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## Differentiating the workforce: The performance effects of using contingent labor in a context of high-performance work systems

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### ABSTRACT

In this study we focus on the impact of contingent labor on the outcomes of high-performance work systems (HPWS). Building on the emerging research on the social mechanisms linking HRM to organizational effectiveness, we argue that a higher incidence of contingent labor diminishes the productivity payoff associated with the use of HPWS for managing standard employees. We test these arguments using a sample of 229 British firms of different industries. The results support our arguments and help develop a more holistic and critical viewpoint in the analysis of workforce differentiation.

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### 1. Introduction

One of the most common ways to differentiate the workforce is by distinguishing between “standard” and “contingent” employees (Broschak & Davis-Blake, 2006). The differences between the two types of employees reside in two fundamental criteria: the duration of their employment relationship and the quantity of HR investments the firm directs to them (Kalleberg, 2001). While standard employees have an ongoing employment relationship and receive a number of HR investments (e.g., economic incentives, training, empowerment opportunities), contingent ones have employment relationships of limited duration and generally receive only minor HR investments from the employer. The most common types of contingent labor are fixed-term, temporary, and agency workers (Polivka & Nardone, 1989); these are the types we focus on in this paper.

Both standard and contingent employees deliver benefits to the firm. Through the use of standard employment arrangements and HR investments, firms may boost firm productivity and profitability by fostering the commitment, skill level and flexibility of the employees in these arrangements (Lepak & Snell, 1999). Contingent employment, on the other hand, provides more numerical flexibility (Kalleberg, 2001) and access to new knowledge (Vogus & Welbourne, 2003), at the same time as it helps to achieve a range of labor cost savings (Cappelli & Neumark, 2004).

That being said, the advantages associated with these two employee groups should not be analyzed solely in isolation. Rather, it is also essential to analyze whether these groups may be mixed, as well as the extent to which their mixing is beneficial for firms (Cappelli & Neumark, 2004). Following this direction of analysis and focusing on the simultaneous use of standard and contingent employees, it has been shown that such a combination is not without costs. On the contrary, it may reduce trust (Pearce, 1993), loyalty (Davis-Blake, Broschak, & George, 2003), commitment (George, 2003), and helping behaviors (Broschak & Davis-Blake, 2006) among the standard workforce. Moreover, some authors found that the combination of standard and contingent labor is not necessarily beneficial for firms' final performance (Roca-Puig, Beltrán-Martín, Bou-Lluisar, & Escrig-Tena, 2008).

In the present study we aim at expanding on this research to explore the impact of contingent labor on the effectiveness of the HR practices used to manage standard employees. Specifically, based on the abundant literature considering so-called high-performance work systems (HPWS) as the most effective initiative for managing the standard workforce (e.g., Huselid, 1995), we pose the following research question: Are HPWS more effective when used in contexts where a contingent workforce is also deployed, or in contexts of a uniform culture where the entire workforce consists of standard employees?

To date, empirical research has not sufficiently addressed this question. Yet, for organizations wishing to improve their productivity, such a question is certainly relevant. Indeed, by exploring this question one can assess the extent to which the highly acclaimed tendency to differentiate the workforce (e.g., Becker, Huselid, & Beatty, 2009; Lepak, Takeuchi, & Snell, 2003) may have downsides and counterweights. Based on emerging research on the social mediators of the HRM–organizational effectiveness relationship (e.g., Collins & Smith, 2006; Evans & Davis,

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2005; Paré & Tremblay, 2007; Takeuchi, Lepak, Wang, & Takeuchi, 2007) and using data from the Workplace Employment Relations Survey 2004 (WERS2004), in this work we aim at identifying and describing some of these downsides by presenting empirical evidence from British firms.

Thus, the first contribution of our study lies in extending the research on workforce differentiation with an empirical examination of some of its potential drawbacks. While previous studies on this topic have highlighted the consequences of contingent labor deployment for standard employees' attitudes and behaviors, we move a step further by focusing on how the use of contingent labor interacts with important strategic HR practices (i.e., HPWS) for standard employees. Second, in so doing we are also able to gain further insights into the HPWS–performance relationship and add to literature exploring from a contingency perspective the organizational circumstances under which such systems are valuable.

## 2. Theoretical rationale and hypothesis

### 2.1. Differentiation of the workforce

HR literature has put forward the necessity of differentiating the workforce and designing distinct management practices for different employee groups (Becker et al., 2009; Lepak & Snell, 1999; Mossholder, Richardson, & Setton, 2011; Tsui, Pearce, Porter, & Tripoli, 1997). Firms may rely upon a variety of criteria for workforce differentiation, including demographic variables, tenure, or geography. That being said, Strategic Human Resource Management (SHRM) researchers have tended to differentiate the employees according to their criticality for organizational success. One of the first explorations of this organizational practice is by Atkinson (1984), who examined distinct labor deployment strategies for employees in “core” versus “peripheral” occupations. Tsui et al. (1997), in turn, showed that different sets of HR practices induce different types of employee–organization relationships, based on the employer's expectations about the specific contributions desired from employees. Lepak and Snell (1999) discussed different employment modes and relationships, supported by distinctive HR configurations, arising from the uniqueness and value of the employees to the employer. Finally, in a recent prescriptive work, Becker et al. (2009) emphasized the importance of tailoring a firm's HR practices to what they call “strategic,” “support,” and “surplus” positions.

While these researchers use different theoretical lenses, they all emphasize that combining contingent and standard employees is not only a common workforce differentiation practice, but also an efficient one. Standard employees (also referred to as “permanent” or “regular” employees) are those in traditional, ongoing, and open-ended employment arrangements (Kalleberg, 2001). Conversely, although a precise definition may vary across countries and industries, contingent workers are usually understood to be those “who perform a job for an employer on the basis of a contract of limited duration” (de Gilder, 2003: 588). In this study we adopt the definition of contingent employment given by Polivka and Nardone (1989) and focus on agency, temporary, and fixed-term workers. These workers are nowadays more pervasive than ever and no longer restricted to specific sectors or occupations (Broschak & Davis-Blake, 2006).

The differences between standard and contingent employees reside not only in the length of their employment relationships, but also in the kind of HR practices used to manage them. Standard employees tend to receive HR investments from the employer such as monetary incentives, empowerment, training and other “high road” initiatives, whereas employees in contingent work arrangements, because of their weak bonds with the company, are usually managed through “low-road” HR practices, characterized by narrow employer commitment and fewer investments (Cappelli & Neumark, 2004; Kalleberg, 2001; Lepak & Snell, 1999).

The simultaneous deployment of standard and non-standard labor is generally justified by the parallel benefits it may deliver. Via standard

employment arrangements and “high road” HR practices, a firm may promote employees' functional flexibility, develop their skills and abilities, and further their commitment to organizational goals, fostering in turn productivity, growth, and profitability (Kalleberg, 2001; Lepak & Snell, 1999). Contingent employment use, on the other hand, may improve firm performance by achieving a range of labor cost savings such as lower recruitment, selection and training costs, as well as lower salaries and benefits (Lepak et al., 2003). In addition, it may allow a firm to manage its capacity more efficiently by exercising flexibility in managing the number and occupational mix of employees (Kalleberg, 2001). Moreover, because contingent employees may come with a variety of backgrounds and experience, their use may even enable a firm to access and accumulate valuable “outside” knowledge (Vogus & Welbourne, 2003).

Yet, researchers have also warned that mixing employees in standard and contingent work arrangements may have downsides, especially when it comes to standard employees' attitudes and behaviors towards the employer and co-workers. For example, Pearce (1993) and Chattopadhyay and George (2001) found that the deployment of contingent workers is associated with a decrease in both trust and extra-role behaviors among standard employees. Davis-Blake et al. (2003), in their turn, found that the use of contingent employment was inversely related to company loyalty among permanent employees, and directly correlated to their departure intentions. Similarly, George (2003) found that contingent labor use was associated with reduced commitment on the part of standard employees. She also found that standard workers may perceive the use of contingent labor as a violation of the psychological contract between employees and the organization. More recently, Broschak and Davis-Blake (2006) showed that the presence of contingent employees was related to poorer relations, not only among workers and their colleagues, but also between subordinates and their supervisors. Altuzarra and Serrano (2010) also found that the presence of contingent employees may reduce a firm's level of innovativeness. Other authors have raised doubts about the fairness of using contingent employees beside standard ones (Bonache, 2004). And, finally, others found the existence of a substitute effect between internal (i.e., through the development of standard employees' skills) and external (i.e., through the use of temporary contacts) flexibility (Roca-Puig et al., 2008).

As mentioned in the Introduction, our goal in this paper is to expand this line of research. Drawing from evidence on standard employees' attitudinal and behavioral responses to contingent labor deployment, below we look at the consequences of such deployment for the effectiveness of the HR practices directed to the standard workforce, especially when firms implement a HPWS.

### 2.2. Managing the standard workforce through HPWS

Focusing on the management of standard employees, in the past two decades a great deal of attention has been paid to HPWS. These are HR practice “bundles”—also referred to as “high-investment human resource systems”—designed to maximize the contribution of human talent to business outcomes via the improvement of workforce competence, attitudes, and motivation (Huselid, 1995).

The precise definition of these systems as well as the definitive list of the practices they comprise is subject to continuous debate (Werner, 2011). However, previous research has suggested that HPWS involve such practices as selective staffing, training, multi-skilling, performance appraisal, incentives, flexible job assignments, quality circles and disclosure of company information (Combs, Liu, Hall, & Ketchen, 2006; Subramony, 2009). An important point of the HPWS paradigm is that the value of these practices is thought to increase when they are used as a coordinated system, since they are considered to have additive and synergistic effects on performance (Subramony, 2009). Additive effects appear, for example, when two different selection instruments detect unique job skills, whereas synergies occur when one practice

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