World Development Vol. 45, pp. 161–174, 2013

0305-750X/$ - see front matter
ELSEVIER
www.elsevier.com/locate/worlddev
http://dx.doi.org/10.1016/j.worlddev.2012.10.012

The In-House Contracting Paradox: Flexibility, Control, and Tension

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Summary. — This study argues that the coordination of workplace changes brought about by increased flexibility attained through the utilization of contract labor is fraught with tension, which influences the ways in which employment relationships are shaped in the context of any given firm. The essence of such tension lies in the pursuit of organizational flexibility and quality control in the production process. Contradictions arise out of the attempt of user firms to avoid direct responsibility for the workforce while at the same time exerting managerial control over externalized contract workers. Such tensions and paradoxes are associated with conflicts of interest, and compromise between and within workplace actors.

Key words — Asia, employment relationships, labor contracting, control, organizational flexibility, South Korea

1. INTRODUCTION

The utilization of contract labor in the production areas of firms is reportedly on the rise in many parts of the world, where it plays a decisive role in changes in production and employment patterns associated with labor market restructuring. The presence of contract workers on the site of a user firm is likely to change work organization, labor processes, and employment practices, lending itself to the formation of complex relationships with the management and employees of the user firm that lie beyond the jurisdiction of contracting firms that directly employ such nonstandard workers (Marchington, Grimshaw, Rubery, & Willmott, 2005; Rubery, Lee Cooke, Earnshaw, & Marchington, 2003). Moreover, evidence suggests that increasing numbers of contract workers are being deployed alongside regular workers in order to carry out the same or similar types of jobs (Broschak & Davis-Blake, 2006; Davis-Blake, Broschak, & George, 2003; Gramm & Schnell, 2001). A good example of this phenomenon is to be found in the growing popularity for temporary employment agencies or contracting firms to source production workers for the assembly plants of automobile companies in, for example, the United States, Italy, Japan, China, and Brazil (e.g., Abreu, Beynon, & Ramalho, 2000; Kalleberg & Marsden, 2005; Pulignano, 2005).

It is now recognized in the relevant literature that work and employment practices have changed following the introduction of labor intermediaries; and there is considerable knowledge of employers' motivation for using contracting arrangements, and of the benefits to user firms (Abraham & Taylor, 1996; Barley & Kunda, 2006; Gramm & Schnell, 2001; Houseman, 2001; Kalleberg, 2000; Purcell & Purcell, 1998). However, research into the ways in which user firms manage contracting firms and contract workers has been limited. This is largely because many previous studies of employment flexibility have been based on the assumption that the contracting arrangement shifts the focus of labor control from the user firm to the contractor (e.g., Pfeffer & Baron, 1988). It is assumed that the utilization of labor intermediaries leads to the replacement of employment contracts with commercial relations between firms, such that managerial responsibility for the supervision of workers and employment relationships is transferred to the contracting firm. These suppositions are the basis of the notion that work and employment practices are mediated by market forces embedded in contractual arrangements (Abraham & Taylor, 1996). Consideration of a market-oriented interpretation of labor contracting prompts the present study to pose the question of whether this phenomenon functions as a mechanism for the resolution of the managerial "burdens" of labor control and employment-related problems through the devolution of responsibility to contracting firms.

This paper explores the management problem of coordination that the utilization of contract workers brings about in the workplace. The coordination of labor contracting involves inherent tension, the essence of which lies in the simultaneous pursuit of organizational flexibility and quality control in the production process; it being deemed necessary that both of these aims are met if the requisite performance of the firm is to be guaranteed. Such tension is also a reflection of the engagement of an external workforce with fewer employment entitlements in production activities, which is compounded by collaboration and conflict between workplace actors. This study argues that the tensions associated with coordination problems influence the ways in which employment relationships are molded in the context of any particular firm. Furthermore, these tensions also shape the orientation of labor contracting practices, including the manner and extent to which contract workers are deployed in the workplace.

As far as the user firm is concerned, the increased engagement of contract workers not only helps to reduce labor costs but also offers enhanced organizational flexibility in the production process. However, this constitutes a double-edged sword. The promotion of flexibility based on the engagement

* The author is grateful to Stephanie Barrientos at the University of Manchester and Rachel Sabates-Wheeler at the University of Sussex for their supervision and support throughout his DPhil studies in the Institute of Development Studies (IDS), UK. Thanks are also due to the journal editors and three anonymous reviewers for their insightful comments on the manuscript. The author would like to acknowledge the support of the Brooks World Poverty Institute at the University of Manchester for providing a visiting fellowship. Final revision accepted: October 15, 2012.

of contract labor tends to mean that the user firm is exposed to risks associated with the performance of contractors and their employees (MacKenzie, 2000, 2002). Potential challenges for user firm management include quality control issues and communication problems between regular and contract workers. A firm's production system might, for example, be compromised by its contract workers in terms of comparative levels of skill and commitment, turnover rate, or the extent of their grievances.

Therefore, the user firm needs to develop an organizational structure and managerial strategy that will enable it to exercise either direct or indirect control over its contract workers and their performance (MacKenzie, 2000, 2002; Pulignano & Stewart, 2006). Although the extent to which user firms intervene in the employment practices of their contractors, and control measures implemented are diverse and depend on the individual workplace environment, to some degree, the user firm needs to coordinate the work of its contracting firms as well as those duties that necessitate cooperation between nonstandard and regular workers (Marchington *et al.*, 2005). It may thus be argued that the move toward greater recourse to labor contracting will in all likelihood lead to increased managerial control over the engagement and work of contract staff, since the role played by this external workforce in the production process has grown more critical in terms of both flexibility and quality control.

This paper takes a case study of the South Korean automobile industry to explore the paradoxical nature of the labor contracting system, as nonstandard workers with fewer employment entitlements are brought into the main production areas of plants, and investigates the tensions inherent in such an arrangement. This examination sheds light on the roles of and relationships between workplace actors in influencing the process of change involved in labor contracting and, in turn, the manner in which inherent tensions play out in shaping employment relationships and labor contracting practices.

2. A CONCEPTUAL UNDERSTANDING OF LABOR CONTRACTING MANAGEMENT AND EMPLOYMENT RELATIONSHIPS

A fundamental issue underlying any discussion of innovation in recruitment and work practices associated with the utilization of contract workers on the site of a user firm is company flexibility. In-house labor contracting refers to a particular type of work arrangement whereby employees hired by contractors perform duties on the premises of a user firm. The relationship between the user firm and these labor intermediaries is based on a commercial contract between organizations, the workers themselves not entering into an employment contract with the user firm. It has therefore been assumed that flexibility within the organizational structure of the user firm arises from the substitution of regulatory and bureaucratic employment contracts for relaxed commercial relations between firms, and less formal arrangements in the deployment of the workforce and the organization of production (Pulignano & Stewart, 2006).

The engagement of contract workers in the production areas of companies offers an opportunity to study how a user firm manages its externalized nonstandard workforce in this specific environment, and the workplace changes that arise through the increased use of such an arrangement. Our point of entry is the assumption that enhanced control of the user firm over its nonstandard workers and their performance is necessary in order to sustain in-house contracting, as such employees are engaged in major production activities and the role of labor contracting in the production process subsequently becomes more pronounced.

Several previous studies have attempted to examine the benefits and drawbacks experienced by firms when they utilize nonstandard workers in different categories. For example, Standing (1999) suggests that the main advantage of engaging agency temporaries is that supervisory and administrative costs are reduced; whereas the disadvantages of using these workers are lower levels of commitment and lack of company-specific training. It has been found that there are differences in the use of contracting arrangements (including off-site subcontracting) across firms and industrial sectors, and that the reasons underlying a managerial decision to utilize contract workers are diverse (Abraham & Taylor, 1996; Barrientos, 2008; Eyck, 2003; Houseman, 2001; Kalleberg, 2000; Kalleberg & Marsden, 2005; Purcell & Purcell, 1998). Cost reduction is frequently cited in the literature as a major factor behind the engagement of nonstandard workers. It is widely recognized that the implementation of a contracting arrangement is one way by which management endeavors to "buffer" its organizational structure and workforce so that fluctuations in production levels can be dealt with more efficiently (Abreu *et al.*, 2000; Eyck, 2003; Gramm & Schnell, 2001; Pfeffer & Baron, 1988). Disadvantages associated with the utilization of contract workers are also highlighted in the literature. These include high turnover problems; the lower morale and organizational commitment of contract workers (Ward, Grimshaw, Rubery, & Beynon, 2001); opportunistic behavior on the part of subcontractors (Harrison & Kelly, 1993); the decline of regular workers' company loyalty and deterioration in labor–management relations (Davis-Blake *et al.*, 2003); and a negative impact on the user firm's attempts at innovation and technical development (Michie & Sheehan, 2003; Moss, Salzman, & Tilly, 2000).

Given the range of benefits and drawbacks of nonstandard employment practices, it is clear that the expansion of labor contracting to a company's main production areas is accompanied by an increasing number of managerial issues and problems for the user firm. The potential risks of a greater recourse to in-house contracting are largely rooted in the underlying desire to expand an external workforce with fewer employment entitlements, that is, the promotion of organizational flexibility in tandem with a reduction in labor costs.

A related issue is the quality of work carried out by nonstandard workers (Barrientos, 2008; MacKenzie, 2000, 2002; Moss *et al.*, 2000; Ward *et al.*, 2001). Evidence from several case studies reveals that quality control is a key requirement in the realization of flexible production and just-in-time operation. Quality control in the production process is important in terms of a company's reputation for product reliability. Therefore, it is evident that varying degrees of employee involvement notwithstanding, many firms worldwide—including automobile companies—place great emphasis on quality improvement and employees taking greater responsibility for their work (Jurgens, Malsch, & Dohse, 1993; Kochan, Lansbury, & MacDuffie, 1997).

The significance of quality and consistency of production in the course of a company's pursuit of greater flexibility suggests that the deployment of contract workers in production areas requires managerial effort on the part of the user firm in order to ensure workplace stability and the requisite level of skill and responsibility from such members of staff. This implies that when an external workforce that has a greater influence on day-to-day operations and product quality is brought into