

## **EMPLOYEE LAYOFF DECISION: A CROSS-CULTURAL STUDY OF THE U.S. AND CHINA**

Li, Jin, College of Business, North Dakota State University, Fargo, ND 58108,  
Jin.Li@ndsu.edu, (701) 231-8129

Chanchai Tangpong, College of Business, North Dakota State University, Fargo, ND 58108,  
Charnchai.Tangpong@ndsu.edu, (701) 231-9445

Kuo-Ting Hung, Sawyer School of Management, Suffolk University, Boston, MA 02108,  
khung@suffolk.edu, (617) 573-8395

Yue Li, Business School, Shantou University, Shantou, Guangdong, China 515063,  
liyue@stu.edu.cn, (86-754) 8255-8915

### **ABSTRACT**

This study examines the employee layoff decision in a Firm-Employee Relationship (FER) in two different cultural settings: the U.S. and China. Specifically, this study investigates how the personality of decision-making agents (i.e., conscientiousness), the norm of reciprocity, and their interaction influence the employee layoff decision in an FER in the two cultures. The findings of two scenario-based experiments in this study indicate that, in the U.S., the decision-making agents' likelihood to lay off employees is affected by the norm of reciprocity and its interaction with the agents' conscientiousness. In China, however, the study finds that only the norm of reciprocity affects such decision.

**Keywords:** Employee Layoff Decision; Firm-Employee Relationships; Experiment; Cross-Culture

### **INTRODUCTION**

As one of the important stakeholders of firms, employees are crucial strategic resources to the firms' success. The firm needs to design and implement a set of internally consistent human resource policies and practices that manages its human capital to increase the firm's performance (Huselid, Jackson, & Schuler, 1997). As such, productive firm-employee relationships (hereafter FERs) can provide the sustainable differentiating edge in competition (Pfeffer, 1994). However, FERs are not always harmonious. From time to time, firms have to lay off employees. Firms do this for many reasons – cutback in market demand, reduced availability of resources, and competitive forces that requires some form of cutback (Ivancevich, 2010). The extant literature focuses largely on the effects of layoff and the individual perceptions of downsizing and layoff (e.g., Edwards, Rust, McKinley, & Moon, 2003; Skiba, Smith, & Marshall, 2009). However, the factors that actually influence the decision-making agent's layoff decision have yet been fully studied. In this study, we aim to expand the literature on employee layoff by investigating the impacts of two decision-influencing factors, namely agent conscientiousness and reciprocity norm on layoff decisions in an FER.

## BACKGROUND OF THE STUDY AND HYPOTHESES DEVELOPMENT

### Conscientiousness

The first perspective based on which we examine the layoff decision in an FER is conscientiousness. Many studies have demonstrated that conscientiousness is related to various aspects of job performance (Judge & Ilies, 2002; Salgado, 2003). Conscientiousness is the trait of being painstaking and careful, or the quality of acting according to the dictates of one's conscience. Conscientious individuals are generally hard working and reliable. They are more likely to be orderly and decisive, be autonomous in goal-setting behavior, show greater ability to cope with time management issues and stress, and generally strive for continuous performance improvement (Thoreson, Bradley, Bliese, & Thoreson, 2004). Conscientiousness affects the level of efforts an individual puts forth on any given task and the level of performance attained by the individual. Employee layoff may occur as a response to the financially challenging time or simply as a strategic maneuver to increase firm performance. In the layoff decision context, the two primary stakeholders affected by such decision are (a) shareholders who often seek their return on investment and potentially benefit from the immediate efficiency gain reaped from employee layoffs (e.g., Capelli, Bassi, Katz, Knoke, Osterman, & Useem, 1997) and (b) employees who often prefer job security and stable incomes and will suffer from the layoff decision (e.g., Baumol, Blinder, & Wolff, 2003). Harmonizing the interests of these two groups of stakeholders is a demanding task for decision-making agents of the firm, particularly under financially challenging circumstances and amidst relentless pressure for firm performance improvement from the shareholders. Under the pressure of performance demand, less conscientious decision-making agents are more likely to yield to the challenging task and rely on simple, opportunistic maneuver of employee layoff with little consideration for employees. On the other hand, more conscientious decision-making agents who are regulated by their commitment to difficult goals (e.g., Barrick *et al.*, 1993) and their restraint of shirking and opportunism (Moon, 2001) arguably tend to establish themselves as the ones largely responsible for the interests of multiple stakeholders of the firm. When faced with the layoff decision dilemma, they are more likely to attempt to harmonize the interest of both parties and to explore with all stakeholders alternative maneuvers besides layoffs. Therefore, we propose Hypothesis 1 as follows:

*Hypothesis 1: More conscientious decision-making agents are less likely to make a decision to lay off employees than less conscientious ones.*

### Reciprocity Norm

The second perspective from which we examine the layoff decision in an FER is the reciprocity norm. "Norm of reciprocity" was proposed by Gouldner (1960) as an essential mechanism for stabilizing social systems. He suggested that a norm of reciprocity makes two minimal demands: (1) people should help those who have helped them, and (2) people should not injure those who have helped them. The norm of reciprocity plays a critically important role in various business relationships as it exerts influence on business decision makers and business exchange partners to return good deeds that they have received from others, and thus it can act as an insurance for future supports when needed (Cialdini, 1998; Tangpong & Pesek, 2007). Operating under the

norm of reciprocity, firms' positive and benevolent actions directed towards their employees contribute to the establishment of high-quality FERs. Guided by the norm of reciprocity, the mutually beneficial reinforcing actions by both firms and employees can lead to higher employee commitment, lower employee turnover, and ultimately strengthening firm performance; therefore, the norm of reciprocity arguably acts as a key mechanism to maintain and promote the stability of the relationships between firms and their employees. When there is a strong reciprocal relationship between a firm and its employees, the obligations imposed by the reciprocity norm can influence the decision-making agent to make the decision in favor of the employees and less likely to engage in employee layoffs even in the challenging times such as financial difficulties, changes in market demand, and major technological shifts. This would be otherwise when the reciprocal relationship between the firm and its employees is weak. This line of reasoning leads to the following hypotheses.

*Hypothesis 2: Decision-making agents who are under the influence of reciprocity norm are less likely to make decisions to lay off employees than those agents who are not.*

### **Interaction of Conscientiousness and Reciprocity Norm**

The final perspective is the interaction effect of agent conscientiousness and reciprocity norm on the layoff decision in an FER. Functioning in a similar manner to organizational culture, the norm of reciprocity is a form of social controls, and the establishment of this social norm arguably provides a 'strong' situation (Mischel, 1977) in which individuals operate and tend to have uniformed expectancies. As Chatman (1989) articulated, the alignments between personal attributes at the individual level and the norms or values at the organizational level tend to determine organizational outcomes. In the context of layoff decision in an FER, the presence or absence of reciprocity norm in the FER creates different organizational situations in which decision-making agents function. When conscientious decision-making agents operate in an organizational situation in which the reciprocity norm is established, it can be contended that the personal predisposition of the conscientious agents, who commit to the task/responsibility of harmonizing the interests of stakeholders (i.e., employees and shareholders) and restrain themselves from the short-term opportunistic act of employee layoff, is aligned with the organizational prescription based on the reciprocity norm not to jeopardize employees who have committed and contributed to the firm. Therefore, the conscientiousness of decision-making agents reinforces and interacts with the reciprocity norm in curbing the likelihood of layoff decision. Following this line of argument, we propose Hypothesis 3, suggesting that both the reciprocity norm and agent conscientiousness interactively affect the layoff decision.

*Hypothesis 3: The interaction between the reciprocity norm and the conscientiousness of decision-making agents is negatively related to the layoff decision likelihood.*

## **STUDY 1**

### **Experimental Design and Participants**

We used a scenario-based experiment as our research methodology. To test the hypotheses, we conducted the experiment with a group of 331 business professionals through the alumni

association of a university located in the Northeast of the U.S. In Study 1, we developed a business scenario of the employee layoff versus re-training dilemma in the face of a major technological change, which is commonly noted as the layoff trigger in today's business landscape (Baumol *et al.*, 2003). In the scenario, the participants assumed the senior-level management role and were asked to consider the decision options at hand. The participants were first provided with information that a technological change will make the business knowledge and skills of a group of employees obsolete and irrelevant to the company's business. The participants had the liberty to lay off these employees to use the company's resources more efficiently, or to keep and re-train them to acquire the new knowledge and skills. The participants were then asked to rate the likelihood of their decision to lay off these employees. Participants were randomly assigned into two groups - 163 participants in Group 1 (Absence of Reciprocity Norm) and 168 participants in Group 2 (Presence of Reciprocity Norm). For the first group, the reciprocity manipulation indicated that this group of employees served the company well in the past and if the company makes a decision in their favor this time, they would provide even greater efforts to serve the company in the future when they can. In the second group, the participants were provided with the information indicating that in the past years this group of employees often acted opportunistically and took advantage of the company (such as asking for salary and benefit increases through strike threats and their ability to switch jobs from the company to its competitors) whenever they could.

### **Data Analysis Results**

We used multiple regression analyses in this study. The dependent variable was likelihood of making the layoff decision, and the three regression models in addition to the control model were tested. The results of the Conscientiousness model indicated that Conscientiousness was not significantly related to the likelihood of making the layoff decision. Therefore, Hypothesis 1 was not supported in the experiment. In the Reciprocity Norm model, the results indicated that Reciprocity Norm was negatively related to the likelihood of making the layoff decision ( $p < 0.001$ ); however, Conscientiousness was still not a significant factor in influencing the layoff decision. The results supported Hypothesis 2 but not Hypothesis 1. In the Interaction model, the results indicated that Reciprocity Norm was still negatively related to the likelihood of making the layoff decision ( $p < 0.001$ ) and the interaction term was negatively related to such likelihood ( $p < 0.05$ ). Therefore, the results strongly supported Hypothesis 3. Agent Conscientiousness was not significantly related to the layoff decision in the interaction model.

## **STUDY 2**

To validate the findings in Study 1 in a different cultural setting, Study 2 replicated the experiment with 196 business professionals from various industries in three provinces in China – Beijing, Guangdong, and Anhui. These professionals were recruited through the alumni association of a university located in Guangdong Province. There were 97 participants in Group 1 (Absence of Reciprocity Norm) and 99 participants in Group 2 (Presence of Reciprocity Norm). We still used multiple regression analyses here. The dependent variable was the likelihood of making the layoff decision, and three regression models in addition to the control model were tested. The results of the Conscientiousness model indicated that Conscientiousness was not significantly related to the likelihood of making the layoff decision. Therefore,

Hypothesis 1 was not supported in Study 2, which was consistent with Study 1. In the Reciprocity Norm model, the results indicated that Reciprocity Norm was negatively related to the likelihood of making the layoff decision ( $p < 0.01$ ); however, Conscientiousness was still not a significant factor in influencing the layoff decision. The results supported Hypothesis 2 but not Hypothesis 1. This was consistent with Study 1. In the Interaction model, the results indicated that Reciprocity Norm was still negatively related to the likelihood of making the layoff decision ( $p < 0.01$ ) but the interaction term was not significant at  $p < 0.05$ . Agent Conscientiousness was also not significantly related to the layoff decision at  $p < 0.05$ . Therefore, the results did not support Hypothesis 3.

## CONCLUSION AND DISCUSSION

Our results show mixed findings in the two different cultural settings. In the U.S. sample, both the reciprocity norm and agent conscientiousness are significant in influencing agents' layoff decision in an FER. If there is a reciprocal relationship between the firm and the employees, the agent is less likely to lay off employees as the business environment changes. More importantly, the reciprocity norm and agent conscientiousness interact with each other in shaping the agent's layoff decision in an FER. Both the interaction term and reciprocity were significant in the Interaction model shown in Study 1. These findings suggest that in the U.S., although reciprocity norm could independently influence the employee layoff decision in an FER, the most-likely scenario not to lay off employees is when there is a reciprocity-based relationship between the firm and their employees and the decision-making agents are conscientious individuals. In the China sample, the reciprocity norm is the only significant factor that affects agents' employee layoff decision. Agents' conscientiousness level does not seem to affect their decision in this regard. The results indicate that both reciprocity norm and agent conscientiousness play an important role in shaping decision-making agents' layoff decision in an FER whereby the reciprocity norm exerts its decision-influencing effects in both U.S. and Chinese contexts whereas agent conscientiousness only plays an important role in the U.S. context.

This study has limitations that may provide directions for future research. First, our study examines only the single-agent decision scenario. Therefore, the applicability of the findings of this study to a more complex multi-agent scenario is subject to future investigations. Second, this study focuses only on one aspect of agent personality – conscientiousness. Future research could even look at other factors than the Big Five factors. Third, this study only examined the influence of decision makers' conscientiousness and reciprocity norm on layoff decisions. Future research on this topic can be extended by including more organization variables such as industry type and organization culture in the theoretical development and research design.

References available upon request from Jin Li (jin.li@ndsu.edu).