrounding voluntary turnover makes such generalizations impossible. For example, voluntary turnover is likely to involve a greater number of unexpected departures, which may have adverse consequences in that vacancies and staff shortages can decrease productivity and result in the use of less experienced personnel. The potential benefits of voluntary turnover for performance are many (e.g., infusion of new ideas, changes in policies and practices), but the lag time for these benefits is likely to be longer than that associated with the separation, replacement, and training costs connected with voluntary turnover. What differentiates the arguments surrounding voluntary turnover from those of involuntary turnover (i.e., dismissals) is that with involuntary turnover it is known that it is the poor performers who are leaving. The fact that voluntary turnover is not limited to poor performers leaves numerous attributional explanations among stayers regarding why people leave. Some of these explanations may enhance employee attitudes and subsequent behaviors whereas others may diminish them (Mowday, 1981). Without specific knowledge on the nature of voluntary turnover, its intensity, and its concentration or dispersion within the organization, it is not possible to predict a relationship between voluntary turnover and organizational performance. Thus, we hypothesize the following:

**Hypothesis 2:** Voluntary turnover will not be significantly related to organizational performance.

The impact of downsizing or reduction-in-force turnover is hypothesized to be fundamentally different from voluntary turnover. With downsizing, because no replacement employees are planned and the departing employees are presumed to have been at least minimally competent, the organization is taking a calculated risk that the cost savings associated with fewer employees will not detract from organizational performance. This may be possible with technological innovation or divestiture of operations, but unless the organization is extensively overstuffed, there is little reason to believe that employee reductions should, by themselves, improve performance.

The limited research on reduction-in-force turnover has produced conflicting evidence regarding its relationship to organizational performance. A closer look at this research adds to our skepticism that reductions-in-force should increase organizational performance. For example, although Bruton, Keels, and Shook (1996) found an overall positive relationship between downsizing and organizational performance, this finding is actually tempered by asset divestiture in addition to employee reductions. That is, Bruton et al. found that the better performing downsized firms were those that had also reduced their asset base during the study period. Given that the organizational performance measure used in the study was return on assets, downsizing of assets as well as people allowed the more successful downsizers to affect both the numerator and denominator of the performance measure. Consequently, these results are actually more in line with Cascio, Young, and Morris’s (1997) finding that employee reductions (as opposed to asset reductions) were detrimental to organizational performance.

The lone remaining study demonstrating support for a positive relationship between downsizing and organizational performance is the work of Wayhan and Werner (2000). This study used announcements of, rather than actual, reductions-in-force and did not differentiate reduction efforts involving strategic choices (e.g., asset reductions, divestitures, reductions aimed at refocusing on core competencies) from general workforce reductions (i.e., reductions involving people as opposed to assets). Furthermore, none of the studies examining workforce reduction have distinguished among the various forms of workforce reduction (dismissals, quits, etc.). Given this evidence, we contend that reduction-in-force turnover is negatively related to organizational performance.

**Hypothesis 3:** Reduction-in-force turnover will exhibit a negative relationship with organizational performance measures.

**Method**

**Sample**

Data were collected from 31 of 35 geographically separated sales regions of a national financial services company headquartered in a midwestern state. Four regions were omitted because they were part of a joint venture with another company. Each sales region in the study sold the same or similar products: home mortgages in a traditional one-on-one sales setting. The regions (i.e., subunits) constituted the unit of analysis in this study, with the regions serving as surrogates for organizations. Although using regions rather than actual organizations limited the ability to generalize to other organizations, it did enable us to control for the influence of exogenous variables. Furthermore, unlike in many other organizations, regional managers in this organization were not the targets of downsizing but rather the originators and implementers of such reduction-in-force efforts.

Personnel in each region consisted of commissioned sales representatives, mortgage processors, and management and administrative staff. Region staff sizes ranged from 34 to 315 employees, with the median and mean size being 171 and 165, respectively. The total retail population for this study was approximately 5,200 employees; approximately half were commissioned sales representatives, approximately 30% were mortgage processors, and the remaining 20% were management and administrative staff.

Data on turnover and organizational performance were collected over a 2-year period as part of the company’s normal data-collection process. Longitudinal performance information was deemed necessary to address the possibility that performance was more of an antecedent of turnover rather than the reverse. That is, the initial turnover and performance indicators were both derived from the first year, thus providing only cross-sectional data. The availability of data from a second year allows
stronger causal inferences regarding the role of each form of turnover and also facilitates an assessment of the extent to which turnover exhibits lag effects on subsequent organizational performance. Except for customer satisfaction (see below), the Year 1 and Year 2 time frames underlying turnover and performance data matched exactly.

**Measures**

**Control variables.** Three variables were treated as control variables in this study: the existence of banking services in the region, the urban-rural nature of the region, and subunit size. Although the financial services company that served as the basis for the study has offices in all 50 states, its banking subsidiary operates in only 7 of the 31 regions included in the study. Bank presence is assumed to increase name recognition, provide greater opportunities for referral business through relationship marketing, and allow for potential economies of operation. These advantages could be expected to result in increased profitability and perhaps decreased voluntary turnover as a result of increased individual sales related to bank presence. Consequently, regional offices that included banking services were coded 1 and those with no banking services were coded 0 to control for any effect of banking services on organizational performance.

Eight of the regions were located in or around large metropolitan areas. Muchinsky and Morrow (1980) posited that market conditions influence voluntary turnover, an argument supported by Williams and Livingstone’s (1994) meta-analysis showing that individual performance and voluntary turnover are affected by state unemployment rates. Given that large metropolitan areas have greater revenue potential and that the nature of their location alone may make them more economically favorable, regions were coded 1 for metro and 0 for nonmetro as a control for economic conditions.

Finally, studies have suggested a negative relationship between organizational (subunit) size and turnover (Anderson & Meyer, 1993), although Ryan, Schmidt, and Johnson (1996) found no such relationship. Given this and the notion of economies of scale, data were collected on the number of employees per region as of January of the second year, the middle of the data-collection period.

**Turnover.** Three measures of turnover were collected directly from company records: voluntary turnover, involuntary turnover, and reduction-in-force. Each form of turnover was measured as a rate on an annual, fiscal-year (July 1–June 30) basis. Voluntary turnover, as defined by the company, is the number of employees who left a given region on their own initiative as a percentage of the average number of employees in a given region. The average turnover rate across all regional offices included in this study was 34%, with a range of 10%–61%. Involuntary turnover is defined by the company as the total number of employees in a given region who were let go because of a failure to meet company standards as a percentage of the average number of employees in the region. The average involuntary turnover rate in the sample was 5%, with a range of 0%–9%. Finally, reduction-in-force turnover is the percentage of employees who were laid off for economic or redundancy reasons. The average rate for this form of turnover was 7%, with a range of 0%–29%.

**Organizational performance.** Profitability was collected from company records and was measured by the company using basis points (BPs) of profit per loan achieved per region. BPs is a common method of measurement within the mortgage industry, with a basis point being 0.01% of the loan amount. The profit figure used in this study combines all revenues accrued by a given region less all expenses incurred by or allocated to the region divided by the amount of loans funded by a given region. It is calculated monthly and annually for each region. For this study we had access to annual profitability figures for 30 of the 31 regions in the 1st year and all 31 regions in the 2nd year. In the 1st year, six of the regions reported negative profitability, with the range of BPs for all regions being from −95 to 82, with a mean of 28.97. In the 2nd year, only two of the regions reported negative profitability figures. The range of BPs for 1997 was from −57 to 92, with an average of 48.16.

Productivity was also collected from company records. The company calculates it by adding the total amount of loans funded per region per month divided by the number of sales employees in the region. Thus, productivity represents the sales volume produced per month by the average sales representative in each region. The data used in this study were the annualized average per-month figures per region for 30 regions in the 1st year and for 31 regions in the 2nd year. For the 1st year, productivity figures ranged from $230,620 to $1,324,110, with a mean of $574,940. For the 2nd year, the range was from $414,160 to $978,930, with a mean of $628,410.

Customer satisfaction was derived from a survey administered by the company to all customers obtaining loans from November of the 1st year to June of the 2nd year (i.e., approximately a year and a half, cutting across the 2-year time frame of the study). Customers rated their satisfaction with a given region’s loan processing performance on a 1–5 scale (1 = poor, 5 = outstanding). In company records, all “4” and “5” responses were tabulated as satisfied customers. The number of satisfied customers was then divided by the number of surveys returned per region to form a percentage index of customer satisfaction per region. The company reports a 38% response rate for the return of the satisfaction surveys. The satisfaction index ranged from 84.58 to 98.85, with a mean of 91.81.

The final organizational performance measure was cost per loan. The company began measuring this in the 2nd year, so data were available only for that year. Cost per loan is the total expenses per region minus commission and bonuses paid divided by the number of loans per month. An annualized average per region for the 2nd year was used. This measure ranged from $802 to $22,338, with an average cost per loan of $1,384.

**Results**

Descriptive statistics and study findings are presented in Table 1. The zero-order correlations among the turnover measures, shown below the diagonal in Table 1, indicated that a positive interrelationship existed among all three forms of turnover (i.e., rs ranged from .35 to .41). In a downsizing situation, these data suggest that poorly performing employees are also let go at a higher rate (i.e., involuntary turnover increases) and that other employees voluntarily leave more often. Similarly, there were strong interrelationships among the performance measures both within and across time frames.

In all cases, correlations between the turnover and performance indicators were moderate to large in magnitude, with higher levels of turnover associated with lower levels of performance (note that cost per loan is an indicator to be minimized, and thus positive correlations entailing this indicator reflect an inverse relationship between turnover and performance). In absolute value terms, the smallest to largest correlations between performance and turnover measures ranged from −.55 to −.65 (involuntary turnover), −.43 to −.58 (voluntary turnover), and −.31 to −.80 (reduction-in-force turnover). These findings, although counter to Hypotheses 1 and 2, strongly supported Hypothesis 3. Furthermore, they suggest that the negative relationship between turnover and performance found in prior research at the individual level of analysis may extend to subunit performance as well.

Because the subunit was the unit of analysis in this study, it was necessary to control for subunit characteristics that might influence turnover. Therefore, partial correlation analysis was used to evaluate the hypotheses after controlling for bank status, metro status, and subunit size. Although the sample size is small, it is sufficient to allow for the inclusion of three control variables while detecting medium effect sizes at a power level of .8 (Cohen & Cohen, 1975).
Table 1
Descriptive Statistics, Correlations, and Partial Correlations

<table>
<thead>
<tr>
<th>Measure</th>
<th>M</th>
<th>SD</th>
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<td>Bank status*</td>
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<td>.43</td>
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<tr>
<td>Metro status*</td>
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<td>.44</td>
<td>.03</td>
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<td>Subunit size</td>
<td>165.06</td>
<td>65.02</td>
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<td>.25</td>
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<td>Year 1 involuntary turnover</td>
<td>4.57</td>
<td>2.38</td>
<td>.30</td>
<td>.16</td>
<td>.46</td>
<td>.63</td>
<td>.19</td>
<td>.43</td>
<td>.38</td>
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<tr>
<td>Year 1 voluntary turnover</td>
<td>34.60</td>
<td>13.80</td>
<td>.15</td>
<td>.19</td>
<td>.41</td>
<td>.41</td>
<td>.35</td>
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<td>Year 1 RIF turnover</td>
<td>6.69</td>
<td>6.81</td>
<td>.06</td>
<td>.21</td>
<td>.41</td>
<td>.41</td>
<td>.35</td>
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<td>Year 7 profitability</td>
<td>28.97</td>
<td>42.16</td>
<td>.14</td>
<td>.22</td>
<td>.52</td>
<td>.47</td>
<td>.47</td>
<td>.73</td>
<td></td>
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<tr>
<td>Year 1 productivity (in 1,000s)</td>
<td>574.94</td>
<td>217.86</td>
<td>.47</td>
<td>.16</td>
<td>.56</td>
<td>.35</td>
<td>.43</td>
<td>.31</td>
<td>.54</td>
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<tr>
<td>Years 1–2 customer satisfaction</td>
<td>91.81</td>
<td>2.48</td>
<td>.07</td>
<td>.13</td>
<td>.55</td>
<td>.65</td>
<td>.46</td>
<td>.75</td>
<td>.69</td>
<td>.39</td>
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<td>Year 2 profitability</td>
<td>48.16</td>
<td>28.60</td>
<td>.18</td>
<td>.13</td>
<td>.41</td>
<td>.36</td>
<td>.49</td>
<td>.80</td>
<td>.75</td>
<td>.49</td>
<td>.59</td>
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<tr>
<td>Year 2 productivity (in 1,000s)</td>
<td>628.41</td>
<td>155.20</td>
<td>.33</td>
<td>.20</td>
<td>.44</td>
<td>.42</td>
<td>.45</td>
<td>.45</td>
<td>.65</td>
<td>.88</td>
<td>.52</td>
<td>.65</td>
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<tr>
<td>Year 2 cost per loan</td>
<td>1,383.77</td>
<td>382.68</td>
<td>.28</td>
<td>.26</td>
<td>.48</td>
<td>.52</td>
<td>.58</td>
<td>.71</td>
<td>.67</td>
<td>.48</td>
<td>.72</td>
<td>.57</td>
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</table>

Note. Zero-order correlations < ± .36 are statistically significant at p < .05 (two-tailed). Correlations > ± .45 are statistically significant at p < .01 (two-tailed). Partial correlations are in bold above the diagonal and were controlled for bank status, metro status, and size. Partial correlations < ± .38 are statistically significant at p < .05 (two-tailed). Correlations > ± .47 are statistically significant at p < .01 (two-tailed). RIF = reduction-in-force.

* No bank state = 0, bank state = 1.  ** Non-metro status = 0, metro status = 1.  *** Number of employees.

The relevant partial correlations are shown above the diagonal in Table 1.

Hypothesis 1, postulating that involuntary turnover (dismissals) would be positively related to organizational performance measures, was not supported. Partial correlations between performance and involuntary turnover measures in absolute value terms ranged from −.21 to −.53, with only two statistically significant correlations. Specifically, involuntary turnover adversely affects customer satisfaction (r = −.53) and cost per loan (r = .43), even after controlling for bank status, metro status, and size.

Hypothesis 2 stipulated that voluntary turnover would not be significantly related to organizational performance. Partial correlations in absolute value terms ranged from −.20 to .56. Half of the partial correlations were statistically significant, and half were not, with the three significant findings suggesting that voluntary turnover has undesirable consequences for subunit profitability in Year 1 (r = −.59), productivity in Year 2 (r = −.42), and cost per loan (r = .56).

Hypothesis 3 posited a negative relationship between reduction-in-force turnover and performance. This hypothesis received strong support, with partial correlations in absolute value terms ranging from −.21 to −.81. Five of six partial correlations entailing reduction-in-force turnover were significant. Reduction-in-force turnover had an adverse association with all performance measures except Year 1 productivity.

Two interesting patterns emerge when one views these correlational data. First, whether viewing zero-order or partial correlations, the negative relationship between reduction-in-force turnover and subunit performance indicators is much stronger than that for involuntary or voluntary forms of turnover. Second, these data show that reduction-in-force turnover in Year 1 has adverse consequences that extend into Year 2. For example, the partial correlation for reduction-in-force turnover and subunit Year 1 profitability (r = −.66), although substantial, is even greater for Year 2 profitability (r = −.81). Moreover, the partial correlation between reduction-in-force turnover and subunit productivity changes from a statistically insignificant −.21 for Year 1 to −.42 in Year 2. These findings suggest the effect of downsizing may even be exacerbated over a 1-year lag time.

Discussion

The results of this study clearly suggest that turnover has undesirable consequences for organizational performance. Although the results support only one of the three hypotheses, they do provide substantial support for treating reduction-in-force turnover as distinct from involuntary or voluntary forms of turnover. Even though several individual findings raise interesting questions for future research (e.g., why is involuntary turnover associated more with declines in customer satisfaction than with voluntary turnover?), the emphasis here is on the advantages of separating the three forms of turnover.

The results of the zero-order correlations support the general finding from the psychological literature of an overall negative relationship between turnover and performance, regardless of the type of turnover. The partial correlation analysis, however, demonstrates the difficulty of making such a generalization. Only 5 of 12 correlations involving involuntary and voluntary turnover remained significant after controlling for subunit characteristics. Reduction-in-force turnover, on the other hand, demonstrated large and pervasive adverse associations with all measures of subunit performance except Year 1 productivity. The lack of association between reduction-in-force turnover and Year 1 productivity is a significant finding in its own right, given that productivity was measured in terms of efficiency—that is, amount of loans divided by the average number of sales employees. Lack of a significant correlation between this and reduction-in-force turnover indicates that as the denominator got smaller (due to downsizing) the numerator also got smaller. The detrimental effects of reduction-in-force turnover are apparently less immediate in the case of productivity, relative to other Time 1 outcomes. However, it is also interesting to note that this negative relationship between reduction-in-force turnover and productivity efficiency was even greater (and more statistically significant) in Year 2.

Given the cross-sectional nature of the Year 1 data, the significant, negative effect of reduction-in-force turnover on Year 1 profitability may be a function of the decision to downsize as a result of poor profitability. That is, when faced with poor prior or anticipated profitability figures, management may have made the
decision to downsize in an effort to reduce costs in hopes of improving Year 1 end-of-year profitability (i.e., a preemptive-move strategy). Indeed, discussions with company officials indicate this to be the case. However, the stronger correlations evident with respect to Year 2 outcomes support the asserted causal link between reduction-in-force turnover and declines in organizational performance.

The results here must be viewed in light of this study's statistical and sample limitations. Regarding statistical issues, readers are cautioned that strong estimates of association observed may be partially a function of the use of aggregated data (Hulin, Roznowski, & Hachiya, 1985; Steel & Griffeth, 1989). The sample organization selected also poses some limitations. Analyzing turnover effects within subunits of one company, although allowing us to control for exogenous variable effects, limits the generalizability of the results. The findings may also be more applicable to the nature of this organization's business—that is, a service organization heavily engaged in customer contact work. Moreover, all data were gathered from company records, so the level of sophistication of some measures, such as customer satisfaction, was limited and some slippage may exist among the three types of turnover used in this study. Because record data were used, it is possible that some employees left voluntarily instead of either waiting to be terminated involuntarily (e.g., in the case of a poor performer) or downsized. If this were a pervasive problem, however, one would expect to find few significant differences in turnover effects.

Furthermore, had we been able to use more conventional measures of financial performance, such as return on assets, a more direct comparison to previous research results, such as the Cascio et al. (1997) study, would have been possible. Finally, the collection of additional data over even longer time periods would have allowed for further examination of the effects of various forms of turnover over the long term. A merger involving the financial services company in question following this data collection effort, however, negated this opportunity.

In conclusion, this study points to a need for partialing out the effects of voluntary and various forms of involuntary turnover (i.e., dismissals and reductions-in-force) in studies at the organizational or subunit level of analysis. The failure to separate these three types of turnover may mask or even exacerbate the effects of any single form of turnover on organizational performance. The fact that this study found even isolated effects of involuntary and voluntary turnover on organizational performance supports the retention of separate forms of turnover in future organizational level studies of turnover. These findings also point to the need to move beyond the traditional voluntary—involuntary classification of turnover, even in studies of turnover at the individual level of analysis. Regarding reduction-in-force turnover differently from other forms of involuntary turnover is likely to increase understanding and prediction of quit behavior by identifying other motives for voluntary turnover (e.g., perceptions of procedural or distributive injustice linked to the downsizing process, personal fear of being downsized in the future).

Finally, separating reduction-in-force from other forms of involuntary turnover may also add to the growing literature on the psychology of downsizing, particularly among those who remain (e.g., Krackhardt & Porter, 1985; Mowday, 1981). One promising framework for assessing these effects would be to position downsizing as a psychological contract violation. Turnley and Feldman (2000), for example, found that such violations were significantly related to employees’ efforts to find other jobs, intentional neglect of job duties, and decreased organizational citizenship behavior, all of which might help explain the negative correlations found in this study between reduction-in-force turnover and subunit performance.

In summary, downsizing, an organizationally based form of involuntary turnover, was a potent predictor of organizational performance in this study. If substantiated in future studies, the inclusion of downsizing to turnover models may enhance understanding of all turnover phenomena.

References


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