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PERFORMANCE CONSEQUENCES OF ORGANIZATIONAL FLEXIBILITY: EVIDENCE FROM CANADIAN WORKPLACE SURVEY

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ABSTRACT

Global economic competition is increasing pressure on firms to enhance workforce flexibility – the capacity of firms to alter the size and allocation of labor to tasks in response to demand fluctuations. The primary strategies for enhancing workforce flexibility are: numerical flexibility and functional flexibility (Atkinson, 1984). Numerical flexibility refers to the adjustment of workforce size by, for example, hiring of employees on non-standard contracts. Non-standard employment contracts diverge from standard full-year, full-time employment, and some common types are temporary, contract, or part-time employment (Atkinson, 1984; Davis-Blake, Broschak, & George, 2003; Kalleberg, Reskin, & Hudson, 2000). In contrast to numerical flexibility, functional flexibility refers to work design choices – either the ability to transfer labor from one task to another or to change the scope of individual tasks (Atkinson, 1984; Cappelli & Neumark, 2004).

Workforce flexibility strategies may buffer the full-time workforce or may replace them (Houseman, 2001; Lautsch, 2002). Although there is wide spread agreement that workforce flexibility strategies enhance organizational flexibility (Lepak & Snell, 1999; Matusik & Hill, 1998), empirical evidence about the relationship between various configurations of workforce flexibility and organizational level performance is fairly sparse (Connelly & Gallagher, 2004). The decision by firms to use external labor arrangements is also problematic because it comes into direct conflict with the high

performance literature which encourages employers to invest in their employees (Masters & Miles, 2002).

Recent research highlights the contributions of a firm's human resource management (HRM) activities to its effort to gain and sustain a competitive advantage. The majority of research is concerned with high performance work system (HPWS) and demonstrates its positive impact on firm performance. While specific HRM activities included in the system varies across studies, its underlying principle is to leverage high quality human resources for improved organizational performance. Employers acquire, develop, and retain productive workers and encourage them to work effectively for their firms by promoting employee commitment.

HPWS literature presents a challenge concerning the performance effects of organizational flexibility. On the one hand, functional flexibility is highly consistent with HPWS. A functionally flexible workforce has multiple skills so that employees use their discretion and employ most effective ones to perform their tasks. Employees with multiple skills are also easily transferred within organizations according to the change in organizational contexts (e.g., market demand). Thus, functional flexibility forms one key aspect of high quality human resources. On the other hand, numerical flexibility, whose underlying employment relationship is highly market-based, conflicts with HPWS. Employers may make limited investments in non-standard workforce (e.g., part-time workers, contract workers), and therefore, reduce the attachment of these workers to the employer. Consequently, numerical flexibility is less likely to offer value to organizations. While simply concluding functional flexibility is effective while numerical flexibility is detrimental may sound reasonable, it does not offer a compelling explanation about the increasing use of both types of flexibilities.

We propose two theoretical models to understand the performance effects of organizational flexibility. The first model is concerned with vertical fit (Schuler & Jackson, 1987). This model argues that the effectiveness of HRM practices varies by organizational contextual factors, particularly business strategy. The benefits of each type of flexibility are enhanced when organizations select appropriate business strategies. For instance, functional flexibility may be more beneficial when organizations focus on quality because multi-skilled workers are associated with better quality of products/services. In contrast, numerical flexibility may be appropriate when a firm pursues cost strategy because employers can reduce compensation costs (e.g. limited benefits, little training). Hence, firm business strategies as well as other organizational factors (e.g., industry, local labor market, presence of union) may serve as key variables that account for the performance effects of two types of organizational flexibility.

The second model tries to integrate two types of organizational flexibility drawing upon the human resource configurational model (Lepak & Snell, 1999) or core-peripheral model (Osterman, 1988). Both models claim that employers distinguish among positions based on the type and level of contributions they make to the firms' competitive advantage, and employers form different employment relationships accordingly. Some positions (i.e., core) are more important than others (i.e., peripheral), and consequently

employers rely on HPWS for core positions, whereas they adopt a more market-based HRM for peripheral positions. In this model, pursuing functional flexibility for core positions while maintaining numerical flexibility for peripheral positions may be one promising HRM strategy to improve organizational performance.

We empirically test our models using the data from Statistics Canada's Workplace and Employee Survey (WES). The WES includes information about workplace practices, most of which are concerned with organizational HRM activities. It is annual survey and about 6,000 establishments participated in the survey. The data includes the information about the use of both types of organizational flexibility. It also includes workplace performance information as well other firm characteristics such as business strategy, technology used, and union management. Regression analysis will be used to explore the relationship between organizational flexibility and subsequent workplace performance.

The contribution of this study is twofold. First, by integrating multiple theoretical perspectives, we offer a model of the relationship between organizational flexibility and workplace performance. Its implication is substantial to both employers and employees, given the fact that organizational flexibility forms a critical part of employment relationship. Second, our study also contributes to strategic HRM research by extending its domain and including somewhat neglected employee groups. Previous strategic HRM studies failed to address the use of non-standard workforce by focusing on either entire permanent workers (e.g., Huselid, 1995) or strategically important employee groups (e.g., Batt, 2002). Our model will illuminate the performance implications of managing non-standard workforce.

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