ALTERNATIVE HUMAN RESOURCES STRATEGIES IN CHINA: THE RISE OF TEMPORARY EMPLOYMENT RELATIONSHIPS AND THEIR PERFORMANCE EFFECTS

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My dissertation focuses on employers' strategies to manage the workplace through the use of alternative employment contracts. It consists of three empirical studies. The first study qualitatively explores managers' interpretations of temporary employment contracts. The findings suggest that the use of temporary employment contracts is not merely a cost minimization tactic; rather, it is a strategic response to capitalize on market opportunities, to increase managerial authority, and to redistribute the economic and legal risks between the employers and the employees.

In the second study, I examine the effects of organizational and environmental characteristics on the spread of temporary employment contracts. Results of 102 establishment-level surveys suggest the following findings. First, establishments make greater use of temporary employment contracts when they have access to an adequate supply of skilled labor, when market wage rates are high, and when the product market is geographically concentrated. Second, establishments highly dependent on state resources tend to provide long-term employment opportunities. Finally, as driven by shareholder oriented values and a focus on short-term returns, publicly traded companies are more likely than non-listed companies to use temporary contracts. Furthermore, NYSE listed companies are more likely to adopt temporary contracts than those listed on the NASDAQ and Chinese stock exchanges.

The final study investigates the relationship between alternative employment strategies, high involvement HR practices, and organizational performance. Results

suggest that establishments that use a majority of temporary contracts are associated with low operational performance. Moreover, high involvement HR practices are performance-enhance because employees are competent and motivated to use their discretionary effort at work. Finally, high involvement HR practices moderate the relationship between alternative employment strategies and performance. In particular, the negative relationship between alternative employment strategies and performances is lower when the company uses more high involvement HR practices.

BIOGRAPHICAL SKETCH

Xiangmin Liu graduated from Zhejiang University, Hangzhou, China with a B.S. degree in 2000 and a M.S. degree in 2002. She received her M.S. degree and Ph.D. with a concentration on human resource studies from the School of Industrial and Labor School, Cornell University in 2005 and 2009.

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INTRODUCTION

How an organization manages its human resources is generally seen as a source of competitive advantage (Barney, 1991; Wright & McMahan, 1992). Human resource management scholars have proposed that firms should optimize the fit between human resource practices, organizational functions and processes, and the dynamics of the external environment (Wright & Snell, 1998; Batt, 2002). Prior research has suggested that employers should carefully select a group of qualified employees, provide extensive training, and design jobs that offer competitive salary, favorable work conditions, and job stability, especially in activities that are critical to organizational value creation.

However, in recent years firms have embraced varying degrees of employment externalization even in core business functions: they integrate the use of temporary employment contracts as part of a long-term organizational strategy (Barley & Kunda, 2004; Davis-Blake, Broschak, & George, 2003; Lautsch, 2002). The widespread use of temporary employees leads to a breakdown of long-term employment relations and internal promotion paths, as well as the expansion of jobs of limited duration and careers outside of the corporate hierarchy. As such, employers expect to gain increased discretion in adjusting the number and skill mix of the workforce under changing market conditions, while minimizing the economic and social costs associated with personnel layoffs.

To advance our understanding of these alternative approaches to human resource management, in this dissertation, I explore the rise of temporary employment contracts and their performance implications. I focus on the empirical context of China because of its rapidly changing environment and comprehensive institutional transitions that are occurring (Child, 1994). Prior to economic reform, employees were assigned to state-owned enterprises which guaranteed lifetime employment and a wide range of benefits, including housing and education. Since the 1980s, China has enacted fundamental institutional reforms to align the emerging patterns of employment relations with increasingly competitive markets. Firms were encouraged to link rewards to performance through the use of bonus systems; they were even allowed to dismiss employees under certain circumstances. Moreover, the adoption of contract-based employment system in mid 1990s substantially enhanced employers' autonomy in making personnel decisions, including the use of temporary employment contracts.

The dissertation is organized as follows. First, I present the historical background and institutional environment of the rise of temporary employment relationships in China. In the second chapter, I present a qualitative study which explores managers' perceptions of the organizational environment and their interpretations of the use of temporary employment contracts. Next, I draw upon original data collected from 102 establishments and examine the influence of labor market conditions, product market conditions, political conditions, and financial market conditions on the spread of temporary employment contracts. Chapter 4 explores how firms mix temporary employees with permanent employees in the same service activities and investigates the performance effects of integrating temporary work into other components of their human resource systems. Finally, I summarize major findings in these studies and present ideas for future research.

INSTITUTIONAL CHANGES

Institutional changes are the central and most consequential contextual feature of China's economic development (Child & Tse, 2001; Guthrie, 1997; Peng & Health, 1996). Here I examine some of the critical institutional changes that have occurred over the course of China's economic transition. I describe how the institutional structure of state administration, especially labor regulations, in China's pre-reform industrial economy has had important consequences for the variety of ways that companies operate and compete in the transition era. I also highlight the changes that have been central to the reform of Chinese organizations from the perspective of company managers. In this study, I focus on the transformation of employment relations in urban, industrial settings. Changes in rural labor markets are not discussed because they represent a distinct social system from the urban system in that they are based on historic administrative controls such as house registration, rural commune controls, and food rationing.

China's industrial labor regulation prior to 1980 was essentially a bureaucratic device to support planned economic activities and urban welfare (Frenkel & Kuruvilla, 2002; Warner, 1997). The State directly allocated workers to state-own enterprises and guaranteed employment for life as well as generous social benefits including housing, health care, education, and pensions. Meanwhile, workers could not change jobs unless permitted the current employer. As White (1987) reported, by the early 1980s, ninety-seven percent of the state workforce consisted of permanent workers with effective job tenure to remain in their enterprise for life. Over decades, however, the administrative control over personnel led to a severe mismatch between labor and demand, resulting in widespread overstaffing in state-owned enterprises (Ding, Goodall, & Warner, 2000).

China embarked on massive economic reforms in the early 1980s and became the largest recipient of foreign direct investment of all developing countires in the 1990s. The country started to increasingly engage in international trade. Companies with various ownership arrangements came into operation and proliferated rapidly. The State began to reform the system of employment relations to accommodate these emerging needs of a market economy. For example, in February 1983, the Ministry of Labor and Personnel issued a formal circular that called upon local governments to select pilot enterprises and industries to experiment with the replacement of the *de facto* system of job tenure with employment contracts. In 1986, the State even required that all new workers be hired on fixed-term contracts with a maximum duration of four years. In practice, however, laws and regulations at the state level were supplemented by local interpretation and were not enforced evenly.

Some scholars have discussed the reasons for the introduction of the contract-based system (Guthrie, 1998; White, 1987). First, the State attempted to improve productivity and increase labor flexibility in state industries. Unlike private businesses (both domestic and foreign invested) which have grown with essentially no financial support from the central government, state-owned enterprises relied heavily on government resources and therefore their operations were often plagued by the political goals of the government (Putterman & Dong, 2000; Steinfeld, 1988). As the State decided to reduce the state-owned enterprises' drain on government resources, it substantially increased managers' autonomy in running state-owned enterprises and encouraged them to adopt productivity-enhancing measures. The experiment with employment contracts for new recruits was one such productivity-enhancing measure. Other measures included performance-based pay, selective hiring procedures, use of disciplinary measures in the workplace, and the adoption of advanced production technologies (Gallagher, 2004; Warner, 1997).

Second, the Chinese government was confronted with the political urgency to alleviate tremendous unemployment pressures (Jefferson & Rawski, 1992). The use of fixed-term contracts, as well as the spread of labor service companies (similar to temporary staffing agencies), was a way to diversify institutional channels of labor allocation and exchanges operating outside of the administrative network of state labor bureaus. This allowed company managers to recruit their own workers and created more employment opportunities in domestic and foreign private companies.

The final reason for introducing employment contracts entailed the protection of disadvantaged labor, especially in private enterprises (Warner, 1997). The government saw labor contracts as a lawful instrument to regulate and protect migrant workers who were at the margin of the urban labor market and the national political arena. The use of employment contracts makes an employer's legal obligations clear and explicit. In the presence of this coercive measure, employers are less likely to delay payment illegally and more likely to make due contribution to social securities and worker welfare. In addition, the use of contracts set labor standards that are applicable to all workers based on contractual agreements, thereby reducing employment discrimination based on social economic status and administrative affiliation.

In the beginning of these pilot steps, the introduction of the contract-based labor system was greeted with ambivalence and debate. Scholars believed that the use of employment contracts would redistribute power among social strata and lead to a considerable change in the socio-economic position of China's industrial workers and in their relations with managers (Guthrie, 1998; Walder, Li, & Treiman, 2000; White, 1987). Supporters argued that the new system opened up contractual options for both labor and management. It legally recognizes and safeguards the freedom to choose one's own job, the right to get paid for one's labor and receive social insurance and welfare and the right to rest days and holidays and a safe workplace (Tomba, 2002). Yet, deep disagreement among elite politicians and academics (especially conservatives who were skeptical of economic reforms), as well as the public's anxiety about employment security and worker morale, had stalled the universalization of employment contracts for more than a decade (Gu, 1999). It was not until 1993 that the government set a timetable for making employment contracts a mandatory component of the employment relationship for companies regardless of their ownership status.

The Labor Law, which was passed in 1994 and became effective in 1995, formally requires that all employees sign employment contracts with their employers. The Labor Law consolidated the myriad of laws that had been passed during the previous decades. As a national law, it stipulates the legal principles for contractual employment relations, elaborates a range of workers' rights, and redefines the role of the state as regulator of labor relations (Frenkel & Kuruvilla, 2002). In particular, it establishes a contract-based labor system, which requires a written employment contract between an employer and an employee. This system provides three types of contracts: open-ended, fixed term, and assignment-based. Open-ended contracts (or contracts without a fixed term) promise permanent employment except in rare cases. Firms are not required to use open-ended contracts unless both parties decide to renew the contract after a consecutive service of ten years. Fixed-term contracts establish a legally binding employment relationship that lasts for a definite period of time. Fixed-term employment is widely used and has become a distinctive feature of the Chinese labor system. Under a fixed-term contract, the employer or the employee can terminate the employment relationship unilaterally upon expiration of the contract, for good cause, bad cause, or no cause at all. The employer also can make severance payments to discharge an employee before the ending date of the contract. [1] The third type, assignment-based contracts, refers to an employment contract that expires upon the completion of a certain job. They are far less common, usually found among casual workers, especially in seasonal, low-skilled jobs in agriculture and construction sectors.

In addition to the establishment of a contract-based system, the introduction of the Labor Law had important institutional implications. First, the Labor Law governs all types of employment relationships; it eliminated previous distinctions among enterprises based on ownership arrangements – for example, state, collective, domestic private, joint venture, or wholly foreign. Therefore, the Law provides at least in principle a unified regulatory framework for firms' personnel activities.

Second, the Labor Law emphasizes civil liability for contract breach as an incentive to comply with contractual obligations in place of administrative sanctions. This change was particularly important to state-owned enterprises (Lee, 1998). State-owned enterprises officially became independent legal entities, rather than as operating units of the government. Therefore, the Law entitles state-owned enterprises and other companies to terminate employment relationships as specified in the contracts. It also means that workers can change jobs without permission granted by the state-owned enterprises. Instead, the state-owned enterprises have the right to sue the worker and/or the new employer for damages.

Finally, consistent with prior labor regulations, the Labor Law was very cautious in granting companies the autonomy to layoff and to dismiss workers. Instead, the Law tightened control of the termination process by requiring companies to report such decisions to administrative authorities (i.e., labor bureaus at different

[1] Except for cases of disciplinary dismissals, severance payments amount to one month of pay for each year the employee has supplied service to the company (up to a maximum of 12 months).

levels). Some scholars believe that these conservative provisions reflected the government's continued commitment to job security for workers. As stated in Article 27, an employer can only lay off workers if it is experiencing severe financial stress, has received support from the trade union in the company, and has submitted a report to the labor authorities. Workers cannot be laid off simply to improve productivity and efficiency. Although the Law technically does not require approval for economic layoffs from the labor authorities, companies would be reluctant to undergo layoffs in the face of a stated objection by the authorities.

RESEARCH QUESTIONS

While almost all employment based on fixed-term contracts (the prevailing form of all employment contracts) is legally temporary because it is defined as a definite term contract, the dominant employment relationship is generally understood to be permanent, or more accurately, non-temporary. Employers and employees expect that employment will continue as long as the business goes well and the employees work up to expectations. Employers will have strong incentives to nurture a mutually obligatory relationship with employees and, after ten years of employment, offer permanent relationship as a reward for years of loyalty to the organization. However, recent years have witnessed the proliferation of temporary employment relationships, which are used to cover long-term personnel needs in regular positions, rather than on an *ad hoc* basis. Temporary and permanent employees often have the same job duties, skill requirements, and performance objectives. They are even organized into the same work groups under the same supervisor. Evidence suggests that some companies strategically use a set of recurring short-term contracts to replace the stable, permanent employment relationships. In this research, I define management policies and actions that use a mix of permanent and temporary employees in regular positions as "alternative employment strategies."

Meanwhile, another important development in China during the same period of time is an increasing emphasis on the value of people. Firms came to view the creativity, ingenuity, and problem-solving abilities of their employees as sources of competitive advantage in market competition. Therefore, they began to design and adopt a coherent pattern of human resource practices that provide employees with skills, incentives, and responsibility to make decisions essential for production improvement, quality service, and rapid response to change. While practitioners and researchers have substantially advanced our understanding of these new systems of human resources, it is not clear how these systems might interact with decisions to use temporary employment contracts or how they might jointly affect organizational performance.

In order to tackle the fundamental questions about the relationships between the organizational and institutional contexts, employment practices, and organizational effectiveness, I identified three research questions for investigation in this dissertation:

- How do managers' perceptions of the organizational and institutional environment shape their adoption of temporary employment contracts?
- What are the institutional and organizational factors that lead to the spread of temporary employment contracts?
- What is relationship between alternative employment strategies, high involvement human resource practices, and organizational outcomes?

RESEARCH SETTING

To explore the rise of temporary work in China, I chose call centers as the empirical setting because they are a site in which many conflicting economic and institutional forces unfold. Call centers are technology-mediated services and sales operations and have become the primary mechanism through which companies interact with their customers. First, call center operations are of strategic importance because their employees span the organization-customer interface and they are critical to customer satisfaction and retention. Therefore, organizations have strong incentives to develop and retain a group of qualified employees who can continuously improve service productivity and quality. Second, call center technologies, such as automatic call distribution, scripting solutions, and electronic monitoring system, make the routinization of human interaction possible. As a result, organizations depend more on the general skills of individual workers and have more autonomy in using temporary employment contracts to bring in new employees with little firm-specific human capital. Third, the call center industry in China is new and fast-growing. Compared to many other industries, call centers have been operating in an open, competitive market, since their inception; and they have not been subject to severe labor regulations. Also, the relatively short age of establishments implies that when designing employment practices, managers are rarely constrained by historical burdens such as overstaffing and organizational decline. Finally, by focusing on one type of service work across multiple industries such as telecommunications, banking, and manufacturing, I am able to reduce confounding effects due to occupational heterogeneity while simultaneously allowing for sufficient variation in organizational and industrial characteristics. It also makes possible the development of a more contextualized analysis on the part of the researcher.

RESEARCH STRATEGY

To conduct this research, I carried out field work in three stages over a 16-month period beginning in June 2006. Phase I (June – Nov 2006) involved extensive fieldwork to explore the business and institutional environments of call centers in several cities in China, including Beijing, Hangzhou, Shanghai, Shenzhen, Suzhou, and Tianjin. During this period, I collected a total of 23 face-to-face interviews; each of them taking 90 to 120 minutes. Informants included general managers and HR managers in corporate offices, general managers and HR managers in call centers, customer service representatives, supervisors from temporary help agencies, and leaders of the professional association. In all cases, I used a combination of structured and semi-structured conversations in order to obtain in-depth information, but at the same time to try to get behind the official line and find out how managers interpreted laws and implemented human resource practices. I also used a pilot group of companies to pre-test the questionnaire designed for establishment surveys in Phase II. In addition to face-to-face interviews, I also collected advertising and informative and educational material from each of the companies and offices I visited. The analysis of these documents not only allowed me to validate data, but also to shed light on the evolution that temporary employment contracts have developed in Chinese workplaces in the past years. Interviews, observations, and archival analyses at this phase corroborated my expectation that a nrm's decision about the use of temporary employment contracts is a result of the interplay of institutional pressures, market dynamics, and organizational attributes. While some of these influences have been discussed in existing studies of developed countries, many factors are unique to the Chinese context. My field experience also highlighted the importance of understanding the institutional context by which organizations are embedded.

The major task during Phase II (Mar – July 2007) included collection of establishment-level surveys and regional/industrial archives. The establishment-level surveys ask general managers in each call center to answer questions about organizational characteristics and the use of temporary employment contracts for employees in the core job group. The survey instrument was developed jointly by the global call center research network, was drafted in the English language and then translated into Chinese through the established back translation process. I made necessary revisions to customize the instrument to the Chinese setting, based on information collected from the pilot study at Phase I. Because no suitable sampling frame existed, I collected and compiled a list of call center names, as many as possible, from multiple sources. In total, I collected a list of over 600 call center names. At the same time, I visited call centers of different sizes and locations and talked to people who worked there.

Then I contacted Call Center Magazine, a trade publication, and asked them for the contact information for call center managers in its subscriber database. This Magazine is the most popular professional magazine for people who are interested in call center operations, including but not limited to call center managers. I was able to match contact information for managers in 187 call centers. I made phone calls to each of them and invited them to participate in the project; 137 managers agree to participate. In total 102 call centers returned surveys, for a response rate of 74%, or 55% of the original 187. This response rate is high because I developed personnel connection with business practitioners and the professional community when conducting the field work.

In the final phase (July – October 2007), I conducted unstructured interviews to revalidate my initial observations from surveys and to further untangle the dynamics between regular workers, temporary workers, and managers in the workplace. Based on the network that I developed during Phase I and II, I identified several informants who have in-depth understanding of the call center industry in China. These informants included line managers, top managers in the corporate offices, and supervisors of temporary staffing agencies. When data collected from fieldwork appeared to be confusing or contradictory, these informants were able to explicate the richness and complexity of the institutional environment and organizational actions. These interviews were very helpful for improving the credibility and validity of my arguments and findings in this research. Moreover, I conducted 26 semi-structured phone interviews with managers and employees in a large call center. The interviewees included the CEO, seven managers (including HR, finance, sales, IT, training and development, customer care, telemarketing, and collection), and nine supervisors and nine front-line service workers. Although interviews conducted with this large call center were not reported in this research, they facilitated my understanding and conceptualization of employment experience and workplace dynamics in these contexts.

THREE STUDIES AND THEIR FINDINGS

My dissertation concerns employers' strategies to manage the workplace through the use of alternative employment contracts. It consists of three empirical studies. The first two studies explicitly focus on why companies make use of temporary employment contracts. The third examines how employers mix permanent and temporary employment contracts in the same establishment and in the same service activities, and what the performance results are of these different approaches.

The first study is an exploratory, qualitative study that probes managers' perceptions of the organizational environment and their interpretations of the use of temporary employment contracts. Drawn upon more than forty-five face-to-face interviews, I propose three broad explanations for the adoption of temporary employment contracts. First, the use of temporary work lowers labor costs and increases economic efficiency. Second, it increases the power of managers and allows them to meet their personal interests when the organization's goals are in conflict with those of the managers. Finally, companies adopt temporary employment contracts to strategically redistribute the risks between the employers and the employees and therefore hedge against uncertainties due to market competition and institutional changes. The findings suggest that the spread of temporary employment contracts is not merely a cost minimization tactic to cope with fluctuation in labor demands; rather, it is a strategic response to capitalize on market opportunities, to maintain managerial power, and to overcome the adverse effects of environmental changes.

In the second study, I examine the effects of labor market conditions, product market conditions, political conditions, and capital market conditions on the spread of temporary employment strategies. Empirically, I focus on the proportion of temporary employers in the workplace and use quasi-likelihood estimation methods to test the hypotheses. Results of 102 establishment-level surveys suggest the following findings. First, establishments tend to make greater use of temporary employment contracts when they have access to an adequate supply of skilled labor and when wage rates are high in the labor market. Second, establishments that deliver services in multiple geographic markets are less likely to use temporary employment contracts because geographic diversification spreads business risks and reduces the need to accommodate varying labor demand. Third, firms that are highly dependent on state resources tend to maintain the long-term employment tradition to manage their relationship with political agencies. Nevertheless, in face of radical transformation, state-owned enterprises are adopting short-term labor contracts to move away from entrenched practices of life-long employment and overstaffing. Finally, capital markets and equity investors have a significant impact on the ways firms manage human resources. As driven by shareholder oriented values and a focus on short-term returns, publicly traded companies are more likely than non-listed companies to use temporary contracts. Also, NYSE listed companies are more likely to adopt temporary employment contracts than those listed on the NASDAQ and Chinese stock exchanges.

The final study investigates the relationship between alternative employment strategies, high involvement HR practices, and organizational performance. I conceptualize alternative employment strategies as four distinct modes in order to capture varied employee interpretations in relation to the relative mix of temporary employees. Based on social exchange theory, I developed and tested three hypotheses. First, employment strategies that make grater use of temporary contracts have lower organizational performance because temporary workers are less attached to the employer. Second, high involvement HR practices are likely to increase organizational performance because employees are competent and motivated to use their discretionary effort at work. Finally, the adoption of high involvement HR practices moderates the relationship between alternative employment strategies and organizational performance. Employees' attitudes and behaviors are a contingent response to the benefits conferred by the employer. Temporary employees expect less of their employers by virtue of their work status. When the employer invests in them beyond expectation, they go above what is required of them. Therefore, the negative relationship between alternative employment strategies and organizational performances is lower when the company uses high involvement HR practices. Results of 82 establishment-level surveys support these hypotheses.

CHAPTER 2

WHY EMPLOYERS USE TEMPORARY EMPLOYMENT CONTRACTS: AN EXPLORATORY ANALYSIS OF TECHNOLOGY-MEDIATED SERVICE WORK

Long-term employment relationships have been the cornerstone of employment systems in many industrial economies (Kalleberg, 2000). Employees perform tasks at the premises of and under direction of the employer for an indefinite period of time. Over time, the employer and the employees establish a mutually obligatory relationship in which the employer offers job security and opportunities for career advancement and the employees, in return, offer loyalty and effort. The proliferation of temporary work in the past decades, however, has begun to undermine this well-established norm (Smith, 1997; Houseman, 2001).

Prior research has documented the increasing use of temporary employees in the United States (e.g., Gonos, 1997; Houseman, 2001; Kalleberg, Reskin, & Hudson, 2000). Despite important differences in workforce composition, labor market conditions, and regulatory systems, such a trend is also observed in the transitional economy of China (Dong, 2007; Zhou, 2007). While some scholars have begun to report the scope and pattern of temporary employment in China, few studies have examined the factors that shape these decisions from the employer's perspective.

In this study, I use an exploratory, qualitative approach to probe manager's perceptions of the organizational environment and their interpretations of employment practices. Drawn upon more than forty-five face-to-face interviews, I propose three broad explanations for the adoption of temporary employment contracts. First, the use of temporary work lowers labor costs and increases economic efficiency. Second, it increases the power of managers and allows them to meet their personal interests when the organization's goals are in conflict with those of the managers.. Finally, companies adopt temporary employment contracts to strategically redistribute the risks between the employers and the employees and therefore hedge against uncertainties due to market competition and institutional changes. The findings suggest that the spread of temporary employment contracts is not merely a cost minimization tactic to cope with fluctuation in labor demand; rather, it is a strategic response to capitalize on market opportunities, to maintain managerial autonomy, and to overcome the adverse effects of environmental changes.

THEORETICAL BACKGROUND

The dominant explanations for the use of temporary work come from economic considerations, which suggest that an organization searches for and adopts the employment structure that minimizes cost and optimizes efficiency (Osterman, 1984; Williamson, 1981). For example, Masters and Miles (2002) maintain that organizations invest in internal governance structures to protect against opportunism and bounded rationality. Accordingly, they discussed three important dimensions that are critical to make-or-by decisions, including specialized asset investments, uncertain performance measurement, and transaction frequency. First, when a job requires highly firm-specific skills and knowledge, a company has to invest in employees to prepare them for various idiosyncrasies such as equipment, organizational procedures, and culture. Workers also accumulate a substantial amount of tacit knowledge through day-to-day practice. To ensure an adequate return on investment, the company may utilize the internal governance structure and long-term, direct labor contract to stabilize employment. Such a practice not only attaches skilled employees to the firm, but also facilitates knowledge sharing among workers and effectively aligns individual incentives with organizational performance (Doeringer & Piore, 1971; Osterman, 1984). Second, performance uncertainty concerns whether the productivity of human assets can be easily monitored and evaluated (Williamson, 1981). When individual productivity is difficult to assess, long-term labor contracts offer an advantage over market purchasing by aligning employees with the employer's interest, thus minimizing shirking and opportunistic behaviors (Williamson, 1981). Third, transaction frequency is relevant because market transactions incur costs when the employer negotiates, writes, and enforces a series of recurring contracts. Therefore, companies have an incentive to use internal employment structure when the position lasts for a long time. However, permanent employment relationships require substantial investment in hierarchical governance, such as building job ladders and administration resources; and an organization has to bear considerable exist costs in the event of workforce reductions. When the benefits of exchanging labor in the market outweigh the costs, the organization may capitalize on temporary employment contracts to enhance economic efficiency. Accordingly, the economic literature has suggested that organizations use temporary workers when product demands are seasonal, cyclical, or diminishing (Abraham & Taylor, 1996; Gramm & Schnell, 2001; Mangum, Mayall, & Nelson, 1985). In particular, employers are likely to externalize employment in work activities that are separable from the core workflow (Kalleberg & Marsden, 2005). In these studies, temporary positions are generally portrayed as low skill, low pay, and offer few career prospects; temporary workers are viewed as less valuable and even marginal to the organization.

An alternative perspective interprets employment contracts from the view of power struggles and organizational politics. As an organization evolves over time, it develops norms and expectations about output, promotion procedures, and control measures (Scott, 1995). Managerial decisions concerning the nature of employment contracts are the outcomes of social and political processes within organizations

(Osterman, 1984). Under these circumstances, managers are driven by self-interest or personal ideology to retain certain powers or structures that bear little direct relationship to productivity. For example, in a study of part-time work, Appelbaum and Firpo (2003) argued that the use of headcount as a rule of thumb to track labor costs reflects the power imbalance between finance managers and line managers. The authors found that finance managers, who generally do not trust line managers to hold the line on labor costs, favor the use of headcount measures because of their presumed clarity and simplicity. The persistence of the headcount measure, despite its inability to accommodate contemporary business needs, represents a compromise between political struggles among different departments and levels within the company. In a recent study of highly skilled workers, Bidwell (2009) argues that when organizational goals are in conflict with managers' interests, managers have incentives to use temporary workers to increase their autonomy.

This study draws upon these perspectives to explore the spread of temporary employment contracts in China. Excerpts from two cases in the study are presented. CNT is the largest wireline telecommunications and broadband services provider in China, owning 70% of the national trunk-line transmission network assets. It provides a range of telecommunications services to residential and business customers, including local, domestic and international long distance telephone services, Internet and managed data, leased-line and other related services. Although the company is listed on the Hong Kong and New York Stock Exchanges, a predominant majority of shares are held by the state. Its call centers, "Hotline 10000", are the major point of customer contact, offering directory assistance, handling customer inquiries and complaints, and responding to repair calls. Hotline 10000 also runs sales and marketing operations. It handled 26.7% of total subscriptions in 2007[2]. The human resource manager of Hotline 10000 in a major southern city described their uses of different employment contracts.

> *"This center houses four types of individuals who hold customer service representative jobs. The first type includes about 200 employees who are in an approved headcount "regular" employment position (Zheng Shi Bian Zhi). The second type consists of 700 workers hired on temporary contracts. Some of these temporary workers have been working here for three years. Third, at business peaks, staff from a labor supplier pitch in on a day-to-day basis. Finally, about 10 individuals were sent from the local Employment Assistance Program to prepare for employment; they get paid from the Program."*
>
> *"China Telecom assigns and supervises these workers but the agencies carry out general payroll administration services. The company treats these first two types of workers the same in assigning and scheduling jobs, evaluating performance, and even setting starting salaries; but temps receive far fewer benefits. They have equal promotion opportunities, except for a few key positions."*

Another example is the customer contact center that supports the home appliances business of LGE, a foreign manufacturing company. The center handles three types of calls. First, it responds to customer service inquires and provides technical support over the phone. Second, the center receives repair requests and distributes the requests to over 2500 local service stations. Finally, it makes "Happy Calls", which ask existing customers to complete a customer satisfaction survey in order to improve products and services.

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[2] See China Telecom, 2007 Annual report (pp. 21). http://www.chinatelecom-h.com/eng/ir/reports/annual2007.htm

"Initially, we staffed this call center with about 30 agents. At that time, we used a placement service company as a recruitment channel. All thirty agents were permanent employees of LGE. We quickly realized that we needed more people to handle calls. A debate raged in the corporate office concerning whether to keep the call center operation in house. Finally, upper-level management decided to pay a fee and ask the placement service company to carry the payroll of new employees. Since then, we have recruited forty agents as agency temporaries."

"Although the agency dispenses monthly paychecks, LGE sets the wage rates and benefits of agency workers to make sure that they get the same as permanent employees. We also pay the placement service company so that agency workers receive the same meal subsidies and holiday gifts. In addition, all employees have access to various facilities and activities in the larger corporate community. Obviously, these benefits are not required by the placement service company or covered in the service contract. Not all receiving firms are so generous. We do so because we are committed to providing a fair and favorable working environment for all employees."

In both examples, temporary work has become increasingly integrated into the human resource practices of the primary firms. Temporary and permanent employees often have the same job duties, skill requirements, and performance objectives. They are even organized in the same work groups under the same supervisor. Evidence suggests that some companies strategically use a set of recurring short-term contracts to replace the stable, permanent employment relationships in order to increase labor flexibility, reduce costs, and avoid obligations. An analysis of how organizations are incorporating temporary work will illuminiate the factors that affect organizational decisions and practices during China's economic transition.

METHODS

This study was conducted over the period between June 2006 and October 2007. During this time period, general labor laws, rather than specific rules and legislations, loosely covered employers' use of temporary employment contracts. In other words, laws allowed for managerial autonomy and therefore substantial variations in the use of alternative forms of employment contracts.

I approached the China Call Center Association for assistance in soliciting participation from member organizations. For those companies that showed interest in participating in my research, I telephoned the managers, introduced myself as a university researcher investigating management activities in call centers, and scheduled a time to visit their offices on site. The goal of the interviews was to elicit information about employers' perceptions and interpretations of the use of temporary employment contracts. I was able to conduct forty-five interviews with general and HR managers in call centers (See Appendix 1.1 for details). The respondents talked about general issues in their daily operations (e.g., product and service offerings, customer characteristics, business and regulatory environment, etc.) and the challenges that they were facing. They also provided specific accounts on personnel issues (e.g., training, compensation, and promotion) and decisions about the nature of employment contracts. In addition to interviews with call center managers, I conducted interviews with general managers and HR managers at corporate offices, representatives of temporary help agencies, and industry experts. These interviews are useful to understand decision making at different organizational levels, to expand on the detail and background on the topic, and to verify information. In all interviews, I used an open-ended format to encourage the respondents to explain their decision making processes as much as they wished and in a manner that they wished. While I was guiding the interview, a trained graduate student in a local university took notes and asked occasional clarifying questions. A typical interview lasted two hours, with some lasting as long as five hours when managers desired to share more of their experiences and insights. In addition to interviews, I used written instruments and collected printed material to gather supplemental information on management practices and operations in these call centers. Throughout the study, I, as well as a graduate research assistant, documented observations and interviews in field notes, research diaries, and summaries. Quotations in the following sections of this paper were based on transcripts of taped conversations and written notes when interviews were not taped (often at the request of the respondents).

This study followed the established procedures for theory-building inductive research (Denzin & Lincoln, 2003). I analyzed field notes at two levels. First, I focused on building detailed descriptions of factors that motivated or inhibited managers to make use of temporary employment contracts. I treated these factors as separate cases. Next I examined these cases and coded them according to a variety of simple typologies that emerged during the process. I then sorted individual cases by center, documented patterns in the data, constructed tentative theoretical explanations, and applied them to explain regularities in the data.

FINDINGS AND OBSERVATIONS

The key question driving this research was, how do managers' perceptions of the organizational and institutional environment shape the adoption of temporary employment contracts? Analysis of field interviews suggests that the development and structure of employment practices must be understood in terms of a firm's cost-benefit calculations, concordance with organizational decision-making and politics, and responses to uncertainties arising from the external environment. I organized company responses into three major themes. First, employers may use agency workers to reduce labor costs and save administrative resources, in order to achieve economic efficiency. Second, even when hiring agency temporaries is not economically justifiable, managers choose to do so in order to increase power and cope with organizational politics. Finally, firms shift risks to temporary employees and shirk social obligations in order to limit their exposure to future uncertainties.

Economic Considerations

The first finding supports economic arguments regarding how and why employers make employment decisions (Osterman, 1984; Williamson, 1981). The use of temporary employment contracts provides an economically viable option of acquiring and maintaining labor (Houseman, 2001). Temporary employees are generally associated with lower wages and benefits. Based on a survey of 71 call centers in this study, the average monthly pay for agency employees was RMB 1,832, while regular employees earned more than RMB 2,200. This difference is statistically significant. Moreover, 23 out of 34 companies that used short-term contracts reported that lowering salary and benefits for temporary workers is an important reason to use temporary workers. As a manager in a supporting center of an IT manufacturer said: "*We are operating in a highly competitive environment. Cutting costs is always a priority.*"

The use of temporary employment contracts provides firms with a convenient way to create a differentiated pay structure. Employers have incentives to offer above-market wages only to some employees whose skills are critical to business performance, who have high levels of firm-specific human capital, and whose performance is difficult to monitor; but differential treatment in wage and benefits to employees in the same organization may be limited by labor laws and regulations. A manager in a commercial bank took the Housing Provident Fund as an example. The program is similar to 401(k) or IRA retirement programs in the United State for the specific purpose of home purchase. The employer contributes as low as 5% or as high as 12% of an employee's actual salary to the fund. She said: "*Banks are in a talent war for branch managers and financial specialists. They are hot on the market. To keep these people, the bank has to offer attractive wages and benefits."* Therefore, the bank intended to raise the contribution for managerial and professional employees to the maximum (i.e., 12%) while keeping the rate for frontline employees low (i.e., 5%). The local labor bureau did not approve this request and insisted that the company choose a flat rate for all employees. To save costs, the bank put new hires on the agency's payroll and asked the agency to pay a lower contribution to the Fund.

In the case of temporary agency employment, firms also may save administrative resources with the aid of specialized staffing agencies. In small companies or branches without independent HR departments, general managers who are responsible for revenue generation have to supervise many HR activities such as hiring and firing. Staffing agencies provide an efficient alternative to reduce this extra workload for general managers. Staffing agencies are often rooted in the local labor market and continuously collect information from both the employer and the employees. Over time, they accumulate extensive knowledge about particular occupational groups and develop networks to sort job seekers into matched positions (Benner, 2003). When certain types of skill are in high demand, the agencies may channel this information to job seekers and even provide basic training. This considerably shortens the process of searching and hiring for client firms. As a manager in the customer support center of a manufacturing MNC explained:

> "*Many job applicants don't have a realistic picture of what customer service representatives do… many of them quit within two weeks after completion*

of initial training. It is a big waste of our time and money. Hiring a temporary help agency can save money because the agency brings in workers who have skills and who know the working conditions well."

In addition to face-to-face interviews, I obtained samples of service contracts from staffing agencies. These contracts clearly specify the agency's joint responsibilities in maintaining a qualified, stable pool of employees: if an agency employee quits, the agency must refill this opening within twenty days. Moreover, if more than one third of total agency workers leave within a quarter, the agency has to pay a penalty fee. These provisions are especially beneficial to call centers as turnover rates are typically 30-35% per year.

Under China's Tax Code, firms may use temporary employment contracts to lower labor costs through tax arbitrage. Tax arbitrage refers to business activities that take advantage of a difference in tax rates or tax systems as the basis for profit. For example, payroll expenses are only partially deductible, while service purchase from a third party, such as a temporary help agency, is considered a tax-deductible business expense. Therefore, firms have incentives to engage in tax arbitrage by hiring temporary agency workers. Let us consider two companies, A and its competitor, B. Company A directly hires employees and is the employer of record. It can take advantage of RMB 960 per employee each month as non-taxable payroll expenses. Any payroll expenditure exceeding that is considered taxable and is subjected to a corporate revenue tax rate at 33%. By contrast, Company B, which hires employees from a staffing agency, pays a lump sum of non-taxable service fees to cover the salaries, bonuses, commissions and mandatory payments associated with the use of agency workers. As a result, Company B legally shields some of its taxable payroll costs by hiring a temporary help agency.

Politics and Managerial Power

The second finding identifies how the use of temporary employment contracts is the outcome of social processes and power struggles within organizations. Interviews with managers at different hierarchical levels revealed how conflicts of interests arise as different organizational sub-units pursue their own goals, which in turn influences the use of employment contracts.

Line managers have incentives to use temporary employment contracts because they have more control over temporary workers than over regular workers. Prior research has suggested that organizations established structured employment practices, such as the development of internal market rules, to curb the power of line managers on personnel activities such as hiring, rewarding, and dismissing workers (Cappelli, 2000; Jacoby, 1985). A component of formal employment structures entails the measure of "headcount", or the number of employees that a company carries on its payroll. It is an essential part of corporate-wide resource planning. Companies that use headcount for this purpose typically allot divisional and line managers a fixed headcount, or number of employees, to accomplish the work of their departments. Because the number of temporary employees is not included in headcount restrictions, line managers may expand their authority by expanding the proportion of temporary employees in the workplace.

I asked line managers the reasons for evading headcount restrictions rather than seeking to change them. Some managers explained the difficulties of getting an "off-cycle" headcount change. A company's current budget cycle may include two formal budget adjustment periods: new-year budget development and mid-year budget adjustments. These are critical points in the budgeting and planning process because they provide opportunities for the company to evaluate and allocate resources and they require substantial coordination and collaboration between different departments, including human resources, accounting, and marketing. To increase headcount, a line manager must prepare the necessary paperwork to identify and justify the need for a new position. An extensive review process requires at least a corporate officer or a regional director for that position to approve the request. In some companies that I interviewed, off-cycle budget changes are limited to emergencies and to the support of critical corporate priorities. Therefore, off-cycle changes in headcount require a substantial amount of managerial time and political skills. Hiring employees on short-term contracts provides a viable alternative because the corporate HR offices do not handle the hiring and firing of temporary workers. A line manager in an IT manufacturer said: *"My boss is very open-minded to the idea of hiring temps because he doesn't need to call his bosses to report such matters. He makes it very clear: If you can stick to the P& L that you've set, you've got my support."*

Head count is more than a mere tracking of numbers (i.e., workforce size and labor costs); it sometimes implies an organization's decision to make a change. For example, in order to increase labor efficiency, a company may push line managers to increase overall output while diminishing headcount. The expectation is that line managers will substantially change the way that work is organized and may even redefine what that work is. This is why headcount restrictions are often the result of restructuring efforts such as increasing automation, eliminating redundant functions, merging units, using self-managing teams, expanding span of supervisory control, and flattening hierarchical levels. When bringing additional workers on board on a temporary basis, however, line managers may disguise the fact that they did not or did not intend to implement structural changes. In these cases, managers consciously obey formal, visible requirements of headcount limits in order to disguise the fact that they have not made substantial changes that were anticipated by or imposed from the top.

In addition to line managers who seek for more flexibility of and control over human resource policies, managers in finance departments also have strong incentives to use temporary employees, which gives the illusion of improved financial performance. When companies turn to stock or bond markets for finance, they are exposed to harsh evaluation regarding their financial performance. A common observation in the U.S. is that individual and institutional investors place increasing pressure on boards to make short-term decisions in order to reduce costs and boost profits, which is supposed to lead to higher stock prices. This short-term investment orientation puts pressure on the finance department to ensure that the company's performance measures, including revenue per labor input, live up to the expectations of security analysts and equity investors. To accomplish this goal, companies can either increase revenue with the same labor input or maintain revenue with lower labor input. Finance managers, who are powerful in organization decisions, tend to adopt the latter approach because they are skeptical of line managers' ability to increase revenue. Under these circumstances, line managers have to cut staff or replace permanent staff with temporary workers who do not show up in the payroll. Often, line mangers hire temporary employees and use accounting rules to manipulate their performance metrics so that they look better than they actually are. As a manager in a telecommunications company expressed:

> *"If jobs of regular employees are refilled by temporary workers, expenditure goes into a different column. That is, labor costs of temporary workers do not showing as payroll-related costs… Using temporary workers is a way to get things done without showing heads. We appear to be more productive on financial reports."*

Finally, state-owned enterprises may use temporary employment to evade the pay limits imposed on corporate managers by the government. This finding is consistent with prior research that managerial compensation schemes lead to political actions that may bear little relationship with economic performance (Hoskisson, Hitt, Turk, & Tyler, 1989). Corporate executives in state-owned enterprises have considerably increased their earnings since the adoption of performance-based compensation in the 1990s. The supervision commissions of state-owned enterprises at national and provincial levels used several measures in command and control fashion to curb the widening salary gap within organizations. For example, the commission in Beijing requires that total annual income of the CEO not exceed twelve times the average income in the company. Also, the commission will send out a warning if labor costs of managerial employees exceed a reasonable proportion of total payroll expenses. Among state-owned enterprises in Shanghai, the average pay raise among managerial employees was 23.9% between 2002 to 2006, while frontline employees only received an increase of 6.5% in that period. As a result, in 2008, the supervising agency decided to include annual pay raises of frontline employees as a key item in the performance reviews of state-owned enterprises in Shanghai. For these reasons, top management in corporate offices has a strong incentive to externalize some relatively low-paid positions while keeping the high-paid workforce on the books. This effectively reduces the ratio of management to worker pay within the organization while the actual ratio for all employees actually working at the organization is higher.

Clearly, managers make use of temporary employment contracts for personal gain and political legitimacy, despite the fact that such practices impose costs that are unaccounted for when companies rely on headcount to control labor costs. Specifically, line managers use temporary employees to increase their authority and control in the workplace. Finance managers seek to boost labor productivity and enhance a firm's financial performance for the evaluation of investors. Finally, corporate managers embrace or even induce temporary employment in order to raise their own pay beyond what is legally allowed.

Uncertainties of the External Environment

Although human assets are valuable resources to achieve competitive advantage, they entail inherent risks and uncertainties (Bhattacharya & Wright, 2005). Furthermore, the radical and sometimes disruptive changes during societal transformation in China gave rise to significant market and institutional uncertainties. Therefore, the use of temporary employment contracts has allowed firms to strategically redistribute risks between the employer and the employees, and hedge against unfavorable uncertainties in the future.

Drawing upon real options theory, Bhattacharya and Wright (2005) explained that uncertainties associated with human resources arise from uncertainties in returns, volume and combination, and costs. Uncertainty in returns arises from the unpredictability of the future value of human resources or the cash flow they generate. Uncertainties in volume and combination include varying labor demand that may fluctuate with market conditions and unexpected demand for skills that employees do not possess. Finally, uncertainty in costs refers to the resources that a firm has to invest in order to acquire and develop qualified employees. Foote and Folta (1992) emphasized the irreversibility of investment decisions on human resources, as a result of labor market rigidities, implicit contracts between the employer and the employees, and social norms. The authors also argued that companies can use temporary employees to minimize uncertainties and maximize flexibility.

Discussions of the uncertainties inherent in managing human resources are particularly relevant to the Chinese context. Many scholars question the sustainability of China's economic development. Economic and social problems range from bad loans in the banking system to an under-funded pension insurance scheme, the lack of a rural health care system, and bankrupt local governments. The uncertainty and instability that characterizes a firm's external environment has reduced the effectiveness of traditional investment decisions that are inadequate to anticipate and deal with such changes with requisite accuracy. Under such conditions, management's ability to operate with flexibility in its investment decisions brings more value to the firm. From a real options perspective, investments with built-in flexibility provide more than one option for future courses of action to the firm (McGrath, Ferrier, & Mendelow, 2004). As future conditions unfold, managers can choose the most appropriate course of action in order to adapt to emergent new circumstances. Some of the managers that I interviewed worked in extremely profitable companies because of their monopoly market power. For them, hiring people on a temporary basis provides a way to acquire human resources with built-in flexibility to accommodate market and institutional uncertainties, such as changes of regulatory structures and the deregulation of state industries. As a manager from a mobile telecommunications said:

> "*We did not use temps to save money. It is secondary. What we care about are the long-term prospects of the company. People start working here in their early twenties. But who knows what will happen to our company or these workers ten years later? We don't know and we cannot take a risk of keeping these workers forever or firing a tenured regular worker. We must retain an exit strategy.*"

Another type of uncertainty comes from the inadequacy of the current labor legislation framework, or the liability associated with dismissals in particular. The influences of political institutions, including pressure from the government and laws, are highly complex in a transitional economy like China. Many managers noted that, as policy makers are experimenting with alternative regulatory approaches in order to construct effective labor protection and enforcement strategies, they worried that the government will institute a more sophisticated and rigid labor regulatory system in the near future. Hence, some employers have withdrawn their commitment to workers by hiring them on a limited-term basis or placing them under the payroll of a different business unit. One manager in a state-owned enterprise airline company reported the use of an "in-house" temporary agency, which is wholly owned and managed by the airline. All employees who were recruited after 2002 (including all sales agents in the ticketing center) were placed on the payroll of this agency. Since this agency is an independent accounting unit that signs labor contracts with employees, legal obligations are absorbed by the agency, rather than the airline company. The manager said: "*Our company is not obligated to any promises to them (temporary employees) because they are not our employees.*" Many other respondents also indicated that their companies followed a "zero-growth" plan for regular employees because they "could not" take on more responsibilities and obligations. One HR manager mentioned that the company only recruited 1,400 regular employees from the labor market in 2006 (retirements and quits not included), while it had a total of over 280,000 employees. In fact, the manager reported in the survey that 95% of all service employees in call centers were on temporary contracts.

SUMMARY

This study explored the motivations that drive Chinese employers to use temporary employment contracts in interactive service work. Research on the economic transition in China has shown that as government control declines and markets develop, the conditions and incentives that managers encounter have changed dramatically (Frenkel & Kuruvilla, 2002). Managers have to face pressures from market competition, political contests within the organization, and uncertainties in the political and economic environment. Field interviews and survey data suggest three important findings. First, employers use temporary workers to reduce labor costs and achieve economic efficiency. This finding is consistent with most discussions of temporary work in industrial economies (e.g., Houseman, 2001; Masters & Miles, 2002). To reduce costs, management has a strong incentive to decrease the number of in-house, permanent employees. How far one can go along these lines may rest upon the supply of willing temporary templyoees and the possible adverse cost impacts. For firms that face a heightened level of market competition, cost considerations are imperative.

Even when the use of temporary employment contracts is not economically justifiable, managers may choose to do so to advance their own personal interests. I found that headcount limits within companies drive the widespread use of labor employed on a temporary basis. Line managers use temporary employees to increase their authority and control in the workplace. Finance managers seek to boost the company's financial performance to the expectations of investors. Finally, corporate managers favor temporary employment in order to raise their wages while technically complying with rules that restrict the pay gap between the highest and lowest paid employees.

Finally, Chinese managers are increasingly concerned with long-term security and strategic outlook for their companies (Nee, 1992). This study suggests managers feel a high level of uncertainty due to market competition and institutional transformations. Hence, companies shift some employers' obligations to temporary help agencies, so that they are better able to hedge against future uncertainties that may arise from markets or institutional changes.

CHAPTER 3

ORGANIZATIONAL AND ENVIRONMENTAL PREDICTORS OF THE ADOPTION OF TEMPORARY EMPLOYMENT CONTRACTS

In recent decades there has been a growing interest in how employment systems evolve in an environment of increasing competitive pressure and market unpredictability. A major trend has been the replacement of long-term, career-oriented employment with short-term contracting (Houseman, 2001; Kalleberg, 2000). The most common explanations focus primarily on reducing labor costs and achieving flexibility in adjusting to temporal changes in staffing demands (Abraham & Taylor, 1996; Mangum, Mayall, & Nelson, 1985). However, recent evidence suggests that an increasing number of firms deliberately assign temporary workers to business activities that are critical to organizational value creation (e.g., Lautsch, 2002; Masters & Miles, 2002; Olsen, 2006). These developments indicate that a narrow focus on efficiency cannot adequately explain organizational motives in designing employment contracts, especially motives that operate outside of rational economic calculations.

The spread of temporary employment contracts represent a divergent organizational change that operates in a contested terrain (Fiss & Zajac, 2004; Sanders & Tuschke, 2007). While some actors support its legitimacy, many powerful actors in the primary institutional environment, such as government as well as the public at large, oppose it. Understanding alternative forms of employment contracts is important both for understanding the change of employment relations and for advancing management research. Organizational scholars have primarily focused on the successful reproduction of socially favorable organizational practices, and emphasized processes of conformity (DiMaggio & Powell, 1983; Scott, 1995). Only a limited number of studies have examined variety in organizational practices within institutional contexts and have examined the heterogeneous, even sometimes conflicting, expectations and demands imposed by external interest groups on organizational practices (e.g., D'Aunno, Sutton, & Price, 1991; Fiss & Zajac, 2004; Sanders & Tuschke, 2007). This study adds to this emerging body of literature by investigating the fragmented and contested nature of the organizational environment and its influences on the use of temporary employment contracts.

In this study, I examine why companies adopt temporary employment contracts in response to pressures from labor and product markets, political agents, and finance providers. Drawing upon perspectives from transaction costs and resource dependency theories, I argue that multiple forms of rationality influence employers' decisions regarding their use of alternative employment contracts, as organizations rely on exchange relationships with external agents with distinct values and goals. I develop a set of theoretically driven arguments to examine the influences of labor market conditions, product market conditions, political conditions, and capital market conditions on the spread of temporary employment contracts. I chose technology-mediated service centers that operated in mainland China as the empirical setting.

THEORY

I draw upon two prominent theoretical perspectives in this research, the transaction costs and resource dependency perspectives, to conceptualize managerial decisions about their use of employment contracts. Although these two perspectives view the underlying mechanisms of decision making in distinctive ways, they are not inherently contradictory. This study attempts to integrate these perspectives to explain why firms adopt alternative approaches to employment contracts.

Transaction Costs Theory

Transaction costs theory posits that organizations search for and adopt the employment structure that minimizes cost and optimizes efficiency (Williamson, 1981). In this view, long-term employment contracts are efficient because firms are able to benefit from the investments in a qualified and committed workforce and reduce costs associated with employee turnover (Althauser, 1989; Doeringer & Piore, 1971; Osterman, 1984). First, firms have to devote considerable time and administrative resources to recruit and select qualified job candidates for given positions. Moreover, firms need to invest in specific training in order to prepare new employees for various on-the-job idiosyncrasies such as equipment, procedure, and culture. Finally, a long-term orientation implicit in the internal employment arrangement effectively aligns employee interests with the employer's goal, thus minimizing adverse consequences of shirking and opportunism. Therefore, long-term employment relationships represent a more efficient option than short-term contracts to acquire human capital, especially when companies face tight labor markets, require substantial firm-specific skills, and have difficulty monitoring employee efforts and performance (Masters & Miles, 2002).

However, temporary employment is usually associated with some forms of labor cost savings, particularly in regard to fringe benefits costs (Houseman, 2001), although this benefit depends on the specific rules found in national employment laws. Prior research has suggested that firms may lower labor costs by replacing permanent employees with temporary workers, especially in activities that are peripheral to main value creation (Kalleberg & Marsden, 2005). Moreover, the use of temporary employment contracts enhances a firm's flexibility in adjusting staffing levels to market changes. Previous empirical studies have found that temporary employment arrangements are more pervasive in industries associated with high seasonality and cyclicality in production demand (Abraham & Taylor, 1996).

Resource Dependency Theory

Another prevailing theoretical approach to understanding employment structures comes from resource dependence theory. Scholars posit that organizations are embedded in a web of exchange relationships from which they gain access to resources that are critical to survival prospects (Pfeffer & Salancik, 1978). Different from institutional theories that emphasize conformity and isomorphism, the resource dependence perspective theorizes that firms, as agents of exchange, actively cope with the multiplicity and heterogeneity of powerful constituents in the organizational environment.

Organizational decisions about employment contracts, from this perspective, reflect efforts to manage uncertainty and dependence on outside agents who can exercise control over critical resources. Several studies have shown that firms adopt employment practices that conform to the interests of external groups, as a way to maintain legitimacy and stability. Scholars have given particular attention to the influences of government and unions. Baron, Dobbin, and Jennings (1986) traced the rise of modern personnel systems and found that government interventions fueled the development of bureaucratic controls by creating models of employment and incentives to formalize and expand personnel functions. Similarly, Davis-Blake and Uzzi (1993) showed that government oversight of employment curbed the use of temporary workers. On the roles of unions, Jacoby (1985) maintained that internal labor markets emerged as employers responded to union power. During periods of tight labor markets and presence of union power, firms established internal labor markets -- including such practices as career ladders, job security, and seniority-based pay -- to stabilize employment and realize economic benefits of firm specific skills. In this way, unions promoted formal processes and facilitated the establishment of long-term employment relationships. Consistent with these predictions, empirical research found that the presence of unions was negatively related to the use of temporary workers (Abraham & Taylor, 1990; Uzzi & Barness, 1998).

An Integration of the Two Perspectives

Although perspectives of transaction costs and resource dependency operate under different theoretical assumptions, scholars have increasingly called for an integration to increase their explanatory power. On the one hand, some scholars have challenged the overly narrow focus of the efficiency imperative in transaction costs arguments. They have argued that previous studies have focused primarily on the economic and technical efficacy of temporary work, such as characteristics of the job incumbents being externalized, to the relative neglect of how a firm's decision is fundamentally intertwined with broader organizational and institutional dynamics. Recent empirical work has shown that an organization's characteristics and position in the environment socially define the rationality of organizational decisions (Lounsbury, 2007).

On the other hand, scholars argue that resource dependency theorists can benefit from an integrated perspective by recognizing organizations' willful, adaptive action in coping with complex exchange relationships. Earlier literature has emphasized an unduly deterministic view of external influences, which allowed little scope for managerial judgment and autonomy (Meyer & Rowan, 1977). Also, previous research tends to assume system coherence or an overarching mission imposed by different actors within each country, thereby downplaying conflicts of goals and interests among these actors (Amable, 2000; Aoki, 1994; Hall & Soskice, 2001). An integrated view emphasizes that managers are active participants in resource exchanges rather than passive recipients of external pressures. Moreover, it encourages us to examine a boarder range of competing market and institutional forces within systems, and to investigate how managers strategically cope with the multiplicity nature of these forces (Oliver, 1991).

In this endeavor, I develop hypotheses to examine how companies adopt temporary employment contracts in the face of varying pressures from labor and product markets, government, and capital market investors. Managerial strategic choice (Child, 1972; Kochan, Katz, & McKersie, 1986), as influenced by the economic, political, and financial imperatives, is central to my theoretical arguments. As will be further discussed, such a conceptualization redirects the study of temporary employment as an *ad hoc* means to reduce labor variability and minimize labor costs toward a more fine-grained analysis of employment contracts as a strategic response to environmental contradiction and multiplicity.

HYPOTHESES

Labor Market Conditions

As firms seek to increase efficiency and reduce uncertainty, they may establish permanent employment relationships to stabilize interactions with the labor market (Thompson, 1967; Williamson, 1981). In this study, I examine two dimensions of labor market conditions, stock and price of available human capital. When the labor market is tight, firms are at a disadvantage in negotiating contracts with workers. Employers and employees are more likely to reach agreements about contract conditions -- such as job security -- in favor of the employees. Moreover, the pressure that labor shortage puts on many aspects of business operations can be a significant burden, especially when companies have made substantial fixed asset investments (such as work technologies in the study setting). In this case, companies have strong incentives to provide long-term employment in order to secure a stable flow of skilled labor (Osterman, 1984). By contrast, when skilled labor is abundant, firms are in a better position to negotiate contracts in their favor. Under these circumstances, firms are tempted to exploit flexible opportunities generated by market arrangements and increase their independence from labor (Pfeffer & Cohen, 1984). Consistent with these arguments, Bridges and Villemez (1991) found a positive effect of labor scarcity on the presence of due process governance. Althauser (1989) conducted a comprehensive review of literature and concluded that conditions of external labor markets strongly influence governance decisions. Therefore, the larger the relative supply of skilled labor in the local labor market, the more likely firms are to adopt short-term contracts to manage employees.

Hypothesis 1. A firm's access to skilled labor in the local labor market will be positively associated with the adoption of temporary employment contracts.

Companies regularly seek viable solutions to economize on labor costs (Houseman, 2001). Employers are more likely to use temporary workers when there are substantial differences between the total labor costs of permanent and temporary workers (Osterman, 1987). Analytically, total labor costs can be broken into the remuneration costs and friction costs. Remuneration costs include rewards and resources that employees receive for their productive input. They primarily consist of employee salaries and benefits. Friction costs include the administrative costs to screen job applicants and negotiate a series of contracts to fill a position (Masters & Miles, 2002; Williamson, 1981). In comparison to hiring permanent employees, the use of temporary employment contracts is associated with lower remuneration costs but higher friction costs. Lower remuneration costs incur because the firm is able to acquire a group of workers from the secondary labor market who are willing to accept pay rates below the market average (Doeringer & Piore, 1971). These savings are variable depending on market conditions: when the pay rate in the primary labor market is high, employees have substantial leeway in holding down wages for temporary employees to minimum wage levels. Therefore, the higher normal market rates, the greater savings on remuneration costs. Meanwhile, friction costs depend on the frequency of transaction (i.e., replacements due to temporary worker turnover) and a firm's administrative efficiency in refilling vacancies (Masters and Miles, 2002), relatively independent of labor market conditions. When firms use temporary workers in a high-wage labor market, potential savings on remuneration costs are substantial while incurred friction costs are moderate. For those operating in a low-wage market, however, savings on remuneration costs are much lower while friction costs are rather constant. Therefore, companies operating in a low-wage labor market have low incentives to use temporary employment contracts.

Hypothesis 2. A firm's access to low-cost labor in the local labor market will be negatively associated with the adoption of temporary employment contracts.

Product Market Conditions

Product market conditions influence the demand for labor and the types of employment contracts that employers seek. When demand fluctuations are high, employers need short-term labor that may be hired or let go as needed (Abraham & Taylor, 1996). When companies are able to spread the risks of demand fluctuations, they can make more use of long-term employment contracts. One way to spread demand risks is to increase geographic diversity of the product market. When a call center provides concentrated services to multiple locations, its overall operations are less affected by unstable product demand that is specific to one location. To this extent, geographic diversification decreases the variability of a firm's labor demand and thus reduces the need for short-term labor. By contrast, when all customers are in the same location, companies are more sensitive to location-specific disturbances and therefore have strong incentives to use temporary employment contracts to safeguard themselves from external shocks. Past research provides substantial evidence that workload variations and unstable employment levels are positively related to the use of temporary workers (Gramm & Schnell, 2001).

Hypothesis 3. Geographic coverage of a firm's product market is negatively associated with the adoption of temporary employment contracts.

Political Conditions

Beyond market conditions, government or political agents may influence employment practices. Political agents may exert their influence on business operations by either limiting or increasing resources available to companies that are aligned with their goals and missions (Fligstein, 1996; Dobbin & Dowd, 1997). Policies to increase organizations' resources range from financial incentives such as tax abatements to public services that are expensive for individual organizations to afford such as job recruitment and placement services, training resources, and site location assistance. Because access to these resources requires state approval to obtain these resources, firms may adopt a compliance strategy so that their operation and management, including employment practices, are consistent with government standards (Pfeffer & Cohen, 1984; Davis-Blake & Uzzi, 1993). In addition, companies receiving state resources often have to reveal important information about their strategic and internal operations. Therefore, firms not only passively conform to the interests of government, but they deliberately reduce deviant behaviors to avoid further external monitoring and inspection (Oliver, 1991). Moreover, as companies receive state resources, the public often believe that these companies should live up to higher expectations such as providing stable employment. For example, in the empirical context of China, Kim (2008) found that multinational companies allow the presence of unions in order to obtain social legitimacy and reduce the liability of foreignness. Therefore, I predict that temporary employment contracts are less common among firms that are highly dependent on the government and state resources.

Hypothesis 4. Reliance on state resources is negatively associated with the use of temporary employment contracts.

Next I examine the influence of political agents on state-owned enterprises compared to private businesses. State-owned enterprises are at the core of China's political economy (Granick, 1990; Lardy, 1998). State-owned enterprises typically have features of a social institution that assigns non-contractual status rights and obligations to its members independent of their will and exchange value in the market (Donnelly, Gamble, Jackson, & Parkinson, 2001). In addition to ownership ties, these companies are inseparable from the government because a majority of CEOs and board members hold civil service rank. These companies play a pivotal role in supporting the state's industrial and economic policy. Due to these bonds and high visibility, state-owned enterprises are under close scrutiny by the state and general public. Resource dependency theory predicts that these firms adapt structures and strategies that are consistent with the norms that the state and the public favor. Nielsen and Smyth (2008) reported in a recent survey that respondents considered job stability as the most important consideration in choosing a job, followed by high income and opportunities of professional development. Therefore, state-owned enterprises are expected to provide jobs that meet these expectations. Moreover, research on organizational inertia suggests that state-owned enterprises are limited in their ability to adopt temporary employment contracts because of their historical heritage of life-long employment (e.g., Carroll & Hannan, 2000; Tolbert & Zucker, 1983). By contrast, private companies have greater autonomy to use temporary employment contracts because the social and institutional pressures to legitimize permanent employment are low. When private businesses believe that temporary employment contracts help them to achieve competitive position in the market place, they are more likely to withhold commitment to employees and exercise their right to discontinue employment contracts whenever necessary.

Hypothesis 5a. State ownership will be negatively associated with the adoption of temporary employment contracts.

Institutional theorists also recognize that in the context of radical environmental changes, organizations may adopt practices that are contradictory to their conventional ways of operation in order to improve survival prospects (Tushman & Anderson, 1986; Gersick, 1991). Applying this idea to the adoption of temporary employment contracts in state-owned enterprises is informative. State-owned enterprises in China historically kept a large number of unproductive workers on their payrolls in order to support the government's political goal of full employment. In return, these companies received many forms of subsidies from the government. Compared to state-owned enterprises, foreign companies and private domestic companies came into operation mainly driven by the imperative of economic performance. These firms were not politically or socially confined to the mode of permanent employment as were state-owned enterprises (Child, 1996).

When China embarked on a massive transformation to socialistic market economy in the early 1990s, the state considerably reduced subsidiaries to state-owned enterprises, granted them substantial autonomy, and more importantly, pushed them to compete with private domestic businesses and foreign companies. Not surprisingly, state-owned enterprises shortly found themselves in severe stress and even decline (Putterman & Dong, 2000). Compared to competitors of other ownership types that strive for core competence and long-term growth, state-owned enterprises need to satisfy the immediate concern of overstaffing (Hannan & Freeman, 1977). For example, Lee (1998) found that massive layoffs and job losses have resulted from large-scale restructuring in state-owned enterprises. By the same token, state-owned enterprises may view temporary employment contracts as a fiscally viable option. First, it allows these companies to lower wages and fringe benefits. Second, it sends a signal to permanent workers that alternative sources of labor are readily available to replace those who are not productive. Finally, when temporary workers (especially agency workers) do not appear on the payroll, the use of temporary employment contracts becomes a "window dressing" tactic to reduce headcount in a short time. These arguments imply a positive relationship between state ownership and the spread of temporary employment contracts.

Hypothesis 5b. State ownership will be positively associated with the adoption of temporary employment contracts.

Capital Market Conditions

In recent decades, financial markets have come to play a significant role in shaping the structure and strategy of companies (Bolton & Scharfstein, 1998; Fligstein & Brantley, 1992). Firms become increasingly sensitive to how financial markets value them and some have oriented their behavior to financial markets. Prior studies have found that financial market actors construct different ideal business strategies (Thomas & Waring, 1999) and that these preferences of important actors, especially shareholders' interests in overseeing their investments, exert substantial influence over managerial choices in human resource management (Black, Gospel & Pendleton, 2007; Froud, Haslam, Johal, & Williams, 2000).

Whereas a private company primarily raises capital internally or through leveraged debt, a publicly listed company is legally authorized to obtain a listing on a stock exchange and sell their shares to the public at large. Because the liquidity of an open trading market provides investors with a low-cost exit option, these investors view listed firms as a bundle of assets that are deployed in order to maximize relatively short-term earnings (Fligstein & Brantley, 1992). The capital market, through an information-processing mechanism of stock pricing, transmits these values and expectations to company managers (Fama, 1980). As a result, listed firms tend to place more emphasis on narrow financial objectives (e.g., share price and dividend payouts) rather than boarder objectives such as market share (Konzelmann, Conway, Trenberth, & Wilkinson, 2006). From an agency perspective, managers have incentives to boost stock price because the exit of portfolio investors often leads to a change of management (Agrawal & Knoeber, 1996; Jensen & Meckling, 1976). Conversely, managers gain autonomy and job security when a firm's stock market performance is endorsed by security analysts and equity investors.

Recent studies have suggested a firm's emphasis on stock market performance and shareholder value maximization is associated with management actions to breach implicit contracts and withdraw commitment to workers (Conway, Deakin, Konzelmann, Petit, Reberioux, & Wilkinson, 2008; Gospel & Pendleton, 2003). Specifically, managers tend to adopt a cost-oriented approach to human resources in order to facilitate the use of financial measures in internal capital allocations, to restrict long-term claims by employees against the firm, and to create a sense of insecurity among incumbent employees. Empirical work shows that an emphasis on shareholder value is accompanied by increases in downsizing, reductions in job tenure, and a decline in job security (Cappelli, Bassi, Katz, Knoke, Osterman, & Useem, 1997). Black and colleagues (2008) compared employment flexibility in a set of OECD countries. They found that equity market trading activity is associated with shorter job tenure and greater employment change over the cycle, even when the influences such as government and labor institutions are controlled for. These studies suggest that intensified pressure to promote the interests of capital market investors has shifted the balance in managerial decision making against the interests of employees as long-term stakeholders. Therefore, I predict that listed companies are likely to use a higher proportion of temporary employees.

Hypothesis 6. Public market listing will be positively associated with the adoption of temporary employment contracts.

Research in financial economics generally treats investors in equity markets as a homogeneous group of investors who elicit a common interest on maximizing investment value (Bagwell, 1991). This view has recently been challenged by evidence that different exchange markets may impose different normative belief structures (Fiss & Zajac, 2004). These scholars argue that substantial variation exists among companies listed in different trade platforms as a result of divergent expectations and values about good governance embedded in financial markets. This study considers the New York Stock Exchange (NYSE), the largest securities market in the U.S., as a prime example that elicits shareholder-oriented values and the Anglo-American model of corporate governance. Relative to NYSE listed companies, this study examines the use of temporary employment contracts among firms listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) and Chinese Stock Exchanges. Although both are located in the same country and provide similar services, scholars argue that the NASDAQ manifests distinct values and favors different organizational strategies than the NYSE (Corwin & Harris, 2001). Variation between firms listed on these exchanges stems mostly from dispersion of ownership, insider representation on boards, and distinct approaches to managing uncertainties.

The capacity for shareholders to exert influence via formal control of equity is dependent upon the degree of dispersion of share ownership and the extent to which share holders can coordinate their actions (De Alessi, 1973). When ownership is highly dispersed, shareholders have little incentive to monitor manager behaviors or to exert influence directly because their voting powers are insignificant (Grossman & Hart, 1980). Alternatively, they prefer to exert influence indirectly via secondary trading. By contrast, where ownership is concentrated, equity owners can rely on their potential voting power to intervene directly with management. Whereas NYSE companies are more likely to be diversely owned by mutual funds and independent investors whose power over corporate decisions is relatively weak (Falkenstein, 1996), shareholders of NASDAQ companies are more likely to exercise their control over firm actions as business owners.

Furthermore, compared to those of NYSE companies, corporate boards of NASDAQ companies are usually smaller and represented by a higher proportion of insiders. Whereas NYSE investors tend to eschew direct involvement in board activities and exert influence via market mechanisms (buying and selling investment), large finance providers of NASDAQ companies are more likely to play a very direct role and occupy seats on the corporate board. Research on board behavior suggests that insider representation leads to better information flows within the boardrooms and hence strengthens board participation in the strategic decision process (Baysinger & Hoskisson, 1990). As a result, these companies are more likely to recognize human resources as strategic assets that contribute to long-term successes.

Finally, the exchanges represent different preferred habitats for issuer companies, business executives, and even investors in the capital markets: typically the NYSE features the largest and most mature organizations and the NASDAQ represents new businesses. Business executives of NASDAQ companies are exemplary of entrepreneurs who favor opportunities and risks. They are enthusiastic about business uncertainties and are prepared to cope with risks involved in major investments. Moreover, these managers with entrepreneurial traits are not only driven by interests of external investors; rather, they are motivated by an overwhelming need for achievement and a strong urge to build (McClelland 1961; Zhao & Seibert, 2006). Therefore, NASDAQ companies have a tendency to invest in intangible assets such as human resources rather than trying to maximize level of dividends and pay out the share price.

In sum, differences between the NYSE and the NASDAQ lead to systematic variations of business strategies and employment practices among firms listed on these trading platforms. Compared to those listed on NYSE, NADAQ companies and their managers are more concerned about prospects for future profitability and have more discretion in making long-term oriented decisions. Accordingly, NASDAQ companies are more likely to take a long-term and strategic perspective toward human resource.

Hypothesis 7. Public listing on the NASDAQ will be associated with less use of temporary employment contracts than listing on the NYSE.

This study also attempts to draw a comparison between companies listed on the NYSE and Chinese stock exchanges. China established its stock exchanges (Shanghai and Shenzhen) in the early 1990s as an effort to develop effective corporate governance structures and emulate the stylized NYSE model. However, scholars argue that companies listed on Chinese stock exchanges are operating according to substantively different institutional environments than those of the NYSE. As a result, Chinese listed companies adopt distinct employment practices that manifest those differences.

In contrast to the dispersed ownership among NYSE companies, Chinese listed companies are characterized by concentrated ownership with the state as the majority shareholder (Guthrie, Xiao, & Wang, 2007). In the absence of effective representation from shareholders, the company board is made up of a majority of executive directors and senior managers appointed by the government, as well as a limited number of independent directors. As Xu and Wang (1999) reported, individual shareholders have no more than 0.3% of the seats on average even though they as a group possess approximately one third of total outstanding shares. However, the state is overrepresented on the board as 50% of positions are filled by government officials, substantially higher than its 30% of average stake in the stock companies. As a result, among Chinese listed companies, government and corporate managers exert substantial control in setting company objectives to maximize their self interests rather than giving primacy to the interests of shareholders.

In addition to divergence in composition, Chinese listed companies and NYSE companies differ in board structure. Specifically, China's Company Law requires all listed firms to adopt a two-tiered board as opposed to a unitary board as characterized by the NYSE. In addition to the board of directors, which is a decision making unit equivalent to a board in NYSE, Chinese companies also have a supervisory board (Dahya, Karbhari, & Xiao, 2002). The supervisory board is small in size and usually has labor union and major shareholder representation. Although the supervisory board only has a loosely defined monitoring role over the board of directors and managers, it is conceivable that the two-tiered board structure helps address conflicting interests of multiple stakeholders including employees (Xiao, Dahya, & Lin, 2004).

The rule of law and the principle of arm's length transactions provide a cornerstone for the NYSE model of corporate governance. In China, however, corporate laws and securities regulations have only been recently introduced, and rampant government interventions in business activities are still well known (Pistor & Xu, 2005). In addition, while there has been progress in developing independent professional organizations such as accounting and brokerage firms, as well as a watchful mass media sector, these organizations in general have yet to play an active monitoring role (Liebman & Milhaupt, 2008). This significantly increases the costs of collecting timely and accurate information on corporate performance. It also hinders equity investors' capability of placing actual influence over company directors and managers.

In sum, Chinese listed companies operate in a very different ownership, financial, and institutional environment from those of the NYSE model. Government, corporate managers, and even employees have far more prominent roles in the operation of Chinese listed companies than in NYSE companies. Chinese listed companies are likely to promote multiple interests in making employment decisions, rather than an emphasis on shareholder wealth as espoused by NYSE companies.

Hypothesis 8. Public listing on Chinese stock exchanges (i.e., Shanghai and Shenzhen) will be associated with less use of temporary employment contracts than listing on the NYSE.

METHODS

Sample

Prior studies in strategic human resource management suggest that focusing on one organizational and occupational context reduces the confounding effects of industry heterogeneity (Batt, 2002). In this study, I focus on call centers as the empirical setting. This setting is practically important because by 2008, 600,000 people were working in call centers in China (CNCCA, 2008). This emerging sector becomes an important source of job creation and economic development. It is of theoretical importance because the call center sector allows many conflicting forces to unfold. On one hand, call centers span the interface of organization-customer interaction and have taken on more strategic importance for firms. On the other hand, call center operations are mostly driven by cost and efficiency. These forces lead to substantial variation in designing and adopting employment contracts in call centers. Therefore, customer contact centers in China provide an appropriate setting for assessing how competing forces shape the choice of employment contracts.

Call centers are an emerging business in China. They were so new in 2006 that there were no official directories available. To construct the sampling frame, I collected and compiled a list of call center names, as many as possible, from multiple sources including newspaper, professional magazines, membership directory of the professional association, client lists of staffing agencies and equipment manufacturers. This resulted in a list of over 600 call centers. I then attempted to obtain the names and contact information of respondents: managers who ran these centers. I gained access to the subscriber database of the Call Center Magazine, the most popular professional magazine for people who are interested in call center operations (including but not limited to call centers managers). I was able to match contact information of managers in 187 call centers. I made a phone call to each of the managers and invited them to participate in the project. 137 managers agreed to participate. In total, 102 call centers returned surveys, with a response rate of 74%, or 55% of the original 187 establishments. I mapped out call centers participated in the survey on Figure 3.1. Each red dot represents one establishment in the sample. These centers were located in 28 cities and represented multiple industries.

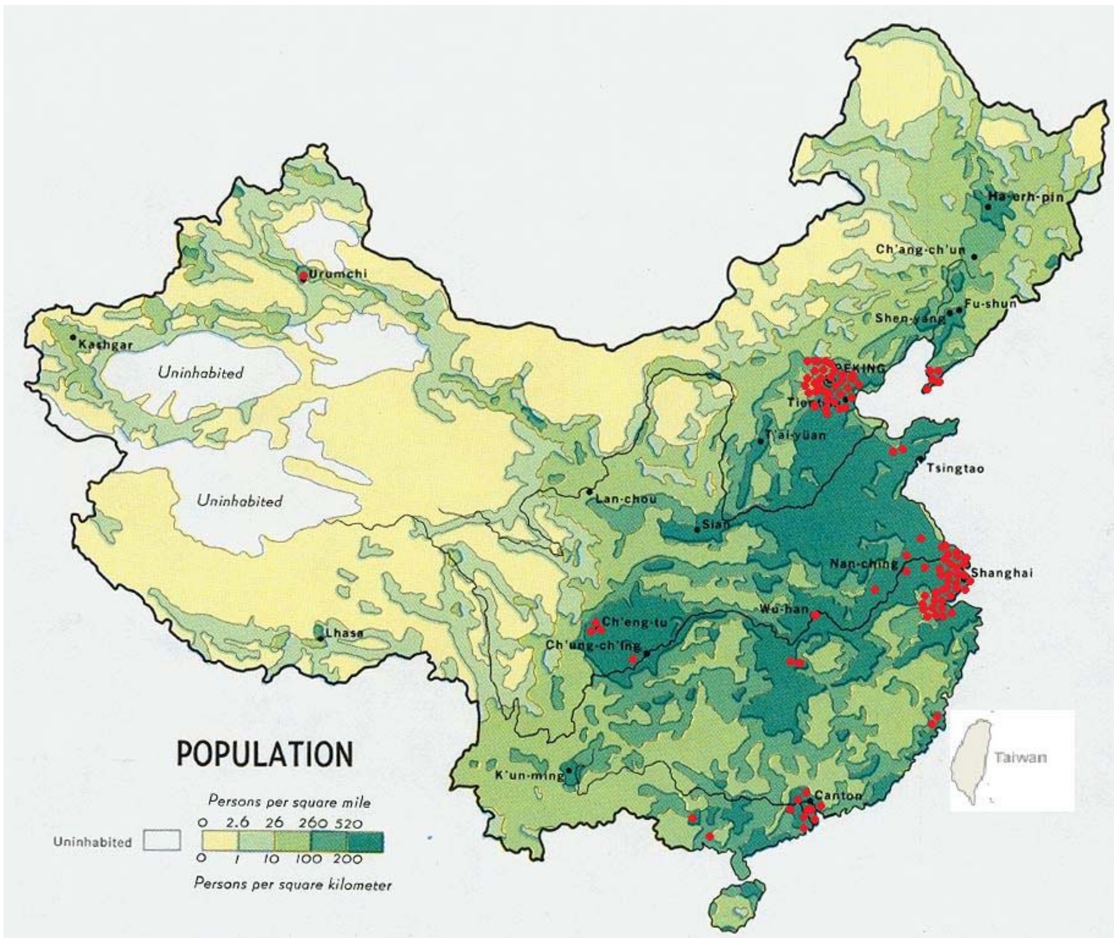


Figure 3.1

Distribution of Establishments in the Study Sample

1. Each red dot represents an establishment in the study sample (102 in total).
2. Map of China is from the University of Texas Libraries: http://www.lib.utexas.edu/maps/middle_east_and_asia/china_pop_1971.jpg

Measures

The dependent variable, *use of temporary employment contracts*, is measured as the proportion of employees who are hired on a short-term basis, including temporary direct hires and workers placed by a temporary help agency. This measure extends previous studies that examine the likelihood of using temporary employees as a binary variable (e.g., Davis-Blake & Uzzi, 1993; Gramm & Schnell, 2001; Houseman, 2001; Uzzi & Barsness, 1998).

Use of state resources was measured as the number of public and government resources that a company is using, which include job recruitment and replacement services, training resources/programs, site location assistance, and tax abatements. I operationalized *state ownership* using a dummy variable which assessed whether the company is predominately owned by the state (coded as 1) or not (coded as 0).

Publicly traded status was measured as a dummy variable (publicly listed =1, private=0). For all publicly listed companies, I retrieved their recent financial reports and obtained information of the listed market. Among publicly listed companies, I used a set of dummy variable to measure a firm's *listed capital markets* as a categorical variables, including the NYSE (the omitted category), NADSAQ, Chinese stock exchanges (mainland China, including Shanghai and Shenzhen), and other markets (including Hong Kong Stock Exchange, stock exchanges in European countries and other Asian countries). Eight out of 54 publicly traded companies in this sample were cross-listed on both the NYSE and Hong Kong Stock Exchange. I categorized them as NYSE listed companies because prior research suggests that companies are driven by values and practices of prestigious, well-established institutions such as the NYSE (Sanders & Tuschke, 2007).

Finally, I included a number of control variables that may be relevant to the decision of employment strategies. I measured *organizational size* as the number of customer service employees at a work site. Prior research has suggested that organizational size relates to personnel decisions because larger organizations should have more resources than smaller ones and are more likely to create internal labor markets simply because they can afford to do so (Davis-Blake & Uzzi, 1993). An organization's *age* is the number of years elapsed between its founding and the present. Organizational age may affect organizational processes because those founded chronologically earlier than others in different environmental conditions may yield different behaviors than those founded later (Eisenhardt & Schoonhoven, 1990; Tolbert & Zucker, 1983). Subsidiaries belonging to a larger parent company may have limited degrees of freedom in deciding HR policies. Therefore I controlled for whether the call center was an independent company (coded as 0) or *part of a larger organization* (coded as 1) as a measure of task complexity. A dummy variable was introduced to indicate whether inbound calls (coded as 0) or *outbound calls* (coded as 1) comprise the largest volume of calls in the call center. I controlled for *industry types* using a set of dummy variables, including telecommunications, financial services, manufacturing and other industries (omitted category). Finally, as the call centers are located in different cities and provinces, I used the *regional minimum wage* to control for regional differences in labor policy and economic conditions.

Model Specifications

A typical way to estimate the hypothesized model is to use linear multiple regression, which can be mathematically formulated as:

$$E(y \mid x) = x\beta \qquad (1)$$

where y is the dependent variable (i.e., the proportion of employees on short-term contracts) and x includes all independent variables. Although equation (1) is straightforward, the fact that the dependent variable is a fractional response -- bounded between 0 and 1 -- may raise statistical concerns. There is no guarantee that the predicted value lies within bounds, a similar problem as in the linear probability model for binary data. This could be a serious problem when a large proportion of y takes on the values 0 or 1. Therefore, I used quasi-likelihood estimation methods for regression models as suggested by Papke and Woodridge's (1996). Compared to ordinary regression models and log-odds type procedures, the quasi-likelihood estimation method effectively estimates fractional dependent variables while there is no need to use *ad hoc* transformations to handle data at the extreme values of zero and one. Mathematically, I estimated the following model:

$$E(y \mid x) = G(x\beta) \qquad (2)$$

where G(.) takes the standard log-odds functional form.

RESULTS

Table 3.1 reports basic descriptive statistics and correlations. As suggested by the descriptive statistics, call centers in this sample, on average, applied temporary employment contracts to 29% of their workforce. Seventeen percent of companies in the sample were predominately owned by the state and 55% companies are publicly traded, including 17% listed on the NYSE, 8% on the NASDAQ, and 9% on Chinese stock exchanges. In addition, an average call center used more than one kind of public assistance program such as recruitment and placement services.   Moreover, the correlation coefficients indicate that there are no major correlational problems with the variables reported.

Table 3.1

Descriptive Statistics and Correlations

Variables	Mean	Std. Dev.	(1)	(2)	(3)	(4)	(6)	(5)
1. Proportion of temporary workers	0.29	0.35						
2. Access to skilled labor	2.99	1.16	0.103					
3. Access to low-cost labor	2.24	1.07	0.044	0.050				
4. Product market coverage	2.55	0.85	-0.465 *	0.011	-0.213			
5. Use of state resources	1.30	1.23	-0.037	0.198	0.305	0.022		
6. State-owned companies	0.17	0.37	0.551 *	0.072	0.071	-0.512 *	-0.025	
7. Non-listed companies	0.45	0.50	-0.215	-0.078	0.023	0.058	0.065	-0.353 *
8. NYSE listed companies	0.17	0.37	0.430 *	0.072	0.202	-0.325	0.061	0.577 *
9. NASDAQ listed companies	0.08	0.27	-0.093	0.003	-0.271	0.197	-0.043	-0.131
10. Chinese stock exchanges listed companies	0.09	0.29	-0.008	-0.027	-0.070	0.164	0.036	-0.046
11. Other listed companies	0.22	0.41	-0.064	0.045	0.015	-0.019	-0.131	0.021
12. Organization size	359.92	770.79	0.153	0.274	0.021	-0.004	0.273	0.197
13. Organization age	0.51	0.50	-0.239	-0.206	0.012	0.069	0.009	-0.305
14. Part of a larger organization	0.89	0.31	-0.030	-0.140	-0.196	-0.034	-0.173	0.156
15. Outbound calls	0.21	0.41	-0.131	0.026	0.119	0.039	0.052	-0.163
16. Industry: telecommunications	0.31	0.47	0.298	0.061	0.210	-0.283	0.057	0.378 *
17. Industry: financial services	0.28	0.45	-0.200	-0.051	-0.101	0.143	-0.068	-0.165
18. Industry: manufacturing	0.24	0.43	-0.154	0.145	-0.141	0.396 *	0.013	-0.186
19. regional minimum wage	562.73	76.07	0.108	0.190	-0.296	0.105	-0.156	0.126

Table 3.1 (Continued)

Variables	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)	(17)	(18)
8.	-0.405 *											
9.	-0.264	-0.131										
10.	-0.282	-0.139	-0.091									
11.	-0.475 *	-0.235	-0.153	-0.163								
12.	-0.242	0.219	0.052	-0.091	0.123							
13.	0.212	-0.252	-0.082	0.095	-0.040	-0.340						
14.	-0.257	0.156	0.101	-0.003	0.106	0.011	0.042					
15.	0.269	-0.163	-0.058	-0.158	-0.031	0.095	-0.137	-0.136				
16.	-0.103	0.435 *	-0.197	-0.136	-0.046	0.332	-0.276	-0.037	0.022			
17.	0.215	-0.165	-0.184	-0.119	0.092	-0.063	0.026	0.149	-0.052	0.136		
18.	-0.038	-0.062	-0.162	0.235	0.046	-0.012	-0.110	0.044	0.061	0.073	0.163	
19.	-0.139	0.020	0.105	0.018	0.070	0.164	-0.136	0.209	-0.253	0.046	0.039	0.019

* Significant at .05 level; Bonferroni adjusted.

Table 3.2
Results of Quasi-likelihood Estimation Predicting the Proportion of Temporary Employees

	model1	model2	model3	model4	model5	model6
Org. size (# of EEs)	-0.002***	-0.001***	-0.000	-0.004***	-0.001***	0.003**
	(0.001)	(0.000)	(0.000)	(0.001)	(0.000)	(0.001)
Org. Age	0.170**	0.194**	0.018	0.397**	0.282***	0.673**
	(0.082)	(0.082)	(0.076)	(0.179)	(0.096)	(0.305)
Part of a larger	-1.278**	-2.418***	-1.174**	-2.190**	-1.344*	-10.127***
organization	(0.576)	(0.620)	(0.516)	(0.904)	(0.682)	(2.678)
Outbound calls	0.187	0.171	0.097	1.277	0.521	8.019***
	(0.566)	(0.399)	(0.404)	(0.772)	(0.598)	(2.419)
Industry						
Telecommunications	9.828***	1.007**	1.139**	12.895***	2.131***	-4.633***
	(2.063)	(0.473)	(0.513)	(2.723)	(0.733)	(1.264)
Financial services	-9.956***	-1.755**	-2.174***	-12.030***	-2.588***	0.455
	(2.181)	(0.678)	(0.699)	(2.710)	(0.837)	(1.134)
Manufacturing	-0.287	1.158**	0.235	-0.924	-1.357*	5.857***
	(0.567)	(0.582)	(0.527)	(0.719)	(0.700)	(2.073)
Regional minimum	-0.000	0.007***	-0.001	0.000	0.004**	0.022***
wage	(0.001)	(0.002)	(0.001)	(0.002)	(0.002)	(0.006)
Access to skilled labor		0.700***				2.507**
		(0.237)				(1.039)
Access to cheap labor		-0.152				-1.028**
		(0.158)				(0.505)
Product market coverage		-2.399***				-6.631***
		(0.410)				(2.099)

Table 3.2 (Continued)

	model1	model2	model3	model4	model5	model6
Use of state resources			-0.141			-2.395**
			(0.155)			(1.096)
State-owned companies			3.909***			7.863***
			(0.643)			(2.443)
Not publicly listed				-2.100**	-4.353***	-5.459**
				(0.842)	(0.975)	(2.179)
Listed on NASDAQ					-4.042***	-5.914*
					(0.897)	(3.107)
Listed on Chinese Stock exchanges					-2.250***	1.837
					(0.791)	(2.901)
Listed outside of U.S. and mainland China					-4.303***	-12.965**
					(0.957)	(4.960)
R^2	0.879	0.926	0.916	0.882	0.906	0.960

1. n=102
2. Standard errors in parentheses
3. * p<0.1, ** p<0.05, *** p<0.01

Table 3.2 provides regression results based on the quasi-likelihood estimation method. The dependent variable is the proportion of employees on temporary contracts among all non-supervisory employees in the largest occupational group in each establishment. Model 1 includes only the control variables, while Models 2 through 5 add predictors -- such as conditions of labor and product markets, relations with political entities, and listed status and capital markets, as specified in the model. Model 6 presents the full model with all independent and control variables.

Results of Model 1 show that smaller and older establishments are more likely to use temporary employment contracts. However, when independent variables are included in subsequent models, the negative effect of employment size goes away, and the variable actually turns positive in the final model. This pattern indicates that perhaps organizational size is highly correlated with other variables in the model. Finally, a small but positive effect of regional minimal wage suggests that employers tend to use more temporary contracts when labor regulations on employment activities such as minimal wage levels are high. In all, the results show that these control variables account for a significant amount of total variation of the dependent variable.

Model 2 shows that conditions of the labor market and product market significantly affect employers' adoption of temporary employment contracts. Results suggest that access to adequate skilled labor is positively related to the use of temporary employees. Hypothesis 1 is supported. Although not significant in the partial model (Model 2), access to low-cost labor is a significant predictor of the adoption of temporary employment contracts in the full model (Model 6). This provides some support for Hypothesis 2. Finally, the extent to which a company provides services to multiple geographic areas is negatively related to the use the temporary employment contracts (Hypothesis 3). Taken together, the findings support the idea that companies adopt employment strategies to adapt to the competitive conditions of external labor and product markets.

Model 3 tests the effects of political conditions on a firm's employment practices. Hypothesis 4 predicted a negative relationship between reliance on state resources and the use of temporary employment contracts. Even though such an effect is not significant in the partial model (Model 3), the full model (Model 6) indicates that companies that use state resources make significantly less use of temporary employment contracts, thus providing support for Hypothesis 5. This result is consistent with the argument that firms that are highly dependent on the government and public resources are likely to manage that dependence by adopting employment practices that conform to the interests of government. Hypothesis 5a and 5b provide competing arguments for the effects of state ownership on employment decisions. The results suggest that state-owned companies are likely to use a larger proportion of temporary employees in regular positions than non-state-owned enterprises. The difference between state-owned and non-state-owned enterprises in the proportion of temporary employees used is even greater in the full model (rising from 4% to 8%). This finding provides support for Hypothesis 5b, which states that state-owned enterprises trigger the use of divergent employment practices to cope with the radical changes that they are experiencing in recent years.

Hypotheses 6–8 predict that firms use different governance structures and employment strategies to respond to the preferences and expectations of important actors in the financial markets. Model 4 tests whether a firm's employment practices are related to its public trading status. Consistent with prior research, I find that public listed firms make significantly greater use of short-term employment contracts. To test whether different capital markets impose heterogeneous values on management decision making, Model 5 and 6 provide analyses to compare the adoption of temporary employment contracts among companies listed on the NASDAQ, Chinese stock exchanges, and the NYSE. Consistent with hypothesized predictions, the results of Model 5 suggest that companies listed on the NYSE use a higher proportion of temporary employees than those listed on the NASDAQ and Chinese stock exchanges. The effect of Chinese stock exchanges listing becomes statistically insignificant, when control variables and other predictors are included in the full model.

DISCUSSION

As firms move away from permanent employment relationships to short-term labor contracts, employment systems are evolving into alternative forms, even though these new changes are contested, and contradictory to the interests of the government and employees. This study has sought to address this issue theoretically and empirically in the context of the spread of temporary employment contracts in the service industry in China. This study generates several important findings. First, firms hire temporary employees in regular positions to exploit market opportunities when the labor market provides an adequate flow of skilled labor and when the product market covers multiple geographic locations. Second, firms highly dependent on public resources tend to maintain the long-term employment tradition to manage their relationship with political agencies. Nevertheless, in face of radical transformation which adversely affects survival prospects, state-owned enterprises are adopting short-term labor contracts to disrupt entrenched practices of life-long employment and overstaffing. Finally, even controlling for market pressures or political considerations, I found that capital markets and equity investors have a significant impact on the ways firms manage human resources. As driven by shareholder oriented values and a focus on short-term returns, publicly traded companies are more likely than non-listed companies to use temporary work. Also, NYSE listed companies are more likely to use a higher proportion of temporary employees significantly than those listed on the NASDAQ and Chinese stock exchanges.

This study contributes to human resource management research and organizational theories in several ways. First, this study supports a strategic view of the use of temporary employment contracts in the modern workplace. The findings suggest that temporary employment contracts are not limited to a few firms and industries, but across large sectors of the labor market. More importantly, this study found that the use of temporary employment contracts is significantly associated with a set of organizational and environmental variables which are relatively stable over time (such as product market diversification, use of state resources, ownership arrangements, and financial structures). This finding importantly extends prior research which examined how companies use temporary work to respond to short-term, temporary changes in the business environment. Rather, this study indicates that the use of temporary employment contracts can represent a permanent feature of a firm's HR strategy.

Second, this study contributes to the emerging literature on the relationship between financial structures, corporate governance, and employment relationships. In this study, publicly listed firms, which are driven by shareholder values and short-term returns, made significantly greater use of temporary employment contracts than firms that are not publicly traded. This finding provides empirical support for prior conceptual work that an increasing emphasis on share values imposes adverse impact on the interests of employees as long-term stakeholders. Moreover, findings of this study are consistent with a contingency theory of equity ownership by showing that the influence of equity investors may vary depending on characteristics of these investors and their trading platforms. Financial economists often assume homogeneity of shareholder interests and limit their analyses to the effects of share concentration. My theoretical arguments on the differences between the NASDAQ, Chinese stock exchanges, and the NYSE as well as the empirical results provide evidence that different public capital markets elicit different value systems and types of investors favor divergent interests.

Third, results of this study indicate that state-owned enterprises are more aggressive in adopting temporary employment contracts. It suggests that organizational actors are not necessarily bounded by history or taken-for-granted practices. Instead, they radically move away from the life-time employment tradition in order to enhance their survival prospects in market competition.

Finally, this study demonstrates that institutional actors have multiple and often inconsistent interests (Meyer & Rowan, 1977; Oliver, 1991). In the context of this study, market competition, political agents, and investors produce divergent forces that aimed to promote or inhibit the spread of temporary employment contracts. Managers strategically design various forms of employment contracts in order to respond to these forces. These findings are consistent with the arguments that technical efficiency and rationality are socially embedded (Lounsbury, 2007).

CHAPTER 4

ALTERNATIVE EMPLOYMENT STRATEGIES, HIGH INVOVLEMENT HUMAN RESOURCE PRACTICES, AND OPERATIONAL PERFORMANCE

As the business environment has become increasingly dynamic and unpredictable, organizations have been seeking ways to increase their flexibility, or the ability to respond readily to demand fluctuations and external shocks. Researchers believe that organizational flexibility generates competitive advantages because flexible firms are capable of defending against threats and moving rapidly to take advantage of opportunities (Kulatilaka & Marks, 1988; Sanchez, 1995; Volberda, 1996). For example, they are able to introduce new products frequently, offer broader service options, and switch from one product to another quickly (Sanchez & Mahoney, 1996).

A central feature of a flexible firm lies in its ability to manage its human resources in response to changing technological and market opportunities (Smith, 1997). Prior literature has emphasized two distinct forms of human resource (HR) flexibility (Atkinson, 1984; Cappelli & Neumark, 2004; Kalleberg, 2001). An organization obtains functional flexibility when a stable cohort of employees with multiple skills can competently perform a range of tasks and adapt to change. Numerical flexibility refers to an organization's ability to expand or shrink the size of its workforce quickly and easily in line with changes of market demands. Prior research on these two forms of HR flexibility has developed along rather independent lines, each aimed at understanding one of the two forms. On the one hand, the literature on functional flexibility identifies the benefits of high involvement HR practices which encourage and enable employees to develop multiple skills and participate in workplace decisions. Prior research suggests that high involvement HR practices can develop a functionally flexible workforce because employees are willing to invest in general and firm-specific skills and are competent to take on new roles for the benefit of the organization (Appelbaum, Bailey, Berg, & Kalleberg, 2000; Batt, 2002). On the other hand, scholars in the area of labor markets and employment contracts examine how firms make use of market-based solutions to bring in human capital on a temporary basis in order to reduce the costs, commitment, and legal responsibilities associated with permanent workers (Houseman, 2001). Despite significant progress in each research line, only a limited number of studies have addressed the possible relationships between functional and numerical flexibility (e.g., Atkinson, 1984; Kalleberg, 2001; Magnum, Mayoll, & Nelson, 1985). Implicit in these studies, however, is an untested assumption of a segmentation approach to human resources, which assumes that companies manage two disparate employment subsystems, one to achieve functional flexibility and the order to obtain numerical flexibility.

Recent studies have documented that a growing number of firms are taking a planned, strategic approach to temporary work. These firms intensively use short-term employees in work activities for on-going production activities, rather than for project-based work or temporal demand shocks (Barley & Kunda, 2004; Matusik & Hills, 1998; Smith, 2002). Moreover, they integrate contingent and regular workers in the same job, organize them side by side, and even elicit similar performance objectives (Bidwell, 2009; Davis-Blake, Broschak, & George, 2003; Lautsch, 2002). In this study, I refer to management policies and actions that incorporate temporary work into a firm's human resource strategy as "alternative employment strategies". I develop this concept with reference to typical employment relationships in which the employer directs the worker's activities at his premise and makes an implicit promise that employment will continue into the future with open ended duration (Kalleberg, 2000; Summers, 1997). Although types of employment contracts may involve distinct forms of exchange arrangements and power relations between employer and employees, prior HR literature tends to make little of these contractual distinctions. Instead, these studies assume that the effects of HR practices are equal throughout the workforce.

The purpose of this study is to address three issues. First, drawing upon social exchange theories and economic theories, I develop and empirically test the relationship between the use of alternative employment strategies and operational performance at the establishment level. Second, I examine whether the adoption of high involvement HR practices is associated with operational effectiveness. Finally, to explore the inherent paradox of these two approaches to human resources, I investigate the possible interactive effects of alternative employment strategies and high involvement HR practices on operational effectiveness.

THEORY AND HYPOTHESES

Numerical Flexibility: Effects of Alternative Employment Strategies

A firm may have several options to adjust organizational staffing levels and achieve numerical flexibility, such as overtime, flextime, job-sharing, and compressed workweeks. Among these options, an organization's decision to use short-term direct hires and temporary agency workers has received most scholarly attention because these arrangements allow employers to fundamentally alter the size of workforce without undergoing downsizing and layoffs (Kalleberg, 2001). In this study, I focus on the use of temporary work as the means to enhance numerical flexibility.

Early research examined temporary work primarily as a means to accommodate short-term staffing or scheduling needs and therefore it did not clearly develop a link between alternative employment strategies and organizational effectiveness. As firms begin to use temporary workers extensively in regular positions, however, it is important to know whether employers achieve numerical flexibility at the cost of operational performance. Perspectives of economic and social exchange theories both suggest that externalization of labor may be detrimental because employers' withdrawal of commitment to long-term employment relationships inhibits the development, exercise, and retention of employee skills and capabilities that contribute to organizational performance.

Economic theories state that firms have to elicit job efforts from the workforce while reducing their tendency to act in their own interest rather than the firm's interest. Long-term employment relationships help resolve these problems in several ways. First, career-oriented employment encourages workers to develop firm-specific human capital and therefore creates employee investments in the firm (Doeringer & Piore, 1991; Osterman, 1984). Second, stable employment decreases the need to negotiate a series of contracts to refill positions because of high employee turnover (Masters & Miles, 2002). Third, long-term employment relationships align the interests of the employer and the employees. Therefore, permanent employees are motivated to increase their work effort and minimize opportunistic behavior, even if they are not closely monitored (Williamson, Wachter, & Harris, 1975). By contrast, productivity of temporary workers may be limited either because employees are not willing to invest in firm-specific skills or because they are not willing to engage in tasks that are not explicitly specified. When the organization undertakes major changes such as a shift in technology and a sudden workload increase, temporary workers may insist on renegotiating their contracts if they perceive that the new responsibilities fall outside of the range specified by the current exchange relationship.

Social exchange theorists posit that employee behaviors at work are contingent responses to the inducements they receive from the organization (Blau, 1964; Gouldner, 1960). An open-ended, stable employment relationship embodies managers' beliefs in the norm of reciprocity (Parks, Kidder, & Gallagher, 1998; Tsui, Pearce, Porter, & Tripoli, 1997). In return for the provision of job security, permanent workers are willing to reciprocate by going beyond the performance requirements of their jobs and exhibiting high levels of employee initiative and collaborative behavior in organizations. For example, they are willing to help others, fulfill off-duty needs, and share constructive ideas to improve production processes and procedures. Employer inducements also strengthen employee retention because of stronger perceived obligations and higher perceived costs of living (Maertz & Campion, 2004). By contrast, when the employer insists on establishing a limited-term contract, employees may interpret this as a signal that no reciprocity is expected (Ashford, Lee, & Bobko, 1989). Therefore, they respond by performing only required duties and engaging in perfunctory performance (Rousseau, 1995; Tsui, Pearce, Porter, & Tripoli, 1997). For example, Shaw, Delery, Jenkins, and Gupta argue that lack of job security implies a breach of informal organizational contracts. As a result, employees diminish their attachment and perceived organizational responsibility. Moreover, mixing temporary and permanent workers in the same workplace leads to conflicts among co-workers (Geary, 1992) and greater supervision demands (Davis-Blake, Broschak, & George, 2003; Smith, 2002).

Empirical support for these arguments, however, has been inconclusive (Connelly & Gallagher, 2004). Van Dyne and Ang (1998) conducted a study in Singapore and showed that temporary workers engage in less organizational citizenship and have lower affective commitment than permanent employees. Van Jaarsveld (2004) also found high levels of resentment among IT temporary workers at Microsoft because they had different and lower reward structures than permanent employees. However, Pearce (1993) did not find significant behavioral differences between American employee engineers and their temporary co-workers in their willingness to help with extra tasks or their organizational commitment. Finally, Orlitzky and Frenkel (2005) reported that the proportion of part-time and female workers is associated with higher labor productivity.

One explanation for these mixed results is that employees might have heterogeneous interpretations of organizational actions depending on the proportion of temporary workforce in the workplace. For example, George (2003) argued that there are distinct points beyond which the proportion of temporary workers radically changes workplace dynamics and conveys different signals about managerial intentions. In other words, sparse use and extensive use of temporary workers do not represent a difference of degrees; rather, they are qualitatively different. For example, when temporary workers outnumber permanent workers, the use of alternative employment strategies may be interpreted as a substitution strategy to replace permanent workers rather than a complement to permanent employee activities. Under such circumstances, temporary workers gain power and become influential whereas permanent workers feel severely threatened and vulnerable. Theory and research on relational demography supports these arguments. These studies indicate that member compositional differences – such as age, gender, and ethnicity that make some members distinct from others in their teams – can have an impact on team processes and work outcomes (Jackson & Joshi, 2004; Kanter, 1977). More importantly, these differences have distinct effects for minorities than for members of the majority (Mehra, Klduff, & Brass, 1998). For example, Tsui, Egan, and O'Reilly (1999) showed that whites and men demonstrated more negative reactions to increased unit heterogeneity than non-whites and women. Chattopadhyay (1999) found that race dissimilarity negatively influenced organization-based self-esteem, peer relations, and altruism for white employees in minority-dominated groups, but not for minority employees in white-dominated groups. This argument is also consistent with my interviews with managers during field visits in China. For example, a major telecommunications company started to hire all new workers on the basis of temporary employment contracts in early 2000. This policy change did not upset permanent employees in the first two years. However, the number of temporary employees increased suddenly as a result of growing business demand. In 2003, when permanent employees lost their majority status, they collectively confronted management with this policy and asked the company to address their concerns about job insecurity. Rather than reaffirming long-term commitment to permanent employees, management announced that "the company's strategic needs" justified the presence of this policy. This resulted in low morale and a high quit rate among permanent employees.

For these reasons, in this paper, I develop a two-dimensional conceptualization of alternative employment strategies in order to examine their impact on operational effectiveness. The rationale underlying this conceptualization emphasizes that employee attitudes and behaviors, as a response to managerial strategies in the use of temporary contracts, are critical to organizational performance. The first dimension is the contractual nature of the employment relationship (whether permanent or temporary) applied to the largest group of employees in the workplace. This dimension defines the social status of permanent and temporary employees in the workplace. The second dimension distinguishes whether the company adopts a homogeneous approach or a hybrid approach to managing employees. This dimension conveys managerial beliefs of employment relationship and affects power relations among employees (George, 2003; Uzzi & Barsness, 1998). Therefore, this conceptualization captures organization's varying use of alternative employment strategies as four distinct modes: no use, low use, high use, and complete use of temporary employees (as shown in Figure 4.1). An organization with the no-use mode offers open-ended employment contracts to all of its employees. In the low use mode, an organization uses permanent employment contracts with most of its employees, supplemented with a small group of temporary workers. High use mode is one in which an organization uses temporary contracts with most of its employees and permanent contracts with only a small group of employees. Finally, the complete mode includes organizations that keep all employees on the basis of temporary employment contracts. Such a conceptualization extends prior research because it allows for varied interpretations in relation to each mode of alternative employment strategies and the consequent meanings attached to them.

Hypothesis 1. Operational performance will be higher in the no use mode of alternative employment strategies than in any of the other three modes of alternative employment strategies (i.e., low use, high use and complete use).

	Homogeneous	Heterogeneous
Dominated by permanent workers	No use (temp =0)	Low use (0<temp <50%)
Dominated by temporary workers	Complete use (temp =100%)	High use (50%≤temp <100%)

Figure 4.1

Modes of Alternative Employment Strategies

Functional Flexibility: Effects of High Involvement HR Practices

A number of studies have examined the concepts of performance-enhancing HR practices and their relation to organizational performance. Performance-enhancing HR practices are a set of internally consistent management practices that provide employees with skills, decision-making responsibility, and incentives that align their efforts with business successes (Combs, Liu, Hall, & Ketchen, 2006). As such, organizations enhance their effectiveness and ability to adapt to changes because these practices enhance skill development of the workforce, provide an organization of work that facilitates learning and problem solving, and offer incentives to workers to use their skills as needed for the benefits of the organization (Appelbaum, Bailey, Berg, & Kalleberg, 2000; Batt, 2002).

In search of the set of practices that constitute performance-enhancing HR practices, researchers have either derived conceptualizations from empirical data or from theory. The evidence-driven approach identifies a set of HR systems based on statistical evidence of fit based on the empirical data. These studies categorized firms into discrete bundles of HR practices, such as control and commitment systems (Arthur, 1992; 1994), traditional and innovative HR practices (Ichniowski, Shaw, & Prennushi, 1997), and bundle and module production systems (Dunlop & Weil, 1996). Although this approach reflects a strong intuitive appeal, there is little consensus on issues such as what possible HR bundles are and which practices constitute each bundle. For example, Arthur's (1994) high commitment system specifies a low emphasis on variable pay, whereas the innovative HR system defined by Ichniowski and colleagues (1997) has a strong emphasis on incentive pay plans. Researchers commented that conceptual ambiguity associated with this approach has resulted in contradictory operationalization of this construct and conflicting empirical results (Becker & Gerhart, 1996; Delery, 1998).

There is increasing evidence in support of the theory-driven approach, which derives a set of mutually reinforcing practices from a *priori* construction of HR theories (Delery, 1998). As such, internal consistency is conceptually validated when organizations implement a set of theoretically driven HR practices. Although performance-enhancing HR practices have been defined in various ways along this line, researchers have increasingly concurred with the idea that high involvement HR practices contribute to organization-wide outcomes because they increase workforce skill levels, provide employees opportunities to use their skills, and create an incentive structure to encourage skill acquisition, retention, and participation (Appelbaum, Bailey, Berg, & Kalleberg, 2000; Batt, 2002; Combs, Liu, Hall, & Ketchen, 2006).

A number of studies have investigated the mechanisms that high involvement HR practices increase organizational effectiveness. First, high involvement HR practices emphasize the selective hiring of employees with high general skills, a firm's investment in initial training, and a relatively high skill requirement to proficiently perform tasks. This combination provides a firm with a qualified workforce capable of ongoing learning. Preuss (2003) reported that hospital employees with substantial job knowledge are more able to interpret equivocal job situations, which effectively reduces medical error incidence. Batt (2002) argued that employees' capacity to learn is critical because market competition leads to constant change in marketing, pricing, and packaging. Employees need to integrate new product and service options into their existing knowledge in order to deliver quality service. Liu and Batt (2007) found that telephone operators improve job productivity over time as they receive informal training as provided by supervisors and experienced peers.

Second, high involvement HR practices involve the design of work to provide opportunities for individual discretion and learning through collaboration with other employees. Employees with high individual discretion are able to respond immediately to customer demands and deliver quality service. High-involvement HR practices also provide opportunities for continuous learning through participation in offline and online groups (Batt, 1999). This allows employees to benefit from better learning and problem solving on how to handle customers and new technology.

Finally, the incentives dimension of high involvement HR practices includes HR practices such as variable pay based on individual performance, continuous investment in employees' general skills and long-term development, and performance management systems that build trust. For example, Liu and Batt (forthcoming) found that the workers exhibited higher performance where their supervisor emphasized group assignments and incentives to encourage collaborative learning in the workplace. Bartel (2004) found that employee satisfaction with incentive practices such as performance evaluation, feedback, and recognition is positively related to work unit performance.

While some studies found evidence that a single dimension of high involvement HR practices can independently contribute to performance (e.g., Banker, Lee, Potter, & Srinivasan, 1996; Bartel, 2004; Terpstra & Rozell, 1993), many scholars argue that these practices support each other to improve organization-wide outcomes (e.g., Batt 2002; Combs, Liu, Hall, & Ketchen, 2006; MacDuffie 1995; Youndt, Snell, Dean, & Lepak, 1996). Employees have to develop job-related knowledge, skills, and abilities. Then, the organizational structure and job designs should offer the latitude for them to deploy personal judgment and discretion. Finally, even knowledgeable, skilled, and motivated employees will not leverage discretionary time and talent unless they are motivated to do so. This leads to the following hypothesis:

Hypothesis 2. Operational performance will be higher when companies make greater use of high involvement HR practices.

Interactive Effects of Alternative Employment Strategies and High Involvement HR practices on Performance

Previous discussions of the connection between alternative contractual arrangements and high involvement HR practices have primarily assumed that permanent and temporary employees are segmented and managed under different HR rules. These studies assert that firms partition the workforce into core and peripheral components which fulfill separate organizational functions, so that firms can buffer the core by concentrating adverse variability on the margins (e.g., Atkinson, 1984; Drago, 1998; Mangum, Mayall, & Nelson, 1985). In this way, organizations combine functional and numerical flexibility when they enact high involvement HR practices among permanent workers in core business activities and use short-term contracts among employees who perform routine functions (Kalleberg, 2001).

The segmentation argument rests upon two assumptions. First, temporary workers are less important to value creation and they are staffed in marginal functions. Second, firms use temporary workers to protect permanent workers at the core. However, recent studies have challenged these assumptions. For example, Smith (2002) and Lautch (2003) provided evidence that companies deliberately use temporary workers in critical business functions in order to improve business performance, rather than to minimize labor costs. Moreover, Cappelli & Neumark (2003) contradicted the buffering hypothesis by showing that the use of contingent work is positively related to dismissals and layoffs of the permanent workforce. Similarly, Houseman, Kalleberg, and Erickcek (2003) found that employers used temporary employees in order to avoid raising wages for existing employees. My research on the spread of temporary employment contracts in China (as discussed in the previous chapters) also provides strong evidence that firms are moving away from the segmentation approach to the integration approach, which creates a mixture of permanent and temporary employees who work side-by-side in the same job and are organized into work teams. Therefore, several researchers call for more conceptual endeavors to advance our understanding of the changing employment relationship.

As temporary employees are integrated into the HR system governing permanent employees, firms seek to manage these workers in a way that their competence, autonomy, and commitment can directly contribute to organizational effectiveness. Recent studies provide evidence that employers may adopt high involvement HR practices for both permanent and temporary employees. For example, Orlitzky and Frenkel (2005) examined the effects of high involvement HR practices on part-time employees. Along this line, I test whether the relationships between modes of alternative employment strategies and operational performance will be enhanced or diminished, depending on the extent to which high involvement HR practices are used in combination.

As stated by social exchange theory, individuals are obligated to return the benefits conferred by others based on the norm of reciprocity (Blau, 1964). Temporary employees are hired without the employer's promise of a long-term relationship. Therefore, these employees are limited in their ability to enjoy inducements from the employer, by virtue of their employment contracts (Rousseau, 1995). When a company applies high involvement HR practices to temporary employees, these workers have the opportunity to develop skills, increase pay, and take on new job responsibilities. As these benefits go beyond the expectation of temporary workers, they are likely to view the employer's inducements even more positively than their permanent peers. For example, van Dyne and Ang (1998) found that the relationship between organizational commitment and citizenship behavior is stronger for temporary workers than permanent workers, which suggests that temporary workers engage more in positive participatory behaviors when they perceive the employer's efforts to build commitment. Therefore, the negative effects of alternative employment strategies on operational performance will be weaker when the employer adopts high involvement HR practices.

Hypothesis 3: The adoption of high involvement HR practices moderates the relationship between modes of alternative employment strategies and operational performance. Specifically, the negative relationship between modes of alternative employment strategies and operational performance is lower when the company makes greater use of high involvement HR practices.

METHODS

Sample

Data for this study were collected based on procedures discussed in the previous chapter. Due to data availability of the performance measure, the final sample was reduced to eighty-two establishments. Statistical analyses suggest that this sample did not differ from sample of Chapter 3 in the proportion of temporary employees in the workplaces.

Measure

Operational performance is measured as the extent to which a call center achieves its operational performance target. Because of the metrics driven nature of performance management in call centers, this measure is a rather objective performance indicator. This outcome ranged from zero to 100%, with a mean value at 84.4%. It is one of the key performance measures in call centers of various size and sectors. It allows us to compare operational performance among call centers across different industries.

I measured the adoption of *alternative employment strategies* as a categorical variable to capture its possible discrete, instead of continuous, effects on operational performance. I classified companies into four distinct modes of alternative employment strategies, depending on the proportion of temporary employees: no use (% temp = 0), low use (0< % temp <50), high use (50 ≤ % temp <1 00), complete use (% temp = 100). Among all call centers in the sample, forty-one centers reported that they did not hire temporary workers (42.3%); thirty-one for the low use mode (32.0%); seventeen for the high use mode (17.5%); and eight for the complete use mode (8.2%). On average, temporary workers comprised 24.7% of the total workforce in centers of low use mode and 70.6% in centers of the high use mode. I conducted additional analyses to test whether these four modes of alternative employment strategies significantly differed from each other in distribution of the use of temporary workers. Results supported this categorization of the study sample (T-values were 11.92, 10.27, 4.76, all $p<0.001$).

By measuring the adoption of alternative employment strategies as a categorical instead of a continuous variable, one might argue that the analysis loses some sensitivity in explaining the covariation between independent and dependent variables. This argument is built upon the assumption that each additional unit change in the independent variable correlates to a continuous change in the dependent variable. However, researchers in the field of organizational demography and temporary employment have argued for categorical measures representing different modes of temporary employment, since shifts between modes (e.g., from low use to high use) represent critical qualitative shifts in employee interpretations of managerial choices, rather than quantitative changes in levels along a continuum (George, 2003; Uzzi & Barsness, 1998). Because these theoretical arguments and the statistical results indicate that the categories differed from each other in their extent of externalization, I coded the adoption of alternative employment strategies as a categorical variable. Such a technique allows for modeling flexibility that the slopes of the regression lines can vary for each mode of alternative employment strategies. Therefore, this analysis makes possible differential forms of the relationship between the adoption of alternative employment strategies and operational performance, thus giving the potential to gain insights beyond a continuous measure of the proportion of temporary workers.

I used a set of theoretically driven HR practices to measure *high involvement HR practices*, drawing upon my field work and prior studies in call centers (Batt, 2002; Doellgast, 2008). I used three indices to capture different dimensions of high involvement HR practices (see included HR practices in Appendix). The first dimension relates to high skill requirements. This includes educational level, initial training, and the amount of time for a new employee to reach job competence. The second dimension provides opportunity for employees to use their skills in collaboration with other workers and participation in workplace decisions. This includes the use of self-managed teams, quality circles, job discretion, and flexible job descriptions. The third dimension provides an incentive structure that enhances motivation and commitment. This includes ongoing training, the extent of electronic performance monitoring (reverse coded), and performance-base variable pay. For employees, electronic monitoring is a source of stress and signals distrust by managers (Batt & Moynihan, 2002; Deery, Iverson, & Walsh 2002; Holman, Chissick, & Totterdell 2002). To create the index of each dimension, I transformed the variables to z-scores and calculated the mean value of the variables. Following prior strategic human resource management research, I created an additive index of the ten HR practices in order to test the models of moderation. The high-involvement HR practices index was transformed into a z-score and then interacted with each mode of alternative employment strategies.

Finally, I included a set of control variables based on prior literature, including ownership and industry. I also controlled for call centers that was a subunit of a larger organization, that were operated in-house rather than subcontracted by a third party, and that primarily handled inbound calls instead of outbound calls (an indicator of task complexity).

RESULTS

Table 4.1 shows the descriptive statistics and zero-order correlations. The results suggest that high use and complete use modes of alternative employment strategies are negatively correlated with the level of target performance achieved while high involvement HR practices index has a positive association. However, these effects are small and insignificant.

I conducted hierarchical regression analyses to test the hypotheses. In this procedure, the control variables were entered in Step 1, variables of alternative employment strategies were entered in Step 2, and indices of high involvement HR practices were included in Step 3. The interaction terms between modes of alternative employment strategies and high involvement HR practices were entered in Step 4. All variables included in the interaction terms were standardized prior to creating the interaction terms. Table 4.2 shows the regression coefficients and *R*-squares associated with each step.

Model 1 tested the effects of control variables. Compared to those of domestic private ownership, call centers run by state-owned and foreign companies reached higher levels of target operational performance. Performance levels were lower in call centers in the telecommunications industries and higher in the financial industry, in relation to those in other industries. In addition, establishment characteristics such as

Table 4.1
Descriptive Statistics and Zero-Order Correlations

Variable	Mean	Std. Dev.	(1)	(2)	(3)	(4)	(5)	(6)
1. Target performance achieved (%)	0.844	0.165						
Alternative employment strategies								
2. No use (% temp=0)	0.423	0.497	0.076					
3. Low use (0<%temp<50)	0.320	0.469	0.025	-0.5864*				
4. High use (50≤%temp<100)	0.175	0.382	-0.017	-0.3944*	-0.316			
5. Complete use (%temp=100)	0.082	0.277	-0.146	-0.257	-0.206	-0.138		
High involvement HR practices								
6. Skill index	0.000	2.096	0.280	0.312	-0.251	0.025	-0.170	
7. Work design index	0.000	2.468	-0.020	0.010	0.079	-0.054	-0.077	0.081
8. HR incentive index	0.000	1.769	0.055	0.009	-0.027	-0.113	0.186	-0.190
9. High involvement (HI) system index	0.000	3.626	0.180	0.191	-0.104	-0.077	-0.060	0.5406*
10. Ownership: state-owned	0.309	0.465	0.019	-0.031	-0.172	0.220	0.043	-0.051
11. Ownership: foreign	0.134	0.342	0.168	-0.030	-0.140	0.057	0.212	0.163
12. Subunit of a larger organization	0.897	0.306	-0.024	0.153	-0.204	0.067	-0.022	0.239
13. In-house operations	1.208	0.408	-0.146	-0.121	0.249	-0.036	-0.155	-0.237
14. Inbound services	0.794	0.407	0.142	-0.131	-0.033	0.101	0.153	0.205
15. Industry: telecommunications	0.330	0.473	-0.181	-0.201	-0.011	0.023	0.348	-0.194
16. Industry: financial industry	0.289	0.455	0.014	0.238	-0.193	0.065	-0.191	0.3612*

Table 4.1 (Continued)

Variable	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)
8. HR incentive index	0.012								
9. High involvement (HI) system index	0.7332*	0.3861*							
10. Ownership: state-owned	-0.134	0.053	-0.095						
11. Ownership: foreign	-0.012	-0.041	0.066	-0.263					
12. Subunit of a larger organization	0.133	-0.114	0.173	0.227	0.133				
13. In-house operations	-0.003	0.043	-0.118	-0.18	0.022	-0.245			
14. Inbound services	-0.026	-0.148	0.029	0.231	-0.024	0.162	-0.4316*		
15. Industry: telecommunications	-0.04	0.084	-0.098	0.005	0.175	-0.051	0.3990*	-0.022	
16. Industry: financial industry	0.038	-0.026	0.222	0.017	0.017	0.141	0.193	0.044	0.134

* Significant at .05 level; Bonferroni adjusted.

Table 4.2
Effects of Alternative Employment Strategies and
High Involvement HR Practices on Operational Performance

	Model 1	Model 2	Model 3	Model 4	Model 5
Alternative employment strategies					
Low use (0<%temp<50)		0.011 (0.020)	-0.003 (0.020)	0.002 (0.020)	0.006 (0.019)
High use (50≤%temp<100)		-0.036 (0.025)	-0.025 (0.024)	-0.025 (0.024)	0.001 (0.025)
Complete use (%temp=100)		-0.071*** (0.017)	-0.068*** (0.017)	-0.073*** (0.017)	-0.061*** (0.016)
High involvement HR Practices					
Skill index			0.022* (0.012)		
Work design index			0.014** (0.007)		
HR incentive index			0.008 (0.012)		
High involvement (HI) system index				0.058*** (0.020)	0.037* (0.021)
Moderation effects					
Low use of alternative employment strategies ×HI system index					0.006 (0.022)
High use of alternative employment strategies ×HI system index					0.055* (0.029)
Complete use of alternative employment strategies ×HI system index					0.049*** (0.013)

Table 4.2 (Continued)

Control variables					
Ownership: state-owned	0.085**	0.111***	0.092**	0.080*	0.076**
	(0.040)	(0.042)	(0.043)	(0.041)	(0.037)
Ownership: foreign	0.080*	0.176***	0.155***	0.139***	0.078*
	(0.043)	(0.043)	(0.047)	(0.043)	(0.041)
Subunit of a larger organization	0.036	-0.035	-0.070	-0.064	-0.039
	(0.051)	(0.049)	(0.048)	(0.048)	(0.044)
In-house operations	0.069	0.007	0.051	0.029	-0.011
	(0.049)	(0.046)	(0.052)	(0.044)	(0.043)
Inbound services	0.020	0.101**	0.125***	0.133***	0.076*
	(0.045)	(0.044)	(0.044)	(0.043)	(0.043)
Industry: telecommunications	-0.093**	0.038	0.044	0.045	0.032
	(0.036)	(0.043)	(0.043)	(0.041)	(0.039)
Industry: financial industry	0.078**	-0.008	-0.034	-0.013	0.004
	(0.038)	(0.049)	(0.050)	(0.046)	(0.045)
Constant	0.702***	0.732***	0.716***	0.726***	0.810***
	(0.103)	(0.092)	(0.093)	(0.087)	(0.088)
R^2	0.165	0.374	0.454	0.442	0.577

1. n=82.
2. No use of alternative employment strategies (%temp=0) is set as the omitted category.
3. Standard errors in parentheses
4. * p<0.1, ** p<0.05, *** p<0.01.

in-house operations and inbound services were not found to be significant predictors of operational effectiveness. These control variables explain 16.5 percent of the total variance.

To test Hypothesis 1, I introduced different modes of alternative employment strategies in Model 2. No use of alternative employment strategies (i.e., all workers are permanent hires) was taken as the omitted category. Hypothesis 1 predicted that the use of alternative employment strategies is negatively related to operational performance. Hypothesis 1 is moderately supported by the results. Establishments that make low or high use of temporary workers do not differ significantly from those that hire permanent employees only. However, call centers that make complete use of temporary workers are 7 percent lower than those of the no use mode in reaching performance targets ($p<.01$).

Hypothesis 2 predicted that the adoption of high involvement HR practices is positively associated with operational performance. Results strongly support this finding. As suggested by Model 3, one standard deviation increase of the skill index is associated with a 2.2% increase in reaching performance target ($p<.10$). One standard deviation increase of the work design index is associated with a 1.4% increase in reaching performance target ($p<.05$). The independent effect of HR incentives index is not significant. Moreover, the performance effect of the additive index is significant. Model 4 suggests that one standard deviation increase in the high-involvement HR practices index is associated with an 5.8% increase in reaching performance target ($p<.01$).

To test the moderation effects, I introduced a set of interaction terms in Model 5. The results moderately support Hypotheses 3. The findings show that when companies use a large number of temporary employees (i.e., the high use and the complete use modes), the negative effects of alternative employment strategies on operational performance are weaker when the use of high involvement HR practices is high. Using points one standard deviation above and one standard deviation below the means of high involvement HR practices, I plotted the interactions in Figure 4.2. As shown, compared to establishments that make greater use of high involvement HR practices, the negative effect between alternative employment strategies and performance is much stronger among establishments that are low in high involvement HR practices. The hypothesized moderation effect is supported.

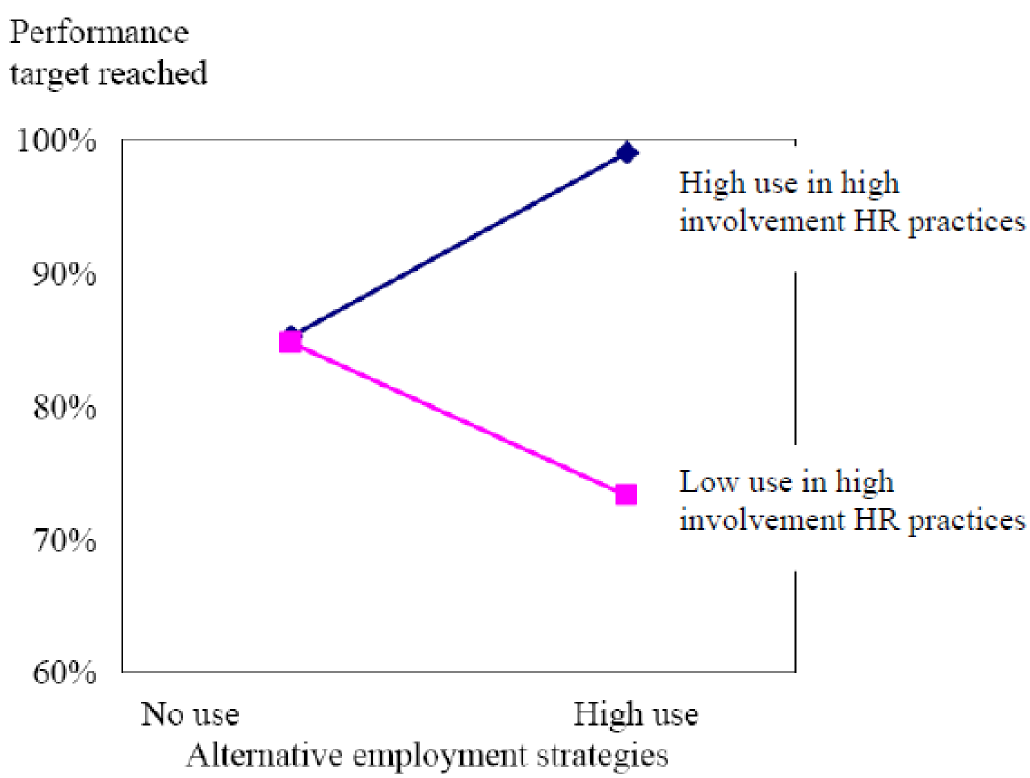
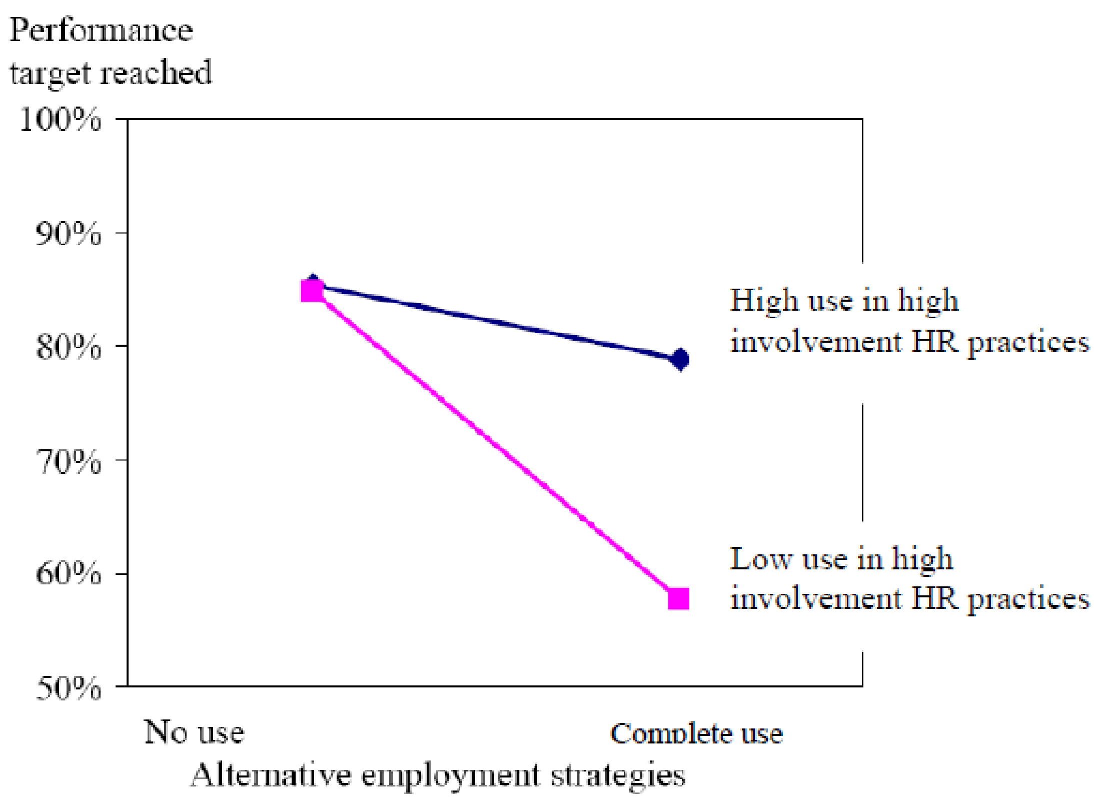


Figure 4.2

Interactions between Alternative Employment Strategies and

High Involvement HR Practices in Predicting Operational Performance

Figure 4.2 (Continued)



DISCUSSION

This study examines the relationships between alternative employment strategies, high involvement HR practices, and operational effectiveness. The findings suggest that organizations pursuing alternative employment strategies to low labor costs or to increase numerical flexibility should consider the performance costs associated with their decisions. By virtue of their work status, employees hired on temporary contracts may withhold commitment and job efforts because they do not have a positive attitude toward their relationship with the employer. For example, they may be less willing to invest in firm-specific skills and to take on responsibilities that are not specified in the contracts. This problem is more severe when most work activities are performed by temporary employees. Nevertheless, such a negative effect can be mitigated by the use of high involvement HR practices. This suggests, when the employer offers opportunities of skill development, empowerment, and rewards to temporary workers, they will increase work motivation and commitment, which in turn leads to job efforts, willfulness to collaborate, and other behaviors that boost bottom-line performance.

This study contributes to prior HR research in several important ways. First, this study provides support for ideal that various combinations of temporary and permanent employment relationships can be conceptualized as distinct models, rather than a continuous variable. Previous studies generally have adopted a homogenous approach and examined the effects of the proportion of temporary employees on organizational outcomes. But the results of the considerable empirical research on the effects of temporary employees have been inclusive. My theoretical arguments drawn from literature on organizational demography as well as empirical results are suggestive of an alternative approach of conceptualizing the use of temporary work as different modes, depending on the relative number of temporary employees. This approach enables us to account for different power relations and social processes that result from the relative mix of temporary and permanent contracts, which in turn affect organizational effectiveness.

Second, this study advances our knowledge by taking an integration view of functional and numerical flexibility. Findings suggest that the use of high involvement HR practices moderates the relationship between alternative employment strategies and operational performance. In particular, when firms effectively integrate temporary workers by adopting HR practices that provide opportunities for development, discretionary efforts, and job motivation, they can minimize the adverse effect of alternative employment strategies on performance. Unfortunately, in practice, companies often invest little resources or time in the development and retention of temporary employees, because they are often driven by efficiency motives. Recent changes in labor legislations (both in China and in the U.S.) further discourage these attempts by affirming that the integration of temporary workers into daily operations can determine the client firm, rather than temporary staffing agencies, is the legal employer. The desire to avoid employer obligations may cause companies to deliberately separate temporary workers from permanent co-workers. As a result, these decisions may stifle the contributions of temporary workers and increase their intention to quit.

There are several limitations to this study. First, data collected from a single respondent may raise concerns about measurement error and biases. I mitigated this concern by using establishment level surveys. Establishment-level surveys are relatively reliable because the numbers of employees are smaller, the managers are familiar with the HR practices they are responsible for implementing, and the HR practices are more homogeneous (Batt, 2002).

A second concern is the question of simultaneity. Because all of the measures were collected contemporaneously, it is impossible to draw strong causal inferences between high involvement HR practices, alternative employment strategies, and organizational performance. It would be worthwhile for future research to explicitly test the causal effects among these variables by using longitudinal research strategies or quasi-experimental designs.

Third, this study focuses on a single organizational outcome – the extent to which an establishment meets its operational target – as the dependent variable. I was not able to test whether the adverse effect on operational performance is offset by labor savings of temporary employment. Future research is encouraged to explore a boarder range of employee outcomes and organizational performance, such as turnover, labor productivity, sales, and revenue.

CHAPTER 5
CONCLUSION

The previous chapters examined the spread of temporary employment contracts and its effects on organizational outcomes. As suggested by the findings in these studies, we are witnessing more than the proliferation of temporary employment relationships. Instead, these changes reveal important information about the transformation of employment systems in China, within which the traditional practice of stable employment has begun to deinstitutionalize and the scope and significance of temporary work relationships have been markedly extended.

While the imperative of economic efficiency is reaffirmed, the studies highlight that the adoption of temporary employment contracts may heavily depend on the interests and power of actors that make decisions in organizations. For example, I find that line managers, finance managers, and top corporate leaders have incentives to expand the temporary workforce for various reasons. Line managers seek more autonomy and authority in the work place by hiring temporary employees whom are not covered by formal employment policies and whom they have more control over. Finance managers support the use of short-term contracts because it facilitates the use of financial measures in internal capital allocations and improves a firm's financial performance from the view of investors. Finally, executive officers at state-owned enterprises are in favor of externalizing low-income jobs because it gives the company more discretion in designing executive compensation plans. Together, these findings indicate that organization actions reflect the political struggles in which different actors are engaged in contests over organizational goals and rules of action, pointing to the importance of power, ideology, and self-interests, rather efficiency maximization. To extend this line of research, future studies may explore how goal interdependence among organizational units shapes managerial control over workplace decisions and therefore influences the perceived benefits associated with the use of temporary employment contracts.

The findings also suggest that the firms do not only use temporary employment contracts to accommodate unexpected, short-term personnel needs. Rather, the use of temporary contract and the use of temporary staffing agencies create legal distance between an employer and workers, and therefore allow the employer to avoid legal liability. As such, firms are able to reshape the future responsibilities and obligations involved in employment relationships and hedge unfavorable risks. That is, even in the face of slack labor markets and booming business demands, firms have incentives to adopt temporary employment contracts in order to reduce economic uncertainties. This finding is consistent with research on the "gloves-off" economy, which argues that employers may use temporary contracts as evasion strategies so that they can diverge from the long-established legal and normative standards that govern employment relationships and job quality (Bernhardt, Boushey, Dresser, & Tilly, 2008).

Although prior research suggests that equity investors in financial markets exercise control over employment practices by defining organizational objectives and managerial ideology (Black, Gospel & Pendleton, 2007; Froud, Haslam, Johal, & Williams, 2000), very little research has empirically examined such differences. Based on the empirical setting in China, this research provides strong evidence that publicly listed companies are positively associated with the adoption of temporary employment contracts. Equity investors tend to view corporation as the property of shareholders and employees merely one factor of production. Under these pressures exerted by equity investors, managers strive to enhance the fluidity of production inputs and to increase short-term returns, while discounting investment in intangible assets such as human resources.

Furthermore, prior literature has assumed that maximization of stock prices is the common goal of all investors. In this research, I challenge this assumption and develop theoretical arguments to examine why financial investors in different trading markets may establish heterogeneous objectives and therefore adopt systematically different employment practices. In particular, compared to those listed on the NYSE, companies listed on the NASDAQ make lower use of temporary employment contracts because of concentration of share ownership, insider representation on boards, and an entrepreneurial tendency to favor risks and opportunities. In addition, findings also suggest that due to differences in owner characteristics, governance structures, and the institutional environment, companies listed on Chinese stock exchanges make significantly less use of temporary employment contracts cokmpared to those traded on the NYSE exchange.

Although many employers believe that the use of temporary contracts enhances numerical flexibility and reduces labor cots, prior research has not systematically examined its performance implications. In this research, I explore the relationship between alternative employment strategies, high involvement HR practices, and operational performance. Drawing upon literature on organizational demography, I conceptualize alternative employment strategies as distinct combinations of permanent and temporary employees. Findings suggest that an extensive use of temporary employment contracts (i.e., 50% or more of the workforce are temporary) have a detrimental effect on an organization's operation effectiveness. These findings are consistent with prior conceptual work that temporary employees are less motivated because of limited inducements and commitment from the employer. However, the adverse effect can be mitigated when the company applies high involvement HR practices to temporary employees. High involvement HR practices give employees the opportunities to develop skills, increase pay, and use discretionary efforts at work. As these inducements go beyond the expectation of temporary employees, they respond in a way more positively than permanent employees.

In conclusion, qualitative fieldwork and quantitative results of this research suggest a series of strategic motives for why firms make increasing use of temporary employment contracts. In addition to the provision of low-cost and short-term labor, managers strategically adopt temporary employment contracts to cope with complex and sometimes contradictory pressures inside and outside the organization, such as goal conflicts between organizational units, expectations from shareholders, and regulations of labor laws. However, using temporary workers as part of HR strategies can be detrimental to a company's performance. The adoption of high involvement HR practices can mitigate such a negative effect. Firms need to be particularly cognizant of these implications in the use of temporary employment contracts.

APPENDICES

2.1 Field Work and Data Collection

Company	Principle activities	Names and titles of interviewees	Location	Industry	Research activities	Hours of field work
1. Air China	Customer Service	Dong, Y. General manager	Beijing	Airline	Face-to-face interview, on-site visit and survey	4
2. Amssy	Customer Service	Huan, H. General manager	Beijing	Retail, cosmetics	Face-to-face interview, on-site visit and survey	2
3. Bank of China	Customer Service	Xie, L HR manager	Beijing	Banking	Face-to-face interview, on-site visit and survey	2
4. CCID	Third-party vendor	Yang, H. General manager	Beijing	Telecommunications	Face-to-face interview, on-site visit and survey	3
5. China Construction Bank	Marketing and sales	Liu, G. General manager	Shanghai	Banking	Face-to-face interview, on-site visit and survey	3
6. China Life	Customer Service	Yuan, L. General manager	Beijing	Insurance	Face-to-face interview	1

7. China Mobile	Customer Service	Wang, X. HR manager	Nanjing	Telecommunications	Face-to-face interview and survey	1
8. China Mobile	Customer Service	Song, Y. General manager	Beijing	Telecommunications	Face-to-face interview (two)	3
9. China Motion	Third-party vendor	Wen, G. General manager	Hangzhou	Telecommunications	Face-to-face interview, on-site visit and survey	4
10. China Motion	Third-party vendor	Li, C. General manager Yang, L. HR manager	Shenzhen	Telecommunications	Face-to-face interview and on-site visit	2
11. China Netcom	Customer Service	Shi, S. General manager	Hangzhou	Telecommunications	Face-to-face interview, on-site visit and survey	3
12. China Telecom	Customer Service	Xiong, D. General manager Bao, Z. HR manager	Shenzhen	Telecommunications	Face-to-face interview	1
13. China Telecom	Customer Service	Zhang, J. General manager	Hangzhou	Telecommunications	Face-to-face interview, on-site visit and survey	3
14. ChinaHR.com	Customer Service	Tang, S. General manager	Beijing	HR services	Face-to-face interview	4

15. Ctrip	Customer Service	Sun, M. General manager	Shanghai	Leisure services	Face-to-face interview, on-site visit and survey	4
16. De Min	Customer Service	Zhang, X. General manager	Beijing	Retail	Face-to-face interview, on-site visit and survey	2
17. Dell	Customer Service	Guo, L. HR manager	Dalian	IT manufacturing	on-site visit	0.5
18. DHC	Third-party vendor	Wang, L. General manager	Dalian	Telecommunications	Face-to-face interview, on-site visit and survey	3
19. Elong	Customer Service	Sun, Y. General manager	Beijing	Leisure services	Face-to-face interview, on-site visit and survey	3
20. Far East	Third-party vendor	Liu, R. General manager Chen, L. HR manager	Shanghai	Telecommunications	Face-to-face interview, on-site visit and survey	6
21. FESCO	Customer Service	Xi, M. HR manager	Beijing	HR services	Face-to-face interview, on-site visit and survey	2
22. Founder	Customer Service	Gao, S. General manager	Beijing	IT manufacturing	Face-to-face interview, on-site visit and survey	3

22. Genpact	Third-party vendor	Chen, X. HR manager	Dalian	Financial services	Face-to-face interview, on-site visit and survey	2
23. Genpact	Third-party vendor	Qu, J. HR manager	Dalian	Medical services	Face-to-face interview, on-site visit and survey	2
24. HiChina.com	Customer Service	Li, D. General manager	Beijing	Internet services	Face-to-face interview, on-site visit and survey	2
25. HP	Global Service Center	Liu, H. General manager	Dalian	IT manufacturing	Face-to-face interview, on-site visit and survey	6
26. Jin Wan Bao	Customer Service	Yuan, J. HR manager	Tianjin	Newspaper	Face-to-face interview, on-site visit and survey	3
27. Lenovo	Customer Service	Shi., P.X., General manager	Beijing	IT manufacturing	Face-to-face interview, on-site visit and survey	3
28. Lenovo	Sales	Wang, F. General manager	Beijing	IT manufacturing	Face-to-face interview, on-site visit and survey	2
29. LG Electronics	Customer Service	Wang, L.	Beijing	Manufacturing	Face-to-face	3

		General manager			interview, on-site visit and survey	
30. Liba.com	Customer Service	Xu, X. General manager	Shanghai	Internet services	Face-to-face interview, on-site visit and survey	2
31. Medtronic	Customer Service	Li. Y. General manager	Beijing	Medical services	Face-to-face interview, on-site visit and survey	2
32. Microsoft	Customer Service	Yuan, X. General manager	Beijing	Software	Face-to-face interview, and on-site visit	1
33. My12580.com	Third-party vendor	Li, W. General manager	Beijing	Telecommunicatio ns	Face-to-face interview	1
34. Net.cn	Customer Service	Tang, C. General manager	Beijing	Internet services	Face-to-face interview, on-site visit and survey	2
35. New China Life	Customer Service	Zhu, X. HR manager	Beijing	Insurance	Face-to-face interview, on-site visit and survey	3
36. New Oriental	Customer Service	Lin, C. HR manager	Beijing	Education	Face-to-face interview, on-site visit and survey	2

37. Sina.com	Customer Service	Zhong, Y. General manager	Beijing	Internet services	Face-to-face interview, on-site visit and survey	2
38. State Tax	Customer Service	Gao, Y. General manager	Dalian	Public services	Face-to-face interview, on-site visit and survey	2
39. Tai Gong	Third-party vendor	Ge, M. General manager	Beijing	Retail	Face-to-face interview, on-site visit and survey	2
40. Tai Kang	Customer Service	Ye, Y. HR manager	Beijing	Insurance	Face-to-face interview, on-site visit and survey	2
41. Teleperformance	Third-party vendor	Zhang, Y. General manager	Beijing	Telecommunications	Face-to-face interview, on-site visit and survey	2
42. Wicresoft	Third-party vendor	Xu, X. General manager	Shanghai	Software	Face-to-face interview, on-site visit and survey	2
43. Xinyuan Boya	Customer Service	Pu, X. General manager	Beijing	Interpreter services	Face-to-face interview, on-site visit and survey	2
44. Xinyuan Boya	Customer Service	Hu, T. HR manager	Beijing	Lottery services	Face-to-face interview, on-site visit	2

					and survey	
45. ZTE	Customer Service	Tan, H. General manager	Shanghai	IT manufacturing	Face-to-face interview, on-site visit and survey	3
					Total hours of field work:	114.5

3.1 Definition of Variables

<u>Dependent Variables: Proportion of Temporary Workers</u>
this measure is formed from the following

> "How many customer contact employees work at this center now?"
> ________number, <d> do not know <r> refused
>
> "Think about temporary employees who are hired directly or through agencies for short-term or temporary contracts. How many temporary customer contact employees work at your centre now?"
> ____number, <d> do not know <r> refused

<u>Independent Variables</u>

<u>Labor Market Conditions</u>

Access to skilled workforce
"Please rate the significance of presence of skilled workforce of operating in this local geographic area."
<1> Not at all
<2> A little
<3> A moderate level
<4> A lot
<5> A great deal

Access to low-wage workforce
"Please rate the significance of low wages of operating in this local geographic area."
<1> Not at all
<2> A little
<3> A moderate level
<4> A lot
<5> A great deal

<u>Product Market Conditions</u>

Is the <u>primary</u> market served by your call centre local (city or county), regional (state or province), national, or international? *(Interviewer -check one only)*
<1> Local
<2> Regional
<3> National
<4> International
<d> Do not know
<r> Refused

Political Conditions

Use of state resources: is the total types of resources used
"To what extent has this center used any of the following public resources? (answer Yes or No)"

a. Job recruitment and placement services
b. Training resources or programs
c. Site location assistance
d. Tax abatements

State ownership: is a dummy variable
1 = state-owned enterprises
2 = other types of ownership arrangements

Capital Market Conditions

Non-listing status
"Is the organization a public listing company?"
<1> Yes
<0> No
(In order to set the NYSE listed companies as the base category in the statistical analyses, I coded non-listed companies as 1 and listed companies as 0).

Capital market of public listing: is a set of dummy variables. I collected information from company archives and public information sources.
New York Stock Exchanges (NYSE)
National Association of Securities Deals Automated Quotations (NASDAQ)
Chinese Stock Exchanges
Other stock exchanges

Control Variables

Organization Size

"How many customer contact employees work at this center now?"
________number

Organization Age

In what year was this call centre established?
<1950-2007> Year

Part of a Larger Organization

“Is this call center part of a larger organization?”
<1> Yes
<0> No

In-house Operations

“How would you best describe your call centre – as an in-house centre providing services to your company or as a sub-contractor providing services to other companies? (*Please tick one*)”
<1> In-house operation
<2> Subcontractor

Industry

“From the following list, which industry sector or sectors do you serve? “

Insurance	Yes [ ] No [ ]	Local Government	Yes [ ] No [ ]
Banking (Financial Services)	Yes [ ] No [ ]	Central Government	Yes [ ] No [ ]
Charity/Voluntary	Yes [ ] No [ ]	Health Care (including NHS)	Yes [ ] No [ ]
Manufacturing	Yes [ ] No [ ]	Distribution	Yes [ ] No [ ]
Utilities	Yes [ ] No [ ]	Pharmaceuticals	Yes [ ] No [ ]
Retail	Yes [ ] No [ ]	Construction	Yes [ ] No [ ]
Telecommunications	Yes [ ] No [ ]	Housing	Yes [ ] No [ ]
Hotels, Lodging	Yes [ ] No [ ]	Food and Drink	Yes [ ] No [ ]
Airlines	Yes [ ] No [ ]	Recreation and Leisure	Yes [ ] No [ ]
Media	Yes [ ] No [ ]	Publishing and Printing	Yes [ ] No [ ]
Public Sector Services	Yes [ ] No [ ]	Other	____________________________

“If you serve more than one sector, please can you state in which single industry you do the most business?”
____

Outbound Operations
“Which type of calls comprises the largest volume of calls at your centre?”
<1> Inbound <2> Outbound

Regional Minimum Wage
Collected from *China Labor Statistics Yearbook 2006*

4.1 Definition of Variables

Dependent Variables: Operational Performance

"I want to learn more about the operational performance of your call centre."
"Do you have a target time for incoming/outgoing calls to be answered by?"
<1> Yes <0> No <d> do not know <r> refused

"What percent of calls are answered within the target time?" (in-bound call centers only)
<0-100> percent

"What percent of calls are completed within the target time?" (out-bound call centers only)
<0-100> percent

Independent Variables

Modes of Alternative Employment Strategies:
this measure is a categorical measure formed from the following

"How many customer contact employees work at this center now?"
________number, <d> do not know <r> refused

"Think about temporary employees who are hired directly or through agencies for short-term or temporary contracts. How many temporary customer contact employees work at your centre now?"
____number, <d> do not know <r> refused

"Are the majority of your core employees permanent or temporary?"
<1> Permanent
<2> Temporary
<d> Do not know
<r> Refused

High Involvement HR Practices

Skill dimension

Education credentials
"What is the typical educational level of a typical employee?"
<1> No qualifications
<2> Junior high school (9 years)
<3> General high school diploma (12 years)
<4> Associate degree (14-15 years)

<5> Bachelor degree (16 years)
<6> Masters degree or above (18 years or more)
<d> Do not know <r> Refused

Initial training
"How many days of initial training do core employees receive in their first year (including orientation/induction and job-related training)?"
<0-300> days <d> Do not know <r> Refused

Job competency requirement
"How much time does it take for a core employee to become fully competent on the job? E.g. so that they are able to train someone else."
<0-30> weeks <d> Do not know <r> Refused

Work design dimension

Self-management teams
What percentage of core employees are organized into self-managed or semi autonomous team? (That is, teams in which employees supervise their own work and make their own decisions about tasks or work methods)?
<0-100> Percent <d> Do not know <r> Refused

Quality circles
What percentage of core employees participate with supervisors or managers in task forces, problem-solving groups, or quality improvement committees?
<0-100> Percent <d> Do not know <r> Refused

Job discretion: is a scale formed from the following items
"Now, I would like to understand how much discretion core employees have at work. On a scale of 1 to 5, where 1 is no discretion and 5 is a great deal of discretion, how much discretion does the typical core employee have over:"

a. What daily tasks or work assignments they do
b. What methods or procedures they use
c. The pace or speed at which they work
d. What they say to a customer
e. The design and use of new technology
f. Setting their daily lunch & break schedule
g. Sequencing their daily activities, jobs, or orders
h. Handling additional requests or problems that may arise unexpectedly:
i. Settling customer complaints without referral to a supervisor:

(1= Not at all; 2= A little; 3= A moderate level; 4= A lot; 5= A great deal)

Flexible job descriptions

"What percentage of core employees have flexible job descriptions not linked to specific tasks?"
<0-100> Percent <d> Do not know <r> Refused

HR incentives dimensions

Performance-based pay
"About what percentage of gross annual pay of core employees comes from individual commission?"
<0-100> percent <d> Do not know <r> Refused

Performance monitoring: is a scale formed from the following items (reverse coded)
"How often do core employees receive computerized or quantitative feedback on their performance, for example, number of calls taken, call length, or number of sales?"
<1> Rarely or never
<2> Sporadically
<3> Once a quarter
<4> Once a month
<5> Twice a month
<6> Once a week
<7> a few times a week
<8> Every day

"In practice, how often are the calls of experienced core employees (that is, with more than one year of tenure) listened to by a supervisor?"
<1> Rarely or never
<2> Sporadically
<3> Once a quarter
<4> Once a month
<5> Twice a month
<6> Once a week
<7> a few times a week
<8> Every day

"To what extent is the information from performance monitoring used to support disciplinary actions, using a scale of 1 to 5 where 1 is not at all and 5 is a very great deal. Would you say:"
<1> Not at all
<2> A little
<3> A moderate level
<4> A lot
<5> A great deal

Investment in general skills

"After the first year, how many days of formal training per year does the typical core employee receive? Please include on-line, vendor, classroom or other formal training."
<0-60> days <d> Do not know <r> Refused

Control Variables

Organization Size

"How many customer contact employees work at this center now?"
________number

Organization Age

In what year was this call centre established?
<1950-2007> Year

Part of a Larger Organization

"Is this call center part of a larger organization?"
<1> Yes
<0> No

In-house Operations

"How would you best describe your call centre – as an in-house centre providing services to your company or as a sub-contractor providing services to other companies? (*Please tick one*)"
<1> In-house operation
<2> Subcontractor

Industry

"From the following list, which industry sector or sectors do you serve? "

Insurance	Yes [ ] No [ ]	Local Government	Yes [ ] No [ ]
Banking (Financial Services)	Yes [ ] No [ ]	Central Government	Yes [ ] No [ ]
Charity/Voluntary	Yes [ ] No [ ]	Health Care (including NHS)	Yes [ ] No [ ]
Manufacturing	Yes [ ] No [ ]	Distribution	Yes [ ] No [ ]
Utilities	Yes [ ] No [ ]	Pharmaceuticals	Yes [ ] No [ ]
Retail	Yes [ ] No [ ]	Construction	Yes [ ] No [ ]
Telecommunications	Yes [ ] No [ ]	Housing	Yes [ ] No [ ]
Hotels, Lodging	Yes [ ] No [ ]	Food and Drink	Yes [ ] No [ ]
Airlines	Yes [ ] No [ ]	Recreation and Leisure	Yes [ ] No [ ]
Media	Yes [ ] No [ ]	Publishing and Printing	Yes [ ] No [ ]
Public Sector Services	Yes [ ] No [ ]	Other	____________________

“If you serve more than one sector, please can you state in which single industry you do the most business?”

____

Outbound Operations

“Which type of calls comprises the largest volume of calls at your centre?”

<1> Inbound <2> Outbound

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