



Global financial crisis and perceptions of job insecurity: The China case



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ABSTRACT

Studies on perception of job insecurity (PJI) in relation to financial crises and on China have been extremely scant. Regression analysis of Chinese household survey ($N=6681$) was performed in order to assess the relationship between PJI and the 2008 global financial crisis. To address the possible endogeneity between PJI and the crisis indicator, we use relevant instrumental variables and compute the results using two stage least square (2SLS). We found that PJI in China were significantly correlated with the 2008 global financial crisis despite its high economic growth and frequent government interventions. Income and wealth reductions emanating from the crisis were also significantly correlated with PJI. Government's expansionary policies appear to be effective in ameliorating the workers' PJI. Social developments such as provisions of social security and income protection measures could also be used to reduce Chinese workers' job insecurity perception.

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1. Introduction

Job insecurity perception (PJI) has now become an important issue around the world (Greenhalgh and Rosenblatt, 2010). The adverse personal, organizational, social and economic effects of PJI are well documented in the literature (for a review, see Laszlo et al., 2010; Erlinghagen, 2008). PJI was found to be as detrimental as actual job loss itself (Sverke and Hellgren, 2002). According to a seminal paper by Greenhalgh and Rosenblatt (1984), PJI is defined as a “perceived powerlessness to maintain desired continuity in a threatened job situation”. It is based on individuals' interpretations of the immediate work environment and is often perceived as an overall concern about the continued existence of one's job in the future (De Witte, 1999). Uncertainty about the continued existence of the content or specific aspects of the job (such as a change of income or position within the company) is also a part of the concept of job insecurity.

There has been a substantial growth in the literature on PJI in recent years. The vast majority of research on PJI has hitherto been conducted for Europe, North America and OECD countries (Probst and Ekore, 2010; De Bustillo and de Pedraza, 2010). There is a paucity of studies on the developing economies (see also De Cuyper et al., 2010) and a dearth of such research on China. Incidentally,

it was found that workers in transitional economies and developing economies worried most about job insecurity (Green, 2009). A most recent review of the literature also points to the proliferation of studies focusing on the PJI consequences and coping strategies (for a recent review, see Greenhalgh and Rosenblatt, 2010). The importance of the antecedents of PJI on which this paper focuses has been relatively under-emphasized. Yet, an understanding of PJI determinants helps reduce the negative spillover impact of PJI on society by tackling PJI at the root level.

China's enormous economic and employment growth since the early 1980s has masked the issue of PJI, as indicated by the lack of literature and attention on this subject. There is a general conception that China, by virtue of its hyper-growth, can actually escape unscathed from a financial crisis. Is this true? This paper sheds light on this issue. PJI could arise from several sources, such as organizational changes, globalization, industry restructuring, automation, and economic recessions. This paper examines the relationship between PJI and a sudden unexpected economic downturn caused by a financial crisis. The global financial crisis (GFC), which erupted in 2008, has brought enormous social costs to many countries around the world and detrimentally impacted the labor force, which has suffered enormously from massive cutbacks or terminations (Claessens, Kose, and Terrones, 2009). Hence, the effects on PJI accruable from a financial crisis could be much worse than that accruable from a structural change, the effect of which is gradual with ample time for readjustment by both employers and employees. Financial crises not only result in personal income

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and asset losses, but also emotional distresses. Moreover, financial crises adversely affect not just blue-collar workers but also white-collar employees such as bankers and business managers. The entire workforce is at risk.

The PRC government has acknowledged the vulnerability of its employees and various initiatives have been taken to protect them, which include the launching of an enormous fiscal stimulus package and monetary policy relaxation during the GFC. However, the impact on the labor force of the huge fiscal stimulus measure and other longer term economic and social development initiatives still remains unclear. This paper examines *ex-post* if government policies are effective in reducing PJI among the hundreds of millions of workers in China.

The paper is organized as follows. Section 2 provides a review of the PJI theory and the conservation of resources (COR) theory. Specifically, we extend these theories to research on PJI during a financial crisis. Section 3 outlines our data description, data collection procedure, empirical measures of the relevant variables and our regression models. We also address the possible endogeneity problem in this section. The results from the analysis are tabulated and discussed in Section 4. The conclusions and some important policy implications are given in the last section.

2. Theoretical reviews

2.1. The conservation of resources theory

The basic tenet of the COR theory is that people have an innate as well as a learned drive to create, foster, conserve, and protect the quality and quantity of their resources (Hobfoll, 1989). These include tangible or material resources (such as shelter, money income, and possession) as well as intangible resources (such as emotional stability, psychological health, self esteem, etc.). COR theory also postulates that personal resources (tangible or intangible) affect each other and exist as a resource pool, and that lacking one is often associated with lacking the other (Hobfoll and Shirom, 2000). Stress and insecurity occur when individuals' resources are threatened with loss, when individuals' resources are actually lost, or where individuals fail to gain sufficient resources following significant resource investment (Hobfoll, 2001).

The COR theory is especially relevant in explaining the relationship between financial crisis and PJI. A financial crisis gives rise to real resource loss, including loss of income and wealth associated with actual loss of employment or pay cuts. It also gives rise to possibility of job loss, threat of job loss and diminishing job prospect (or cognitive job insecurity). According to the COR theory, the actual loss of monetary resources and threat of employment loss give rise to loss of self esteem, depressive mood as well as employment-related distress (or affective job insecurity) (see also Hobfoll and Shirom, 2000; Ünal-Karagüven, 2009). Hence, cognitive and affective job insecurities are associated with tangible and intangible resource loss wrought by the financial crisis.

2.2. Measures of PJI

There are many different definitions, interpretations and measures of PJI (see Sverke, Hellgren, and Näswall, 2006 and Huang et al., 2010 for reviews): for example, motivator versus stressor (Hackman and Oldham, 1975); objective versus subjective; single versus multidimensional (Greenhalgh and Rosenblatt, 1984); quantitative versus qualitative (Hellgren, Sverke, and Isaksson, 1999); and cognitive versus emotional (Ashford, Lee, and Bobko, 1989). This paper measures PJI along two dimensions: cognitive

and affective (or emotional) following Ashford, Lee and Bobko (1989). Cognitive refers to objective, quantitative, analytical, and motivational connotations of PJI (such as measuring the probability of losing a job or job feature) whereas affective implies subjective, qualitative, heuristic, and stress-imposing form of PJI (such as anxiety and fear due to perceptions of job insecurity). We use questionnaires as frequently used in the psychology literature (see for example Ashford, Lee, and Bobko, 1989) to differentiate between cognitive and affective PJI. The validity of our analysis and discussions on the differences between cognitive and emotional aspects of perceived job insecurity is given in Ashford, Lee and Bobko (1989).

In this paper, PJI is used in all cases as the dependent variable, in line with the fact that financial crises change PJI but not vice versa. Hence, the causal relationship between PJI and the GFC is one-directional. The GFC, originated presumably from the US subprime mortgage crisis, had spread to China, resulting in ubiquitous pay cuts, wealth reductions as well as emotional distresses. Such physical resource loss and emotional discomfort bore by the Chinese workers were concomitant outcomes of the GFC. In order to examine how the GFC correlates with PJI, we deliberately constructed the questionnaires in our survey by allowing the GFC to be "one period" before the PJI by framing our questionnaires with a time lag: for example, "Compare to before the GFC, how does your current PJI changes?"

2.3. Antecedents

First and foremost, information cue is conjectured to play an important role in the translation of an objective risk (such as unemployment rate statistics) into a subjective perception. The quality of information available to individuals on the risk factors they face also influences PJI (De Bustillo and de Pedraza, 2010). Perceptions of sufficient and accurate information from official organizational sources lead to lower PJI, suggesting that employees may tend to focus on providing information through official organizational announcements during tough economic times (Adkins, Werbel, and Jiing Lih, 2001). Some information can be more easily comprehended or evaluated than others, depending on the cognitive (or analytical) ease with which information is perceived (Kahneman, 2003). A field study found that realistic information given during a period following the announcement of a merger reduced the dysfunctional consequences of the merger on employees (Schweiger and Denisi, 1991).

A small number of studies have investigated whether certain personality dispositions or differences in personal characteristics are related to experiences of PJI. For example, an individual with a perceived lack of control may experience more PJI, which might potentially be remedied by providing information about the future (Ashford, Lee, and Bobko, 1989; Kinnunen et al., 1999; Sverke et al., 2004). In contrast, higher levels of self-esteem have been related to lower levels of PJI (Hartley et al., 1991). There is also evidence that negative affectivity or emotional stress may increase the likelihood of PJI (Sverke et al., 2004). Also, individuals with higher levels of tolerance to ambiguity have been found to be less likely to experience PJI (Adkins, Werbel, and Jiing Lih, 2001).

Having a certain type of employment contract has been seen to have a clear and important influence on PJI (De Bustillo and de Pedraza, 2010). Employees hired on full-time or permanent contracts may experience less PJI as they may have a greater sense of being an integral part of the organization than part-time or temporary employees (Sverke, Gallagher, and Hellgren, 2000). For example, academic tenure status was found to lessen PJI when the university under study experienced a funding problem (Adkins, Werbel, and Jiing Lih, 2001). Studies investigating PJI experiences among temporary workers typically find that employees holding

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