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The Impact of Layoffs on Employee Performance: A Legal and Human Resource Management Perspective

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Abstract. *This study aims to analyze the relationship between layoffs and employee performance, particularly focusing on employees who remain after layoffs occur. Layoffs create significant implications not only for terminated employees but also for surviving employees within the organization. This study employs a qualitative descriptive approach using in-depth interviews and observations, combined with a statutory approach to examine relevant labor regulations. Data were analyzed using the Miles and Huberman model. The findings indicate that labor regulations in Indonesia provide clear legal protection regarding layoffs; however, layoffs generate both negative and positive impacts on remaining employees. Initially, employees experience psychological pressure, including anxiety, stress, and job insecurity. Over time, these conditions lead to increased workloads, followed by improvements in work quality, responsibility, discipline, and performance awareness. The study also highlights the important role of organizational support, including effective communication, KPI implementation, and structured work distribution, in maintaining employee performance stability. This study contributes to the understanding that layoffs do not necessarily reduce employee performance and may even enhance it under effective organizational management.*

Keywords: Layoffs, Employee Performance, Job Insecurity, Human Resource Management

INTRODUCTION

Every company requires high-quality human resources as a strategic asset; therefore, organizations expect employees to demonstrate high performance in achieving organizational goals. High employee performance can be formed and improved through the company's role and efforts (Mangkunegara, 2017), and employee performance reflects the work results achieved by an employee, both in terms of quality and quantity, while carrying out tasks according to the responsibilities given to them. Employee performance is primarily influenced by individual capabilities and work motivation. In practice, these abilities and motivations can be disrupted by various internal and external conditions of the company, one of which is the Termination of Employment (Layoffs) policy. At PT Kembang Alam Khatulistiwa, an Indonesian import-export company operating in the agricultural commodity sector, layoffs were implemented during the first quarter of 2025 as part of the company's adaptation to technological changes and operational efficiency efforts, employs 100 workers consisting of 75 seasonal employees, 15 contract employees, and 10 permanent employees. As part of the company's strategy to improve performance and competitiveness, a comprehensive performance evaluation of all employees was conducted in March 2025. Based on the evaluation results, management decided to lay off 10 contract employees deemed to be performing below standard.

This layoff policy significantly altered the working conditions of surviving employees. Previously stable employee performance was now faced with a new reality of increased workloads due to reduced staff. The gap between high performance demands and the emotional state of employees entering a state of heightened vigilance created an important organizational dynamic worthy of further examination. As noted by (Hasibuan, 2023), the workforce reduction policy not only impacted those who lost their jobs but also significantly impacted the performance of remaining employees through changes in workload and mental stress.

Research by (Mayasari, 2025) showed that the greater the perceived impact of layoffs, the lower the motivation and performance of surviving employees, with a stronger influence on motivation, indicating that decreased motivation is a primary mechanism for post-layoff performance decline. (Salama, 2012) explains that employees who remain after layoffs, commonly referred to as surviving employees or survivors, may perceive layoffs positively when they are associated with organizational improvement and employee welfare. However, surviving employees may also develop negative perceptions when layoffs are perceived as unfair, non-transparent, or subjective. Based on the above, this study aims to examine the relationship between layoffs and the performance of surviving employees.

LITERATURE REVIEW

Layoffs

Layoffs refer to the termination of employment relationships due to specific circumstances that end the rights and obligations between employees and employers. In Indonesia, layoffs are regulated under:

a. Law No. 11 of 2020 (Job Creation Law)
b. Government Regulation No. 35 of 2021

From a human resource management perspective, layoffs are often implemented as a strategy for efficiency, restructuring, or adapting to market conditions.

Employee Performance

Employee performance is defined as the result of work achieved in terms of quality and quantity (Mangkunegara, 2017). (Gibson, 2019) explains that performance is related to effectiveness, efficiency, and organizational goals.
Performance indicators include:

a. Work quality
b. Work quantity
c. Timeliness
d. Responsibility

Job Insecurity and Work Stress

Layoffs often create job insecurity, which can lead to stress and anxiety among employees. However, under certain organizational conditions, these pressures may increase employee awareness and motivation to improve performance.

METHODS

This study employed a qualitative descriptive approach (Sugiyono, 2022) to obtain an in-depth understanding of employees' experiences and organizational responses during the post-layoff period. The research combined a statutory approach to analyze labor regulations related to layoffs with an interpretivist approach to understand employees' experiences, perceptions, and psychological responses after layoffs.

Data were collected through in-depth interviews and observations conducted at PT Kembang Alam Khatulistiwa. The informants consisted of one HR Manager and five employees who remained employed after the layoffs. To maintain confidentiality, the informants' identities were represented using initials.

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This study focused on understanding the psychological conditions, workload changes, adaptation processes, and employee performance dynamics experienced after layoffs. Data analysis was conducted using the Miles and Huberman interactive model, which includes data reduction, data presentation, and conclusion drawing.

RESULTS AND DISCUSSION

1. Layoffs

According to Article 1, number 25, layoffs are the termination of an employment relationship due to certain circumstances, resulting in the termination of the rights and obligations between the worker/laborer and the employer (Kementerian Ketenagakerjaan, 2024). According to (Mangkunegara, 2017), layoffs are a reality in the world of work, the impact of which is felt not only by the dismissed employee but also by the organization and the employees who remain employed. Formally, layoffs are defined as the termination of an employment relationship due to certain circumstances, resulting in the termination of the rights and obligations between the worker/laborer and the employer. However, from a human resource management perspective, layoffs are a strategy often adopted by companies for efficiency, restructuring, or in response to changing market conditions.

Legal Basis for layoffs in Indonesia:

1. Law Number 11 of 2020 concerning Job Creation

In Indonesia, layoffs are regulated under Law No. 11 of 2020 concerning Job Creation and Government Regulation No. 35 of 2021. These regulations emphasize that layoffs should be avoided whenever possible and must follow legal procedures, including bipartite negotiations and compensation provisions for affected workers. The main provisions regarding layoffs in this law:

a. Layoffs should be avoided as much as possible by both companies and workers.
b. If layoffs are unavoidable, they must be conducted through bipartite negotiations between the workers and the company.
c. Layoffs may not be carried out unilaterally without clear reasons.
d. Regulate workers' rights after layoffs, such as: severance pay, long-service reward pay, and compensation for entitlements.

2. Government Regulation Number 35 of 2021

(The main Government Regulation derived from the Job Creation Law regarding layoffs)

Government Regulation on Fixed-Term Employment Agreements, Outsourcing, Working Hours, and Layoffs

Important content regarding layoffs:

1. Reasons for layoffs (efficiency, company losses, violations, etc.)
2. Regulate the latest severance pay amount (more detailed than the law)
3. Compensation scheme:
   a. Severance pay
   b. Long-service reward pay
   c. Compensation for entitlements
4. Regulate layoffs due to:
   a. Company closure
   b. Merger/acquisition
   c. Force majeure
5. Clarify that layoffs must still go through legal procedures.

Layoff policies, while intended to maintain a company's financial health, often have a ripple effect within the organization. For employees who remain, this event can be a significant source of stress and uncertainty. They witness coworkers losing their jobs, which can directly trigger concerns about their own

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future job security. This phenomenon is the starting point for various psychological and physiological impacts, which will be discussed further.

2. Employee performance

Employee performance is the work results demonstrated by individuals in carrying out their duties and responsibilities within the organization. The term employee performance refers to the level of success achieved by employees in accomplishing organizational targets, which describes the employee's level of success in achieving predetermined work targets. According to (Mangkunegara, 2017), employee performance is the quality and quantity of work achieved by an employee in carrying out their duties in accordance with their assigned responsibilities. In this context, employee performance reflects employees' ability to achieve organizational targets under changing work conditions.

(Gibson, 2019) states that performance is the result of work behavior related to organizational goals, effectiveness, and efficiency. Thus, employee performance reflects how employees are able to carry out their duties optimally under various work conditions. Employee performance is measured not only by the final results of work, but also by the work process, attitude, and individual ability to adapt to changes in the work environment, including post- layoffs.

According to (Mangkunegara, 2017), employee performance indicators include:
1. Work quality, namely the level of accuracy and work results meeting standards.
2. Work quantity, namely the number of tasks completed.
3. Punctuality, namely working hours.
4. Responsibility, namely commitment to tasks.

In this study, interviews were conducted with several individuals as follows (the informants' real names are not listed, but rather initials are used). **FIGURE 1**.

Informan	Jabatan/Posisi	Lama Bekerja	Usia	Jenis Kelamin
AR	HR Manager	2 Tahun	30	P
A	Staff Produksi	4 Tahun	35	L
B	Leader Staff Produksi	4 Tahun	37	L
C	Administrasi Produksi	4 Tahun	32	P
D	Staff Produksi	3 Tahun	31	P
E	Staff Produksi	3 Tahun	38	P

FIGURE 1. Informant Data

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To obtain a comprehensive understanding of the implications of layoffs on surviving employees, the researcher conducted in-depth interviews with five employees and one HR Manager at PT Kembang Alam Khatulistiwa. The interview findings were categorized into several analytical components, including psychological responses, workload changes, adaptation processes, and performance implications. The integration of perspectives between staff members and management is summarized in Table 1.

TABLE 1. Matrix based on interview results

Theme	***Staff Perspective (A, B, C, D, E)***	***HR Manager Perspective***	***Key Interpretation***
Psychological Response	- Anxiety - Insecurity	Recognized emotional impact	Initial psychological pressure
Workload	Increased workload	Redistribution of tasks	Workload adjustment required
Adaptation	More discipline	KPI implementation	Adaptation improves performance
Performance	Better quality and responsibility	Performance monitoring	Performance gradually improved

Table 1 demonstrates that layoffs not only affected employees psychologically but also influenced organizational work systems and employee performance dynamics. Although employees initially experienced anxiety and uncertainty, the implementation of structured work systems, communication mechanisms, and performance controls gradually encouraged adaptation and improved work discipline. These findings indicate that post-layoff employee performance is shaped by both psychological adjustment and organizational management strategies.

To further examine the dynamics of employee performance before and after layoffs, the researcher reconstructed performance indicator data based on information obtained from the HR Manager. The data describe the psychological conditions and operational performance changes experienced by employees across four different phases, as presented in Table 2.

TABLE 2. Employee Performance Indicator Conclusion

Period	***Phase***	***Psychological Conditions***	***Performance and Operations***
February	Pre-layoff	- Uncertainty and rumors of efficiency emerge	Operational targets were not achieved, punctuality declined, and employee

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			commitment weakened
March (Week 1 – Week 2)	Implementation of layoffs	Critical: Shocked, anxious, restless, increased work stress	Operational performance declined significantly due to stress and uncertainty.
March (Week 3)	Adaptation	Stabilization: Getting used to it, anxiety decreases	Work quality gradually improved, although operational targets had not yet been fully achieved due to increased workloads. Employees became more punctual and demonstrated stronger commitment toward their responsibilities.
April	Consolidation	Positive: High awareness and target focus.	The level of accuracy and work quality improved, although the workload remained above the expected target due to increased responsibilities. Employees became more punctual and demonstrated stronger commitment toward their tasks

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As shown in Table 2, employee performance experienced significant fluctuations throughout the post-layoff transition period. The initial phase was characterized by shock, anxiety, and declining operational performance. However, after employees entered the adaptation and consolidation phases, improvements emerged in punctuality, responsibility, and work quality. These findings suggest that employee adaptation plays an important role in restoring organizational stability after layoffs.

Based on in-depth interviews with five informants, several key points were identified regarding the implications of layoffs on the performance of remaining employees:

1. Employee Perceptions and Psychological Responses

According to the interviews, all informants indicated that they understood layoffs as a company policy related to business conditions and operational efficiency. Although they initially felt shock, anxiety, worry, and unease, they did not strongly reject the policy. Instead, they tended to accept the situation after the company explained the reasons for the layoffs. Psychologically, the most dominant initial responses were anxiety and job insecurity. Several informants stated that, at the beginning of the layoffs, they were worried about whether a similar situation could happen to them. This concern arose because layoffs signaled an unstable company. However, this psychological state did not persist. Over time, the informants stated that they began to adjust to the new work situation and focused more on their respective jobs. The results suggest that layoffs do cause initial mental stress, but the intensity tends to decrease after communication from the company and adjustments to working conditions. In this context, psychological distress does not develop into a profound psychological disorder, but rather represents a natural response to significant organizational change. This aligns with the perspective of employee stress theory, which states that changes in the work environment, job uncertainty, and workforce reductions can create stress, anxiety, and insecurity for remaining employees.

2. Implications for Workload and Work Rhythm

Further findings indicate that there are significant changes in employees' workload and work rhythm after layoffs. Almost all informants stated that their workload and responsibilities increased after the workforce reduction. This additional burden was felt in the form of more intensive workloads, the need for multitasking, and demands for greater precision and consistency. However, informants also explained that the increased workload gradually became more structured after the company implemented a clearer division of labor. In interviews, several informants emphasized that the situation initially felt overwhelming, but after adjustments to work systems, targets, and superiors' directives, the workload became more manageable. These findings indicate that increased workload not only generated psychological pressure but also encouraged the development of more structured work patterns. This demonstrates that layoffs not only have a psychological impact but also impact daily operations. Remaining employees must adapt to a smaller workforce, resulting in an increased workload. However, as the organization begins to improve the division of labor and work rhythms, this increased workload can be managed. In other words, the impact of layoffs on workload is dynamic, initially severe, but then stabilizes as the adaptation process progresses.

3. Employee Adaptation Process Post-Layoff

Interview data indicates that all informants experienced an adaptation phase after layoffs. These adaptations included more disciplined work, greater focus, greater responsibility, fewer errors, and better time management. This adaptation did not occur instantly but developed after employees overcame the initial phase of anxiety and stress. This adaptation process demonstrates that employees were not merely passive recipients of organizational change but actively adjusted their work behaviors. They responded to the post-layoff situation by increasing vigilance regarding employee performance, maintaining the quality of work output, and striving to meet company standards more consistently. In this context, a new awareness emerged that job sustainability is highly dependent on individual performance and responsibility. Interpretatively, these findings confirm that adaptation serves as a crucial bridge between initial mental stress and changes in employee performance. Initially, layoffs generated anxiety; however, over time, this anxiety was transformed into motivation to improve performance. Thus, adaptation functions not only as a technical adjustment process but also as a psychological mechanism that helps employees stabilize after layoffs.

4. Implications of Layoffs on Employee Performance

Based on employee interviews and confirmation from HR Managers, it was found that employee performance post-layoffs tended to improve. This improvement was evident in several performance indicators, namely work quality, work quantity, punctuality, and responsibility. Regarding work quality, informants stated that they became more meticulous, more careful, and maintained better work standards. Regarding work quantity, informants acknowledged that the number of tasks increased and work output also increased. Regarding punctuality, some informants stated that they initially experienced difficulties, but after adapting, their work became more organized and efficient. Meanwhile, regarding responsibility, almost all informants stated that they became more serious, more conscious of their work, and more consistent in carrying out their duties. From a managerial perspective, HR Managers also confirmed that employee performance after layoffs tended to improve because employees became more aware of performance standards and more careful in their work. Furthermore, strengthening SOPs, increasing the role of leaders and managers, and implementing individual and divisional KPIs helped maintain stable performance. On the other hand, this situation actually encourages employees to improve their discipline, thoroughness, and responsibility, especially as they become more aware of the importance of maintaining employee performance. As a result, employee performance does not decline, but instead improves after the adaptation phase.

5. The Company's Role in Maintaining Psychological Stability and Employee Performance

Research findings also indicate that companies play a crucial role in mitigating the negative impacts of layoffs. Interviews revealed that company support was felt through open communication, direction from superiors, clear job development, and improved work systems. The HR Manager explained that the company also increased the role of leaders and managers in providing direction, monitoring, and maintaining team stability. Furthermore, the company implemented Individual and Divisional KPIs as a more measurable performance control tool. The implementation of KPIs provides a clearer work direction for employees to report challenges to HR and their immediate superiors. These findings demonstrate that employee psychological well-being and performance after layoffs are not only influenced by individual factors but also significantly influenced by organizational systems. Good communication, a clear division of labor, an active supervisory role, and performance monitoring through KPIs are important factors in helping employees navigate the post-layoff transition period. This ensures that the company is not only the one making the layoff decision but also plays a role in the recovery and stabilization process after the layoffs.

The above findings indicate that layoffs have complex implications for remaining employees. Psychologically, layoffs trigger anxiety, worry, and mental stress in the initial stages. This finding aligns with the concepts of job insecurity and work stress, which explain that organizational change and the threat of job loss can create psychological insecurity for remaining employees. However, in the context of this study, this mental stress does not persist long-term due to company communication, superior direction, and a gradual adaptation process.

Compared with previous research, this study's findings align with those of (Salama, 2012) and (Hasibuan, 2023), which indicate that layoffs can cause anxiety and impact the psychological well-being of remaining employees. However, this study also highlights a more specific nuance: that initial mental stress does not always lead to decreased performance. In the case of PT Kembang Alam Khatulistiwa, this pressure actually developed into a heightened work awareness and encouraged increased responsibility and discipline. From a performance perspective, the results of this study indicate that layoffs impact work quality, quantity, punctuality after adaptation, and employee accountability.

These findings suggest that employee performance after layoffs is influenced by two main factors. First, individual factors, namely increased awareness of job security, greater caution, and a greater focus on work results. Second, organizational factors, namely the strengthening of work systems through KPIs, direction from leaders and managers, and a clearer division of labor. Thus, improved performance is not solely the result of psychological pressure, but rather the interaction between individual responses and improvements

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to organizational systems. These results also contribute to the theoretical understanding of the implications of layoffs on performance.

CONCLUSIONS

Layoff policies directly affect employees' psychological conditions, including work stress, post-layoff anxiety, and job insecurity. Remaining employees initially experienced uncertainty and concern regarding the possibility of future layoffs, which significantly affected their emotional stability at work. However, employees gradually demonstrated strong adaptability by transforming anxiety into increased work awareness and discipline.

Although workloads increased after layoffs, employees responded by improving work quantity and maintaining operational stability within the company. Furthermore, improvements were identified in work quality, punctuality, responsibility, and commitment after the adaptation phase. These findings indicate that individual performance awareness plays an important role in maintaining employment sustainability within the organization.

The company was also able to mitigate the negative impacts of layoffs through stronger work control systems, including the implementation of measurable Key Performance Indicators (KPIs), improved communication channels, and clearer Standard Operating Procedures (SOPs). These organizational mechanisms helped employees better understand work targets and maintain stable performance after layoffs.

Therefore, organizations implementing layoffs should not only focus on efficiency objectives but also prioritize post-layoff psychological support, communication transparency, and performance management systems to maintain employee stability and organizational sustainability.

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