The strategy in the use of contingent workers in Hong Kong: case studies in retail firms

Mei Ling, May WONG
Lingnan University, Hong Kong, wongml@ln.edu.hk

Follow this and additional works at: http://commons.ln.edu.hk/hkibswp

Recommended Citation
THE STRATEGY IN THE USE OF CONTINGENT WORKERS IN HONG KONG:
CASE STUDIES IN RETAIL FIRMS

May M L WONG
Associate Professor
Department of Management
Lingnan University
Disclaimer

The responsibility for facts, languages and opinions expressed in this publication rests exclusively with the authors and their interpretations do not necessarily reflect the views or the policy of the Hong Kong Institute of Business Studies and the Business Programmes.
THE STRATEGY IN THE USE OF CONTINGENT WORKERS IN HONG KONG: CASE STUDIES IN RETAIL FIRMS

May M L WONG
Associate Professor
Department of Management
Lingnan University

Tuen Mun, Hong Kong
Telephone: (852) 2616 8318
Fax: (852) 2467 0982
E-mail: wongml@ln.edu.hk
THE STRATEGY IN THE USE OF CONTINGENT WORKERS
IN HONG KONG:
CASE STUDIES IN RETAIL FIRMS

ABSTRACT

The research studies the strategy in the use of contingent employment in four retail firms – three Japanese and one British – in Hong Kong under different economic conditions, and the purposes of the use of contingent employment. From the data of in-depth qualitative case studies, it is found that the four case firms had different organisational responses to the economic conditions from the increase of sales before the Asian financial crisis and the shrinkage of sales after the crisis, notwithstanding these firms face similar contextual environment of Hong Kong. One of such responses is the companies’ employment policies especially in their use of contingent workers. Some companies tend to have an ad hoc opportunistic response in the use of contingent workers, whilst some tend to be more strategic and had a long-term planning in their labour utilization strategy. Implications are drawn to relate the company’s responses in the use of contingent employment to the changes in the contextual environment regarding the company’s long-term development.
This paper aims to examine how the management strategies influence the use of contingent workers in Hong Kong before and after the Asian financial crisis occurred in October 1997. Most research on the contingent employment focussed on the Western developed economies that had high unemployment in the last two decades (Feldman and Doeringhaus, 1992). However, no major research has been done on the use of contingent employment in the Asian countries which changed from relatively steadily booming economies during the last two decades to declining economies since the Asian financial crisis. Contingent workers, thus, are the ‘missing persons’ in organisational research (Rotchford and Roberts, 1982) in the Asian countries. Although the historical development of contingent employment in Hong Kong was studied (Chow, 1998), no study has examined the management strategies in contingent employment in Hong Kong. Therefore, we have limited knowledge as to whether the contingent employment practices are a conscious management strategy with systematic and planned management attempts to achieve the firm’s corporate objectives, or simply ad hoc responses to prevailing social and economic circumstances.

Although anecdotal reports of contingent employment in the Western economies were abundant from an individual perspective (Beard and Edwards, 1995; Fenton-O Creevy, 1995; Hom, 1979; Jackofsky and Peters, 1987; Logan, O’Reilly and Roberts, 1973; Miller and Terborg, 1979; Steffy and Jones, 1990; Still, 1983), few studies have provided an integrated analysis of contingent employment from an organisational perspective in particular in the Asian countries. Although there are exceptions such as the research by Deery and Mahony (1994) who examined the employment strategies of a retail firm in Australia, the research was limited to employment adjustments in periods of economic difficulties.

This paper attempts to fill these gaps to illuminate our understanding of contingent employment in Hong Kong from the organisational perspective in different market contexts. This allows for a distinction to be drawn between an opportunistic and a more strategic approach to the employment strategy. Specifically, this paper focuses on examining:

- the use of contingent employment under different economic conditions, and
- the purposes of the use of contingent employment – strategy versus unplanned response to the external environment.
In this paper, firstly, the world trends in contingent employment is reviewed. Secondly, the methodology used in this research is outlined. Thirdly, the contextual factors – legislative, economic and labour market environments influencing the use of contingent employment in Hong Kong, and the background of the case firms – are outlined. Fourthly, the purposes of the use of contingent employment – whether it is a strategic choice or an opportunistic adjustment to different economic conditions – are examined. Finally, conclusions and implications are discussed.

WORLD TRENDS IN CONTINGENT EMPLOYMENT

Contingent employment is generally described as consisting of all those who are not employed on a full-time permanent basis, i.e. temporary, part-time, seasonal, leased and subcontracted workers (Belous, 1989; Beverly, 1993; Gottfried and Graham, 1993; Henson, 1996; Parker, 1994; Uzzi and Barsness, 1995). Contingent workers come from a wide range of occupations and levels in the organization, and face widely varying employment relationships. These workers vary in terms of how long they work at a particular site, how many employers they have, their level of asset specificity, and the amount of control they have over their work. It is obvious that they lack an explicit or implicit contract for long-term and continuous employment, or work the number of hours which fluctuate unsystematically (Parks, Kidder and Gallagher, 1998; Polivka and Nardone, 1989; Zeytinogulu and Norris, 1995).

In the 1970s, the use of contingent workers to fill permanent positions permanently was an infrequent practice in the industrialized nations in the West. However, by the mid-1980s, the trend of using contingent workers to fill permanent positions permanently had become popular (Pfeffer and Baron, 1988). By the end of 1980s, contingent workers constituted from a quarter in the US to a third in the UK (Fortune, 1994; Plunkert and Hayghe, 1995; Belous, 1989). Furthermore, research in the US since the economic downturn indicated that the contingent employment has spread to the ranks of managerial and professional jobs (Baker and Aldrich, 1996; DeFillippi and Arthur, 1994; Hirsch and Shanley, 1996; Mishel and Bernstein, 1994). Once thought to be confined to workers in the lowest levels of the labour market, contingent employment was reported to have spread upward. The careers of professional and managerial staff were undergoing displacement and unemployment. Reports
abound of the widespread elimination of managerial ranks, the difficulty of finding comparably paid and secure positions, and the downward mobility of professionals and managers. The middle ranks of large corporations have become the target of cost-cutting strategies, and their work is pushed into the lower levels of the firm and displaced to a contingent nature.

In the West, three major arguments were used to explain the use of contingent workers by focussing primarily on their advantages in providing 1) flexibility, 2) expertise and 3) labour cost savings. Firstly, it was argued that firms use contingent workers because they can provide numerical and financial flexibility, enabling the firms to adjust staffing levels to uncertain market demands more easily than permanent employees who expect stable employment (Atkinson, 1984; Atkinson and Meager, 1986), or who are subject to bureaucratic policies and regulations that limit their hiring and firing (Abraham, 1990). Furthermore, the use of contingent workers also reflects changes in the organization design and the adoption of new work technology that can enhance flexibility (Pfeffer, 1994).

Flexibility refers to the ability to quickly, efficiently and continuously introduce changes in a product and process. A distinction is often made between static and dynamic flexibility. Static flexibility focuses on short-term adaptability and cost cutting. Employers can achieve static flexibility by contracting the size of their core workforces and expanding their peripheral workforces to accommodate fluctuations in production and service cycles. Dynamic flexibility focuses on enhancing worker welfare and security with increased worker participation in organisational decision-making by large companies which seek to increase worker commitment and loyalty, and assume increased responsibility for company success (Deyo, 1997). Employers can achieve dynamic flexibility by encouraging participation and involvement which is targeted for core workers, who are in turn buffered from market fluctuations by the peripheral workers (Geary, 1992; Thomas, 1994; Graham, 1995).

Secondly, it was stated that contingent workers can provide functional flexibility to a firm’s employment system by contributing expertise that is costly to develop in-house or maintain if used only sporadically by the firm (Christensen, 1991). Thirdly, since the economic downturn in the West, contingent employment has been further pursued as a
strategy to cut labour and benefits costs. It provides the firms with a direct means for adjusting its variable costs relative to its competitors (Osterman, 1987; Pfeffer and Baron, 1988; Smith 1994; Harrison and Kelley, 1993).

The growth of contingent employment in the UK in the 1980s led Atkinson (1985, 1987) to argue that firms use a core-peripheral labour strategy based on the model of the ‘flexible firm’. Employers respond to external market pressures by adopting a diversified approach to their employees, incorporating the concepts of internal and external labour markets through which firms are flexible in adapting to expansion, contraction or change in the market conditions. The strategy involves the firm using core employees for the core jobs, and contingent employees for all the other non-core jobs. However, the flexible firm model was criticised for only focussing on a one-side fashion to the emergent trends in employment strategy (Walsh and Deery, 1999). Furthermore, there is little agreement among the existing research on whether the use of contingent employment constitutes a managerial strategy.

In this study, management strategy means a systematic and planned management attempts to achieve the firms’ objectives. These strategies can be inferred from the employment or labour utilisation practices of the firms. A strategic employment behaviour is characterised by the integration of labour practices with other corporate strategies and the firms’ operating environment. The contextual factors, such as the political, economic, labour market, may constrain management so that companies can only respond to ‘crises’ as they arise in an ad hoc manner. Nevertheless, within the constraints, managers are confronted with choices (Bray and Littler, 1988; Wood, 1980). Therefore, the extent to which the adopted practices incorporate the contextual factors is an important indicator of strategic behaviour.

RESEARCH METHODOLOGY

The research used in-depth qualitative case studies of four retail firms in Hong Kong to reveal the changing patterns of employment practices and the use of contingent employment over time. First, it was argued that for a study which depicted the dynamic nature of the development of employment systems and contingent employment over time, an in-depth, qualitative approach was more effective than a survey mode of inquiry that involved
the one-shot administration of questionnaires. A qualitative study could better detect the 'movement' of an employment system, tracing the changing proportions of different types of employees in the case firms over time than a survey approach (Bryman, 1989; Mouly and Ramani, 1990).

The unit of analysis for the research was the firm rather than the individual employees. The retail sector was chosen because statistics showed that retailers were active in using contingent employment (Labour Department, 1999). The four retail firms – in pseudonyms of Morioka, Tairo, Supercom and Okadaya – were selected by two criteria. Firstly, they were chosen because they were of similar nature of operation – department store (see Table 1).

Insert Table 1 here

More importantly, the second criterion was related to the firm’s ability to maximise the opportunities for differentiating between concepts. The case firms were chosen not on how representative they were in a statistical sense, but on their explanatory power and logical inference in which conclusions could be made since the sample was selected according to the 'theoretical sampling' method (Glaser and Strauss, 1967; Bennett, 1991).

A methodological measure by conducting fieldwork in two separate stages was adopted. The first stage was conducted during the latter half of 1996 when the economy was still booming. The second stage was follow-up interviews conducted in the latter half of 1998, tracing the changes in employment systems, specifically contingent employment, in the case firms after the Asian financial crisis. The retail industry in Hong Kong had gone through very drastic changes in the intervening two years (it is discussed later in Economic and Labour Market Environments).

A total of 60 in-depth interviews (15 interviews for each firm) were conducted in the first stage of interview, with respondents coming from various hierarchical levels – top management, middle management (including supervisory), and lower general (including sales) grades, and various employment status – full-time permanent, part-time, temporary, and
consignment staff. In the second follow-up stage, a total of 45 interviews (15 interviews for each firm) were conducted in Supercom, Okadaya and Tairo (as Morioka had closed down in the second stage). A similar profile of interviewees, and the same interview schedules were used so that comparisons could be made between the two stages. It is interesting to note that two part-time interviewees of Okadaya in the second stage were employed on a full-time basis in Morioka before it closed down.

This research used a positivistic rather than an interpretative approach (Eisenhardt, 1989). The interviewees were selected on ‘theoretical sampling’ “to seek events and activities guided by [their] emerging (if still primitive) theory” (Strauss, 1987: 16). The ‘theoretical sampling’ method could make comparisons implicitly and explicitly according to various theoretical categories. Furthermore, the samples in each case firm helped to form ‘analytical generalisation’ (Glaser, 1978). Although the sample size was relatively small and considered as statistically insignificant in a survey research, it could render insights in the managerial strategies of the contingent employment.

The interviews used two sets of semi-structured and open-ended interview schedule which were developed through a pre-test with 10 respondents from another British retailer (which had closed its Hong Kong operation in 2000) in Hong Kong. The first set of interview schedule was prepared for the respondents below the top management positions with different employment status, whilst the second set was for the top management. In order to achieve the first research objective, questions about the respondents’ employment conditions, such as pay, benefits, training and development, under different economic and labour market environments were asked in the first set of interview schedule. The interview schedule for the top management included questions, such as what their strategies would be if the demand for their products changed, to find out whether the use of contingent workers was a part of a broader strategy.

All interviews were recorded on tape, and transcribed. The primary data were supplemented by secondary data collected from the firm’s documents and reports, government documents, and newspaper clippings.
CONTEXTUAL FACTORS FOR THE CONTINGENT EMPLOYMENT IN HONG KONG

This section outlines the contextual factors – legislative, economic and labour market environments, and the background of the case firms. On one hand, the contextual factors can augment management to respond to the external environment when the management can adopt employment strategies which are complementary to the corporate strategies. On the other hand, the contextual factors can also constrain management so that the employment practices adopted can only respond to ‘crises’ as they arise in an *ad hoc* manner. Understanding these contextual factors helps us to analyse whether the contingent employment adopted by the case firms in different external environments are the results of planned strategies or merely opportunistic responses to the environments.

*The Legislative Environments*

There is no legislation covering contingent workers, especially the part-time or temporary workers. The Employment Ordinance in Hong Kong covers workers under a "continuous contract", which applies only to workers employed for 18 hours or more per week for four weeks or more (EIU, 1999). Apart from the mandatory provident fund which is available after having worked for the company for 60 days continuously, the part-time or temporary workers do not have any labour protections like their full-time permanent counterparts. First, the part-time or temporary workers are not protected by law to receive wages no later than 7 days after the date when such wages become due because employers are not liable for a fine of HK$10,000 which applies only to the full-time workers. Furthermore, part-time or temporary workers are not entitled to any mandatory fringe benefits provided to the full-timers including 1 rest day per calendar week, paid statutory holidays, annual-leave entitlement paid sick leave, severance pay, long-service payments, maternity leave, and retirement benefits.

Prevailing wage levels are set by supply and demand. There is no formal statutory regulation on minimum wage levels. Although the government has the power to enforce minimum wages in industries in which remuneration is ‘unreasonably low’, it has not exercised this power so far (Labour Department, 1999). Therefore, contingent workers,
especially the part-timers, have to bear the brunt of pay cut since the onset of the Asian financial crisis. After the financial crisis, the average part-time hourly rate in the retail industry has fallen to HK$10-20, as compared to HK$30-40 before the crisis (Ming Pao Daily, 1999; 2000). A survey shows that most part-timer respondents suggested the government to set a minimum wage at HK$30 per hour (Chinese Management Centre, 2000). Unfortunately, the Minimum Wage Law in Hong Kong cannot be passed due to the different political parties in Hong Kong have divergent views of the law (Ming Pao Daily, 1999). Thus, pay for part-time workers remain to be extremely low.

**Economic and Labour Market Environments**

The popular press reported that the pressure stemmed from the economic downturn after the Asian financial turmoil in Hong Kong led to declining consumer markets which in turn had triggered economic recession and unemployment (Ming Pao Daily, 1998). In the second quarter of 1999, for instance, the GDP of Hong Kong decreased by -5.2 percent (Census and Statistics Department, 1999). 83 percent of companies polled by the Census and Statistics Department in the second quarter of 1999 resorted to wage freezes or cuts. However, this means of cost cutting was not very effective among the retail firms since the average retail payroll per person climbed 2.3 percent in real terms in the second quarter of 1999 as compared to that of a year earlier (Census and Statistics Department, 1999). Therefore, under such increasing economic pressure, a third of companies in Hong Kong resorted to contingent employment while undergoing corporate downsizing and restructuring. They reduced the overall size of their permanent full-time work forces, and increasingly replaced them by contingent workers and subcontracting services to other firms. In this way, they could retain more experienced and better skilled workers, and retrench employees with less experience (EIU, 1999). As a result, part-time employment in Hong Kong had increased from 82,000 (2.8 percent) in the fourth quarter of 1997 to 116,200 (4.1 percent) in the fourth quarter of 1999 (Census and Statistics Department, 2000).

Retail firms in Hong Kong actively pursued contingent employment, with over a quarter of the part-time employees (over 30,000 persons) working in the retail sector (Labour Department, 1999). In order to revamp the declining retail sales which had dropped 8.1
percent in value and 1.5 percent in volume in 1999 as compared to that of 1998 (Census and Statistics Department, 2000), retailers resorted to use contingent employment which had enabled them to cut costs effectively because contingent workers were not entitled to any employment benefits and protection against layoff, which in turn reduced the cost of benefits and redundancy.

The increased use of contingent employment had been made easier by a growing supply of unemployed and underemployed workers in the labour market. The number of unemployed increased from 30,000 in 1997 to 110,000 in 2000 (Census and Statistics Department, 2000). The average unemployment rate in Hong Kong rose from 2.5 percent in the January-March period of 1997 to 6.3 percent in the peak in the February-May period of 1999. Labour market conditions remained to be dampened as the average unemployment rate in the July-September period of 1999 was still above 6 percent. The ending of Hong Kong's long economic recession and the renewed GDP expansion that began in the second quarter of 1999 therefore had little effect on the unemployment rate until the third quarter of 2000 where unemployment rate had decreased to 4.5 percent (Census and Statistics Department, 2000). Such labour market conditions are attractive for companies to use contingent workers.

**Background of the Case Firms**

Morioka was a wholly-owned Japanese middle- to low-end department store established in 1974. It remained dormant until its first store opened in 1984. The parent company moved its headquarters from Shizuoka, Japan to Hong Kong in 1989, and then relocated to Shanghai, China in 1996. Morioka had opened a total of eleven store outlets in various new towns of Hong Kong, Macao and the border of China. It was one of the largest Japanese department stores in Hong Kong, employing a total of 2,700 full-time employees before it declared insolvency and closed in November 1997. Some of the respondents interviewed in the first stage were subsequently found working as part-timers or temporary staff in Okadaya.

Tairo was a wholly-owned Japanese high-class department store established in 1983. It had opened its flagship headquarters store in downtown, and expanded the floor space twice in 1991 and 1996, becoming a store with the largest floor space in Hong Kong. It employed a
total of 800 full-time employees in 1998. In July, 2000, the parent company in Japan had declared bankruptcy. Although Tairo was not directly owned by the parent company, the declaration of bankruptcy by the parent company meant that Tairo would be liquidated (Chan, Mak and Leung, 2000). Eventually, Tairo had been sold to a local department store operator in December 2000.

Supercom was a wholly-owned British department store established in 1987. It operated ten store outlets in both new towns and downtown areas, and employed 1,900 full-time local employees by mid-1998. The company closed one store outlet, cut the floor space in another store, and laid off 50 local middle managers in November 1998. The firm suffered from a declining profit and share prices in its worldwide operation.

Okadaya was a wholly-owned Japanese department store established in 1986. By mid-1998, it operated six store outlets in the new town areas of Hong Kong, and employed 1,800 full-time local employees. It was the only Japanese department store which continued to expand after the Asian financial turmoil, and opened two more new store outlets in 1998. Owing to the two new stores, Okadaya needed additional sales staff, and had employed many former Morioka’s full-time employees who had become unemployed as part-timers after Morioka closed its operation. Okadaya suffered from its first profit loss since its opening in 1998/99 fiscal year due to the declining consumer market as a result of the Asian financial crisis (Annual Report, 1998/99). However, it recovered with a profit in the 1999/2000 fiscal year, maintaining its position as a market leader.

Against these contextual factors and company background, the use of contingent employment is analysed below.

**STRATEGIC CHOICE OR AD HOC ADJUSTMENT?**

In this section, the analysis draws data from two major hierarchies – lower general and middle management level – from the two stages of research in 1996 during the economic good times before the financial crisis, and in 1998 during the economic downturn after the financial
It seeks to explain whether the changes in the employment practices are a strategic or opportunistic response to the external environments during the two stages.

**Lower General Level**

**During Economic Good Times.** Before the financial crisis, all case firms had used two major types of contingent workers – part-time sales and low-end subcontracted staff – at the lower hierarchies. As a whole, they received less training, had lower promotion and career prospects than the full-time staff because they were recruited for the types of jobs requiring low skills and little responsibilities.

Before the financial crisis, the part-time staff had been growing, albeit gradually, at the lower hierarchical level to take the advantage of scheduling flexibility, matching labour inputs to peaks and trough of customer demand which was made easier by the introduction of retail sales technologies in Okadaya, Supercom and Taibo. For example, Okadaya used to employ 10 percent part-time employees when it started its operations in Hong Kong in 1987. During the six-year period between 1987 and mid-1993, part-time staff had only been increased 5 percent from 10 percent to 15 percent. Since early 1993, Okadaya implemented a business strategy adopted from the head office called the ‘man-hour’ policy. During the three-year period from 1994 to 1997 after the introduction of the ‘man-hour’ policy, part-time staff had increased 10 percent from 15 percent to 25 percent. According to the Personnel Manager,

One of the major strategic measures used is the contingent employment under our ‘man-hour’ policy. We adopt the electronic point of sales technology to make sure that the ‘man-hours’ of the store can be converted to a rosta system which can be covered by the contingent workers.

Interviews with the top management of Okadaya, Supercom and Taibo indicated that the introduction of retail technologies which had facilitated the use of contingent employment involved major capital investment decisions. Such decisions were made often after a lengthy process of strategic planning.

However, jobs for the contingent, especially part-time, staff were strategically located at the entry-level and is dead-end. Furthermore, the career development for part-time staff
was much more limited compared to full-time workers as they always had difficulty to
develop their career until they were promoted or transferred to full-time employment. For
example, a part-time female sales staff of Tairo said.

I have been working for the company more than 10 years. I chose to work part-time at
the beginning because my children were young then. Now they have grown up, and I
can devote more time to learn new tasks. I have indicated several times to my
supervisor that I want to participate in some training. However, he said that the
training is not for part-time staff. If you want to receive the training, you have to
change to work full-time.

The feelings of working in underprivileged employment conditions could undermine
the morale of part-time staff, leading to lower morale and organisational commitment and
resulting in higher hidden costs in the part-time employment. Thus, the presumed benefits of
static flexibility from the use of contingent workers were offset by the increased hidden costs.

On the other hand, Okadaya provided part-time sales staff the same amount and same
types of training as their full-time counterparts. More importantly, the managing director of
Okadaya said,

Part-time workers have become a major component of our workforce. We treat them
in the same way as the full-timers because they perform the major business activities
in the company . . . We have nearly a quarter of our part-time workers who have been
working for us for more than 10 years. Among them, 10 percent have been working
since our first store opened in 1987. They are part of our permanent workforce now.

The part-time workers in Okadaya were neither substitutable nor interchangeable
employment forms. In effect, Okadaya regarded part-time workers as their core workforce,
especially those with a so-called 'permanent' contract. As Purcell (1999: 248) stated, “There
is no reason why part-timers should not be part of the core workforce”. It shows that Okadaya
adopted this employment strategy with a systematic, planned management attempt to achieve
its corporate objectives.
The second type of contingent workers used at the lower level is consignment staff. The three Japanese firms subcontracted various low-level tasks through consignment contracts with external consignment companies. It was evident that Morioka adopted a strategy to have a large number of consignment staff since it consigned out more than 70 percent of the stores’ total floor space. The Japanese management of Morioka said,

The consignment policy is a type of externalisation of work. I believe it can help us save a large amount of money in recruiting, hiring, paying and training consignment staff. Most importantly, we can receive a guaranteed amount of income disregarding the sales level of the consignment counters.

Morioka used this policy as a strategy to transfer business risks to the consignment firms. However, the managing director of Okadaya pointed out that such consignment policy was the major factor leading to Morioka’s collapse:

Morioka was a landlord rather than a retailer. It operated business through gathering rents from the consignment companies. Since each consignment company has its own management style and work practices, the whole department store ended up looking like a big shopping arcade, without a unifying corporate identity. Customers couldn’t remember what’s special in the store, and thus would not go back shopping again.

On the contrary, Okadaya limited its consignment counters to less than 10 percent of its total floor space areas. Even though Taïro needed to maintain a reasonably higher proportion of consignment counters for branded products since it operated a high-class department store, consignment counters had never exceeded 30 percent of its total floor space. Supercom operated in a ‘100 percent house brand’ policy. It did not have any consignment staff. It shows that it was a strategic choice made by these three firms to minimise the number of consignment staff so as to achieve the corporate objectives in having a more direct management control of its staff, and a unique corporate image and positioning in the market.

**During Economic Bad Times.** After the financial crisis, a major change in contingent employment can be identified to be related to the intensification of the use of part-time staff. For example, Okadaya had doubled its use of part-timers in a matter of only one and a half years from 25 percent in 1997 to 50 percent by the end of 1998. The drastic increase was to
offset its first loss in profit in 1998. The use of contingent employment was considered by the management as one of the major factors for the continuous business success of Okadaya. In the announcement of 1999/2000 annual results, the managing director of Okadaya stated,

[Our] total sales turnover had increased by 18.5 percent amounting to HK$3,277 million in comparison to last year’s figure of HK$2,765 million. During the year under review, the Group recorded a profit of HK$32.5 million against a loss of HK$23.3 million in the previous year (Annual Report, 1999/2000).

The managing director attributed their success to the adoption of various strategic measures to cut costs: “We carry out . . . persistent and efficient cost control system . . . [in order to] maintain a leading position in the industry” (Annual Report, 1999/2000).

Tairo also employed a high ratio of part-time staff, increased from 30 percent of the total number of employees in 1997 to 50 percent in end of 1998. The managing director of Tairo explained, “We use more part-time staff to replace full-time ones for minimising labour costs”.

The drastic increase of part-timers after the economic downturn had several unexpected results affecting the effective use of contingent employment. First, a majority (more than 80 percent) of the part-time interviewees commented that the rapid growth in the number of part-timers since the economic downturn had made their prospects to acquire a full-time employment more difficult. A part-time staff working in the Fast Food Department of Tairo said,

In the past, I have seen many part-time staff promoted to full-time employment on the basis of performance and commitment. Now, we have much more part-time staff recruited recently and most of them used to work full-time before they became unemployed. They work very hard because they want to get a full-time status. Thus, it has become very competitive for us to acquire a full-time status.

Second, owing to the hourly pay for the part-timers had greatly reduced from 40-60 percent after the crisis, all case firms responded opportunistically to increase the use of part-timers. Some part-timers reported that they received HK$11 per hour only. Since many part-
timers recruited after the crisis used to be employed full-time, they tended to compare their employment conditions to those they received when they were employed as full-timers before they became unemployed. Therefore, the salary cut, and the lack of promotion and career prospects as a result of taking up part-time jobs involuntarily had negative psychological impacts on the performance of the part-timers recruited after the crisis. Furthermore, these newly employed part-timers also compared their wage to that of the older part-timers who were employed before the crisis which was normally much higher. It is not surprising to find that lower job satisfaction, organisational commitment and morale had become major problems among the involuntary part-time workers, resulting in higher hidden costs.

Third, the extensive use of contingent workers, especially the part-time workers, have another negative impacts on human resource initiatives designed to foster employee commitment (Blyton, 1996; Lee and Hoon, 1993). Under the pressure of bankruptcy and downsizing in many retail firms, many (more than half) full-time sales respondents began to feel hostile to contingent workers as they perceived the part-time workers as a threat to their employment security. The status divide between the full-time and contingent workers could create animosity that undermined teamwork and cooperation (Geary, 1992).

These unexpected negative outcomes from the increased use of part-timers after the financial crisis implies a lack of planning as the management had only responded to pressure arisen from the financial crisis in an ad hoc rather than a systematic manner. The intensified use of part-time employment after the economic downturn was more related to an opportunistic response for survival. Although employing more part-time workers could help the case firms to minimise costs, it had incurred higher hidden costs.

Middle Management Level

During Economic Good Times. Before the financial crisis, Morioka and Taizo tended to have most local full-time staff casualised as they were employed in an inferior human resource management practices – lower pay, fewer promotion, training and development opportunities – compared to their counterparts in Okadaya and Supercom. The use of large numbers of consignment staff in the managerial level by Morioka indicated that it did not
have a long-term labour utilization strategy because it merely externalised most risk and management of staff to external firms rather than directly controlling and managing the use of labour.

A majority (over 90 percent) of local full-time staff from Morioka and Tairo expressed dissatisfaction with their employment conditions in terms of promotion opportunities and career development. They felt that they were employed in more inferior terms than the Japanese. This employment practice was related to the business strategy, especially the international management strategy of many Japanese firms. Many Japanese firms adopted an ethnocentric strategy to maximise the control of the parent company in order to integrate overseas subsidiaries at the cost of local responsiveness (Houseman and Osawa, 1998; Kidahashi, 1987; Koike, 1983a and 1983b; Littler, 1983). The parent companies placed Japanese expatriates in key management positions and centralised decision making in the subsidiaries (Perlmutter and Heenan, 1986). Therefore, in Tairo and Morioka, only Japanese expatriates were regarded as core employees because they were the major bridge of communication to the head office in Japan, while local staff as peripheral (Trevor and White, 1983; Hayashi, 1978; Hishinuma, 1986; Phatak, 1989; Beechler and Iaquinto, 1994).

Okadaya and Supercom, on the other hand, employed a geocentric business strategy which incorporated local staff as the core employees because the firm attempted to increase its responsiveness to local needs. The strategy could strike a balance between the maximisation of benefits from local responsiveness by making fuller use of local managers to make strategic decisions in the subsidiary and global integration (Perlmutter and Heenan, 1986). It is evidence that the active use of technology in Supercom and Okadaya had also made the firms to use a localised employment system which was complementary to the geocentric business strategy. Since the late 1980s, both companies perceived that the labour turnover costs of local professionals and managers considered through lateral job hopping to another company as high because their skills and knowledge were valuable assets to the company’s introduction of retail technologies and competitiveness. Both companies employed local professionals and managers as the core staff who were neither deskilled, casualised nor replaced by contingent workers like the other lower-skilled local full-time employees. They could get promoted to senior managerial positions, had better pay, training and development opportunities.
As a whole, many local managers and professionals in Morioka and Tairo had been employed in a contingent basis because they had little control of their work. On the other hand, very few of them in Okadaya and Supercom were employed in the contingent sector before the financial crisis. The local managers and professionals in Morioka and Tairo had much lower job satisfaction, motivation, organisational commitment, and higher labour turnover than their counterparts in Okadaya and Supercom (Wong and Hendry, 1999). It shows that the adoption of business strategy could influence the effectiveness of the firm's employment practices.

During Economic Bad Times. After the financial crisis, contingent work had expanded into better paid managerial work in Supercom and Okadaya which were formerly considered as suitable for full-time permanent employees only. Some local core managers of the British firm were either laid off or demoted, replaced by an increasing number of part-time staff after the financial crisis. Furthermore, some local professional staff of Okadaya and Supercom were casualised as they were transferred to an outside information technology firm as high-end subcontracted staff. Contracting-out the technologies to outside firms was a strategy which had enabled the firms to get access of a wide range of the technologies and expertises whilst not risking a large fixed investment. As a result, many managers and professionals were pushed into lower levels, and displaced to contingent nature. The displaced staff were demotivated as they felt they were no longer valued by the company.

For many managers and professionals who remained to be employed on a permanent, secure basis after the Asian financial crisis said that they felt they were increasingly expected to behave like subcontracted workers. A manager of Supercom said,

The top management told us to think as we are employed as entrepreneurs or as self-employed. We have to continually ask how we can add more value to the work and the company. We have to self-monitor our performance as well. Before the economic downturn, we used to be appraised by our superiors once every 6 months. Now, we not only have more performance appraisal in every 3 months, but have to submit self appraisal to our boss every month.
Many (more than 60 percent) managers and professionals who were not casualised said that they realised they could only remain in the firm as long as their expertise could serve the firms’ needs. Some said that they felt more like the subcontracted staff than core staff. They began to feel the stress as to whether they would be the next ones to be displaced to the contingent level. This obviously had offset the benefits of dynamic flexibility derived from the human resource initiative of organisational commitment among these core workers.

The negative outcomes resulted from the displacement of many local professional and managers to the contingent levels after the financial crisis implies a lack of strategic plan in the labour utilisation practices. All case firms had to respond to spread the contingent employment upward in an opportunistic manner for cost-cutting. However, they neglected the increased hidden costs from such move would offset the benefits from static and dynamic flexibility.

To sum up, the use of contingent employment before the economic downturn reflects the outcome of a strategic choice of business strategy to achieve greater flexibility in organisational structures and employment practices. After the Asian financial crisis as a result of intensified pressure and greater market uncertainty, employers opportunistically responded to the changing contextual environment by seeking a greater cost-effectiveness from their human resources. In an endeavour to reduce their employment costs, employers re-evaluated the efficiency of the full-time employment, and opted to further expand the use of contingent employment, which had been made easier with the increasing supply of unemployed and underemployed workers in the labour market.

CONCLUSION AND IMPLICATIONS

This study suggests that there is an overall effect of increasing economic pressure, competition and job deskilling in the retail industry in Hong Kong. Drawing on the evidence from the case firms, this paper can generalise that the employment systems used by the retailers in Hong Kong are not simply bifurcated, and are not totally a planned business strategy as described in Atkinson’s (1985) model of the ‘flexible firm’. In practice, the practice of Okadaya allocating part-time workers to the internal labour market shows a greater
sophistication in the labour utilization policies than is indicated by the model (Walsh, 1990; Walsh and Deery, 1999).

Furthermore, it can be observed that, before the financial crisis, two Japanese case firms – Morioka and Tairo – seemed to have been guided by a strategy to divide employees into core (Japanese) and peripheral (local) workers mainly from the national origins of the employees. On the other hand, Okadaya and Supercom were guided by a strategy to divide employees into core (full-time permanent) and peripheral (contingent) workers mainly from the employment status. It implies that the international management strategies have a strong impact on the labour utilisation strategy in the case firms (Hunter, McGregor, Maclnness and Sproull, 1993).

Before the financial crisis, contingent employment has already been widely used in the retail firms in Hong Kong. It is a worldwide trend of labour-market flexibility practices which have been an on-going workforce flexibility process as a result of the continued shift in the structure of economies from manufacturing to service sector during the last decades (Chow, 1998). Similar to the world trends of contingent employment since the economic downturn, contingent employment in Hong Kong has also spread upward to the managerial and professional ranks.

It was argued that the use of contingent labour in Hong Kong leads to the benefits of numerical flexibility through achieving static flexibility (Chiu and Levin, 1995; Chiu and Lui, 1994). However, this study finds that the benefits from the use of contingent employment may be enhanced or diminished based on whether the firm use the contingent workforce in a strategic or an opportunistic manner. It is argued that job and organizational characteristics moderate the relationship between benefits/costs and the use of contingent workers, suggesting that structural constraints diminish the potential cost savings to the firm provided by contingent workers (Tilly, 1992). Morioka used large numbers of consignment and part-time staff for their static flexibility from the lower recruiting, insurance and fringe benefit costs than those for permanent workers. However, it is reported that a high turnover rate among the company’s contingent workers has disrupted the workflow as most jobs are interconnected. Furthermore, contingent workers usually have lower job satisfaction,
motivation and organisational commitment. Thus, the opportunistic use of contingent workers results in a high ‘hidden or indirect costs’ which have offset the benefits from static flexibility (Allan, 2000).

On the other hand, Okadaya managed to reap more benefits of flexibility from the use of contingent employment than Morioka because of its better planned, and more systematic use of employment strategies. Okadaya tended to enhance the contingent employment policy by its ‘social technology’, i.e. the managerial and bureaucratic procedures which had enabled the firm to minimise the risk of low-quality performance by some contingent workers who had little commitment to the organization (Uzzi and Barsness, 1998). In addition, Okadaya could also achieve dynamic flexibility from the part-time workers because of its strategy of treating them, especially the so called ‘permanent’ part-time ones, as equal to core workers.

Since the Asian financial crisis has caught many firms to respond to the external environment in an ad hoc unplanned manner by a sudden drastic increase in contingent employment. Although it is argued that firms can achieve functional flexibility by externalising expertise which is costly to develop internally (Christensen, 1991), many core workers have become suspicious and worried that they will be the next to be casualised and externalised. Many core workers have decreased their commitment and loyalty to their firms. The unplanned use of contingent employment after the financial crisis has disabled many firms to achieve dynamic flexibility. Furthermore, it has also incurred an increased amount of hidden costs in using contingent workers.

To conclude, all case firms have disintegrated vertically by casualising labour inputs that are formerly employed in the inner part of labour market. This has increased the demand for contingent labour, and for more experienced and skilled staff selling their expertise and know-how to retail companies on a non-permanent basis. The new labour market is structured around core workers, experienced or skilled contingent workers, low-skilled contingent workers, and external workers (Noyelle, 1990). The core is shrinking to accommodate only a selected group of top managers who continue to enjoy mobility opportunities within the firm.
Furthermore, since the economic downturn, contingent workers, especially the part-timers, are expanding but almost all of that growth has taken place in the ranks of involuntarily employed part-timers (Tilly, 1991; Tilly 1992). Among the 103,400 underemployed workers, 28,000 (27 percent) were reported to be involuntary part-time employees as they indicated that they could not find full-time jobs (Census and Statistics Department, 2000), there are several implications which deserve employers to pay attention to. First, the increased use of contingent employment in firms in Hong Kong implies that more complicated employment issues may occur in firms. As more contingent workers who wish to work full-time are forced to work on a part-time employment status because they cannot find full-time jobs in the labour market, these involuntary part-timers may demonstrate lower job satisfaction, motivation and organisational commitment (Armstrong-Stassen, Al-Ma’ai`atah, Cameron and Horsburgh, 1998; Lee and Johnson, 1991; Krausz, Brandwein and Fox, 1995).

Second, the trend of increased contingent employment has another implication for the gender composition of contingent, especially the part-time, work. As employers have structured more jobs on a part-time basis and fewer as full-time, the proportion of people working part-time involuntarily has increased in a large proportion, and the number of men working involuntarily in part-time positions has risen as well because they have been unable to obtain full-time employment.

As a whole, given the growing numbers of the contingent workers which have become a major component of the workforce in Hong Kong, it implies that firms are desirable to become more aware of the welfare and employment conditions, particularly the involuntary part-timers.

The current study is an exploratory study of contingent employment in foreign-owned retail firms in Hong Kong. Like most exploratory studies, this research opens up as many new questions as it answers. First, the findings may not be generalised to retail firms of other national origins, especially the local- or Chinese-owned firms because the head offices of Japanese and British firms are known to use contingent employment extensively (Chalmers, 1989; Horwitz and Smith, 1998; Houseman and Osawa, 1998; Kidahashi, 1987; Koike, 1983a and 1983b; Littler, 1983) which may have an effect on the composition of the labour force and
employment systems in their subsidiaries in Hong Kong. Therefore, further research is needed to be conducted to incorporate local- or Chinese-owned firms.

Furthermore, since employers increasingly use contingent employment as a means to lowering direct labour costs, the hidden costs involved in contingent employment, such as lower job satisfaction, motivation and organisational commitment, may undermine quality standards and the attainment of business strategies, especially among those who are forced to take up contingent employment involuntarily (Allan, 2000). Therefore, further studies in the attitudes and behaviour of different types of contingent workers, based on their preferred employment status, will be essential for making fuller use of the contingent workers in future.
REFERENCES


### Table 1

The Profile of Case Companies (as of 2000)

<table>
<thead>
<tr>
<th></th>
<th>Morioka</th>
<th>Okadaya</th>
<th>Tairo</th>
<th>Supercom</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year of First Store Opened</td>
<td>1984</td>
<td>1987</td>
<td>1984</td>
<td>1988</td>
</tr>
<tr>
<td>Length of Operation</td>
<td>16</td>
<td>13</td>
<td>16</td>
<td>12</td>
</tr>
<tr>
<td>Ownership</td>
<td>100% J</td>
<td>100% J</td>
<td>100% J*</td>
<td>100% B</td>
</tr>
<tr>
<td>No. of stores (as of Oct 97)</td>
<td>11</td>
<td>4</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>No. of stores (as of Oct 98)</td>
<td>0</td>
<td>6</td>
<td>2</td>
<td>9</td>
</tr>
</tbody>
</table>

Source: compiled by the author based on the company reports.

* Because it was sold to a Hong Kong Chinese, Tairo has became a local department store since December 2000.
<table>
<thead>
<tr>
<th>Series No.</th>
<th>Title</th>
<th>Author(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>HKIBS/WPS/</td>
<td>Pre-commitment vs Flexibility: Uncertainty And Distribution Reform in P. R. China (published in Journal of Socio-Economics, 1997, Vol 26, No 1)</td>
<td>Clement Kong-wing CHOW</td>
</tr>
<tr>
<td>004-967</td>
<td>Endogenous Sequencing in Strategic Trade Policy Games under Uncertainty (published in Open Economies Review, 1997, Vol 8, No 4)</td>
<td>Kit-pong WONG and Clement Kong-wing CHOW</td>
</tr>
<tr>
<td>007-967</td>
<td>Women’s Employment Status in Two Japanese Retail Stores in Hong Kong (published in Women in Management Review)</td>
<td>May M L WONG</td>
</tr>
<tr>
<td>008-967</td>
<td>Organisational Effectiveness in Higher Education: Towards An Operational Definition</td>
<td>James S POUNDER</td>
</tr>
<tr>
<td>009-967</td>
<td>Case Studies on Pitfalls of Total Quality Management in Hong Kong</td>
<td>Chun-kit LIU, Kit-man CHAN and Mei-ye CHAN</td>
</tr>
<tr>
<td>010-978</td>
<td>從共到私有企業：中國勞資關係的轉型</td>
<td>周國強</td>
</tr>
<tr>
<td>011-978</td>
<td>優柔寡斷及失去人生樂趣賠償法律比較</td>
<td>周國強</td>
</tr>
<tr>
<td>012-978</td>
<td>從公有到私有企業：中國勞資關係的轉型</td>
<td>周國強</td>
</tr>
<tr>
<td>013-978</td>
<td>Eastern Traditional Business Values: Mercantile Patron Gods in Hong Kong</td>
<td>Kwok-keung CHOW</td>
</tr>
<tr>
<td>015-978</td>
<td>A Study on Employees Retraining Programmes in Hong Kong (published in Employee Relations 1998, Vol 20, No 4)</td>
<td>May M L WONG</td>
</tr>
<tr>
<td>020-978</td>
<td>中港兩地痛楚及失去人生樂趣賠償法律比較</td>
<td>周國強</td>
</tr>
<tr>
<td></td>
<td>承判制度與僱傭福利</td>
<td>周國強</td>
</tr>
<tr>
<td>Series No.</td>
<td>Title</td>
<td>Author(s)</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------------------------------------------------------------</td>
<td>-----------------------------------------------------</td>
</tr>
<tr>
<td>021-978</td>
<td>A Framework for Effective Commercial Web Application Development</td>
<td>Ming-te LU and Wing-Iok YEUNG</td>
</tr>
<tr>
<td>022-978</td>
<td>Job Turnover in China: A Case Study of Shanghai's Manufacturing</td>
<td>Clement Kong-wing CHOW, Michael Ka-ying FUNG and</td>
</tr>
<tr>
<td></td>
<td>Enterprises</td>
<td>Hang-yue NGO</td>
</tr>
<tr>
<td>023-978</td>
<td>Aids, Employment Rights and Policies in Hong Kong</td>
<td>Kwok-keung CHOW</td>
</tr>
<tr>
<td>024-978</td>
<td>Factors Affecting Joint Venture Performance in China</td>
<td>Edward Yiu-tim WONG</td>
</tr>
<tr>
<td>025-978</td>
<td>香港僱員假期的全面修正</td>
<td>周國強</td>
</tr>
<tr>
<td>026-978</td>
<td>性別歧視招聘廣告：《性別歧視條例》實施後的情況</td>
<td>周國強</td>
</tr>
<tr>
<td>027-978</td>
<td>Knowledge and Skills of I.S. Graduates: A Hong Kong Perspective</td>
<td>Ming-te LU, Chi-wai CHUNG and Pien WANG</td>
</tr>
<tr>
<td>028-978</td>
<td>Organisational Self Assessment in Higher Education</td>
<td>James S POUNDER</td>
</tr>
<tr>
<td>029-978</td>
<td>Small Businesses and Liquidity Constraints in Financing Business</td>
<td>Clement Kong-wing CHOW and Michael Ka-ying FUNG</td>
</tr>
<tr>
<td></td>
<td>Investment: Evidence from Shanghai's Manufacturing Sector</td>
<td></td>
</tr>
<tr>
<td>030-978</td>
<td>Comparing International Human Resource Management Practices between Yaohan and Jusco in Hong Kong</td>
<td>May M L WONG</td>
</tr>
<tr>
<td>031-989</td>
<td>Organisational Learning through International Assignment in Japanese Overseas Companies</td>
<td>May M L WONG</td>
</tr>
<tr>
<td>032-989</td>
<td>Further Sufficient Conditions for an Inverse Relationship between Productivity and Employment</td>
<td>Clement Kong-wing CHOW and Kit-pong WONG</td>
</tr>
<tr>
<td>033-989</td>
<td>集體協議的法律效力</td>
<td>周國強</td>
</tr>
<tr>
<td>034-989</td>
<td>Consumption Patterns of Entrepreneurs in People's Republic of China</td>
<td>Clement Kong-wing CHOW, Michael Ka Yiu Fung and H Y Ngo</td>
</tr>
<tr>
<td>035-990</td>
<td>Corporate Taxation and the Investment Location Decisions of Multinational Corporations</td>
<td>Richard S SIMMONS</td>
</tr>
<tr>
<td>036-990</td>
<td>An Investigation Into Whether a Link Exists Between Corporate Taxation and International Flows of Direct Investment</td>
<td>Richard S SIMMONS</td>
</tr>
<tr>
<td>037-990</td>
<td>Hedging and Nonlinear Risk Exposure</td>
<td>Clement Kong-wing CHOW, Udo BROLL and Kit Pong WONG</td>
</tr>
<tr>
<td>038-990</td>
<td>Employee Casualisation in Department Stores in Hong Kong</td>
<td>May M L WONG</td>
</tr>
<tr>
<td>039-990</td>
<td>Employment Strategy: Comparing Japanese and British Retail Companies in Hong Kong</td>
<td>May M L WONG</td>
</tr>
<tr>
<td></td>
<td>(forthcoming in Asia Pacific Journal of Human Resources)</td>
<td></td>
</tr>
<tr>
<td>040-001</td>
<td>The Chinese At Work: Collectivism Or Individualism?</td>
<td>Edward Yiu-tim WONG</td>
</tr>
<tr>
<td>041-001</td>
<td>Moral Atmosphere and Moral Influence in China’s Transitional Economy</td>
<td>Robin Stanley SNELL</td>
</tr>
<tr>
<td>Series No.</td>
<td>Title</td>
<td>Author(s)</td>
</tr>
<tr>
<td>-----------</td>
<td>----------------------------------------------------------------------</td>
<td>-------------------------</td>
</tr>
<tr>
<td>042-001</td>
<td>Developing as a Learning Organization: A Hong Kong Case of Sensegiving and Career Contracts</td>
<td>Robin Stanley SNELL</td>
</tr>
<tr>
<td>043-001</td>
<td>The Strategy in the Use of Contingent Workers in Hong Kong: Case Studies in Retail Firms</td>
<td>May M L WONG</td>
</tr>
</tbody>
</table>

Feb 2001
The Working Paper Series is jointly published by the Hong Kong Institute of Business Studies and the Business Programmes at Lingnan University. It fosters the establishment of alliances and partnerships with local, regional and international tertiary institutions for academic development and exchange.

**Business Programmes**

The Business Programmes consist of four Departments:

- Department of Accounting and Finance
- Department of Information Systems
- Department of Management
- Department of Marketing and International Business

To meet the growing demand for business graduates, the Programmes offer integrative and specialisation courses leading to the Bachelor of Business Administration (Hons.) degree.

**Hong Kong Institute of Business Studies**

The Hong Kong Institute of Business Studies was established in September 1996 by amalgamating the former Centre for International Business Studies and the Centre for Entrepreneurial Studies. It is a research arm of the Business Programmes and has a clear mandate to support research activities in business studies.

The HKIBS currently has six research clusters. They are:

1. Accounting and Finance in Asia
2. Business Environment Analysis
3. China Business Studies
4. Chinese Management in Asia
5. Information Technology and Systems Studies
6. Organisational Process and Performance Assessment

Each cluster envelops a number of related projects.