

Memo: The Panel on Organizational Behavior
Reason: Impact of Declining Job Security on Organization Behavior
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Date: April 4, 2007

In 1997, influential newspapers such as the *New York Times* and *Wall Street Journal* reported declining rates of job security and increased rates of anxiety pertaining to job security. At the same time, both Federal Reserve Chairman Alan Greenspan and former U.S. Secretary of Labor Robert Reich claimed the level of anxiety over job security¹ was unusually high for a time of economic recovery (Schmidt, 1999). These reports were sparked by the few first studies examining job loss and determining if jobs were indeed less stable than in the past. Since this time, a growing body of both empirical research and theoretical literature has examined the allegations of declining job security and the issues related to job instability.

Henry S. Farber pioneered the empirical research on job security by examining whether the incidence of involuntary job loss changed over a period of ten years. Through his analysis of data from the Displaced Workers' Survey (DWS) and the Current Population Survey (CPS), he concluded that the nature and consequences of job loss have changed, especially for male college educated and older workers who experienced higher rates of job loss during the recession of the early 1980's (Farber, 1993). He also investigated the possibility that job insecurity is related to the costs of job loss finding no statistically significant changes in the costs of job loss yet recognizing the costs are

¹ Job security and job stability are used interchangeably throughout this memo, as there is a negligible difference between the two terms.

substantial. He confirmed these results again in 1997, highlighting the large negative earning effects of job loss for more educated workers.

Following Farber's work in 1994, Diebold, Neumark, and Polsky examined claims of declining job security through empirical study of representative samples from the Current Population Survey. Their primary finding was job stability, overall, did not decline between the 1980's and early 1990's. Diebold, Neumark, and Polsky confirm Faber's claim that job insecurity rates for educated male workers started increasing in the early 1990's.

Using the same dataset as Diebold, Neumark, and Polsky, Swinnerton and Wial determined that the probability of remaining in a job for four or more years fell from 55% in 1983 to 49% in 1987 (1995). Since both groups of researchers came to different conclusions using the same dataset, they reexamined their methodology and found inconsistencies in the treatment of variables such as self-employed. Swinnerton and Wial since amended their findings reporting the CPS data does not appear to suggest a decline over the entire 1979-91 period, yet declines do take place during this period sporadically (1996).

Previous studies used data from CPS and DWS to analyze long-term job security. To examine short-term job stability, Gottschalk and Moffitt use monthly measures from the Survey of Income and Program Participation (SIPP) and contrast with annual measures from the Panel Study of Income Dynamics (PSID). Their objectives were to measure change in job stability and job insecurity over the 1980's and 1990's, providing evidence that neither significantly increased during this time period. They also found no

increase in short-term job instability, claiming the consequences of job separation have not worsened, whether one looks at yearly or monthly transitions (1999).

Daniel Polsky also examined the consequences of job loss using the PSID data, looking at periods 1976-81 and 1986-91. PSID data was examined to determine if there were significant shifts in job stability, using a between-period comparison of the probability of all job separations to detect shifts in job stability. Polsky's analysis showed a pattern of overall stability. However, involuntary job loss increased, especially for older workers, professionals, and managers. Consequences of involuntary job losses worsened, with an increased likelihood of regaining employment at a lower wage (1999).

PSID data was examined again by Dave Marcotte to bring new evidence to bear on the subject of job stability in the United States (1999). Using the years 1976-1992, Marcotte looked at job retention rates between various groups of workers. The evidence points to "mild" declines in job stability during mid 1970's and early 1990's, However, there were significant changes in job stability amongst specific groups; black workers, workers with less than a high-school education, and workers with post-secondary education but no college degree. Taken together, Marcotte's research provides valuable evidence of a decline in job stability, more importantly a decline for disadvantaged groups. Marcotte is the first to emphasize the importance of looking at job stability with both a micro and macro perspective, to see that overall there may be stability or slight decline in stability yet for certain groups there is great instability.

Robert Valletta used the PSID data to analyze job security in the context of contracts designed to overcome incentive problems in the employment relationship. Valletta found evidence of declining employment security for all men and for skilled

white-collar women (1996). The decline in job security for high-tenure men is consistent with previous finding yet reported finding of job security for women is very interesting. Previous data sets offered information on male household heads, eliminating an entire workforce from their studies on job security. Although Farber also looked at job stability for women and found growth in women's job stability, he only looked at the early 1970's, which was a time of growth for women in the workforce (1997). I find it incredibly valuable to offer information on the entire workforce, not just male household heads.

Disagreements among researchers about job stability trends can be linked to whether they look at men and women separately or together. It is also hypothesized that discrepancies in research results may be due to the differences in data sets and how these data are handled. Findings using CPS data show job stability remaining fairly stable where studies using the PSID data show job security declining, especially for certain groups of workers. Jaeger and Stevens used both data sets to determine if they yield systematically different trends. They found little evidence of a discrepancy in the data sets when using comparable samples, variable definitions, and time frames in their examination (1999). Jaeger and Stevens found no overall decline in job stability between the 1980's and 1990's, but results by education and age subgroups differ across the two samples. Their findings are important for researchers looking at job stability, especially those utilizing the CPS or PSID data. Previous research has produced results at odds with each other, yet Jaeger and Stevens were able to produce consistent results (1999).

Until this point, research examined if job security is declining. However what are the implications of job insecurity? In their research, Hogan and Ragan ask if job security

is desirable. Looking at a two-period economy in which there are countless firms, they model the choice between labor contracts that permit only employment adjustment and those that permit only hours adjustment. Hogan and Ragan concluded high turnover lowers the expected costs of being laid off by reducing the expected duration of unemployment. As hiring and layoff rates move together, it is reasonable there may be a negative externality associated with providing job security. Their analysis depends on two things being true, that workers prefer employment to unemployment and that an increase in layoffs results in an increase in hiring. I find their question important and compelling, it is valuable to question the importance of job security. However, recent job layoffs have not been complimented by an increase in hiring. Companies such as Dunlap, Chrysler, and General Electric have eliminated millions of jobs in recent decades, most in middle management (Bolman & Deal, 2003).

As Hogan and Ragan look at job security with a unique perspective missing from the literature, Schmidt also looks at job security in a unique way by examining workers beliefs about their own job security. Schmidt examines whether workers are more pessimistic about their job security and if those fears are consistent with job loss rates by examining 1977-1996 General Social Survey (1999). The results are consistent with trends in involuntary job loss rates in the Displaced Workers Survey. Workers were more pessimistic about losing their job in the 1990's than they were during the 1980's even though the 1980's experienced a more severe recession than the 90's. In addition, earnings following a job loss decreased during the 90's for workers with postsecondary education and that group became more pessimistic about costly job loss (1999). The literature has neglected the well being of workers who have and have not been displaced

yet this article makes an important contribution by showing workers beliefs and anxiety regarding their own job security.

Although worker anxiety was well covered in the popular press, researchers have largely overlooked anxious workers and what factors are driving that angst. Maria Ward Otoo uses information on individual responses from the Michigan Survey Research Center's survey to identify households with a concern over job security. Otoo found that more than 25% of households in 1995 were concerned over job security. Anxiety differed by education, race, and geographic region with less educated households and households identifying as black and Asian having the highest anxiety (1996). Otoo's research provides important information regarding the reality of worker anxiety over job security. It may be interesting to revisit this data set to see if anxiety has declined over the last ten years since layoffs have become common practice in the U.S. economy.

Today job security is almost viewed as a thing of the past, a relic from "paternalistic times" (Bolman & Deal, 2003). In our highly competitive markets comprised of a new generation of employees who change jobs every two years, many organizations wonder if a long-term commitment to employees is necessary. This review outlines the empirical research and theoretical literature on job security. The implications of job security are wide spread and affect factors that are key to organizational behavior. Concepts such as citizenship behavior, organizational membership, and employee initiative are all influenced by an employees' perception of their job security.

Citizenship behavior, an employee's ability to work effectively with others, is directly impacted by their perception of their job stability in an organization. An employee's anxiety about their job security has implications for them, their co-workers,

and the organization. For workers, job insecurity has led to low wages, minimal benefits, stress, and burnout (Bolman & Deal, 2003). Workers become consumed with a fear of being laid off, their career in ruins, and their family in crisis. These concerns affect their ability to work effectively with others while having a corrosive effect on their motivation and commitment (Morgan, 2006). Is a worker really able to believe they are part of community of shared interests when organizations do not protect or invest in their employees' future?

A skilled and motivated workforce is a powerful strategic advantage, mostly due to the fact that so few employers invest in developing a talented and committed workforce (Bolman & Deal, 2003). Organization membership, an employees willingness to work and stay at an organization, is influenced by job stability. Workers that feel an organization is disloyal to their employees are less loyal to their organizations. The person-organization relationship changes dramatically when there is no guarantee of employment. Economists and business analyst claim a smaller, more flexible workforce leads to lower costs, higher efficiency, and greater ability to respond to business fluctuations (Bolman & Deal, 2003). While this may be true, stability rather than change characterized 90% of firms that outperformed the average in their industry over a ten-year period. High-performing companies are doing a better job of understanding and responding to employee needs, creating motivated employees that excel in their work (Bolman & Deal, 2003).

An employees' motivation is impacted by an organization's recognition of an employee as an asset. Organizations that invest and protect their assets through job stability create an environment for employees to go above and beyond what is expected

of them. To encourage employee initiative, organizations need to create an environment where employees will take risks and strive for excellence. When employees feel anxiety over their job security, instead of searching for excellence they spend time searching for their next job (Bolman & Deal, 2003). Employees that feel neglected and undervalued withdraw their efforts and have no motivation to go above and beyond what their job requires of them, they may even work against organizational purpose.

As evidenced in the above literature, job insecurity has had the harshest effects of special groups such as the elderly, poorly educated, and ethnic minorities. Such employees are expected to be committed and loyal while an organization invests little to nothing to foster and reward these traits. Disadvantaged groups with little security and few fringe benefits contribute to a larger discussion regarding problems of social equity, patterns of prejudice, and discrimination in society that are impacting the future of relationships between people and organizations (Morgan, 2006). Successful organizations embrace creative and powerful strategies to align individual and organizational needs (Bolman & Deal, 2003).

The literature has shown conflicting evidence regarding trends in job security and the impact of perceived job insecurity. Emerging evidence suggests job instability leads to a loss of talent and loyalty that leads to mediocre organizations. Offering job security and an investment in employees can bring mutual benefit to both organization and employee: individuals find meaningful and satisfying work with decreased anxiety, and organizations get talented employees who express positive citizen behavior, a strong organizational membership, and initiative to go above and beyond what is expected of them (Bolman & Deal, 2003).

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