

What's in the Firm Size? Relationship between Firm Size and Type of Non-Standard Employment*

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Non-standard employment is a contradictive phenomenon. Many firms adopt various forms of non-standard employment whereas most societies agree that the employment trend aggravates working condition. Hiring non-standard workers, firms can enhance its flexibility in response to market demand changes and reduce labor cost. However, there is a possibility that the firms' legitimacy can be damaged especially among big firms that are more visible than the others. In this article, I investigated the relationship between indirect contract type of non-standard employment and firm size. Using indirect employment contract leaves responsibility related to employment beyond the firm's boundary while attenuates control over the employees. Establishments that are affiliated to big firms will indirect to direct form of non-standard employment because of legitimacy issue. Data from the Work Panel Survey of Korea Labor Institute confirm the importance of indirectness of employment contract in big firms. The establishments of conglomerates prefer indirect form to direct form of non-standard employment compared to small and medium size firms' affiliations.

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I . Introduction

Non-standard employment is placed in controversy. Many economists pointed out that rigidity in the labor market is one of the critical factors of the poor performance of the labor market (e.g., Blanchard & Wolfers, 2000). Facing rapid change of environment firms need to have more flexibility in their business operations, and global competition stimulates the firms to reduce labor cost at the same time, resulting increase of using non-standard work arrangement (Lautsch, 2002). However, some people call this seemingly a natural direction of employment evolution for firms a social problem and many societies try to protect non-standard workers by enacting laws, because non-standard workers' working conditions and compensations tend to worse than standard workers (Nienhuser & Matiaske, 2006).

Firms are economic institutions and social actors at the same time so they have to obtain profitability as well as social legitimacy to survive (Bitektine, 2011; Washington & Zajac, 2005). Even if using non-standard employment is a general situation, it could lead unexpected results that harm a firm's legitimacy as a member of the society in the long time. Especially for the firms who are more visible in the community, big companies, maintaining their reputation can be critical. Firm size is directly related to reputation (Fombrun & Shanley, 1990). Reducing jobs such as restructuring tarnishes reputation of a firm (Osterman, 1988) and a firm who has high reputation receives more market penalty than a firm with low reputation when the firm discloses its defect (Rhee & Haunschild, 2006). Keeping reputation gives various beneficial to firms (Rhee & Haunschild, 2006) and especially, firm reputation gives better chance to select good workers with increased quality of applicants (Turban & Cable, 2003). A large organization sets a higher performance standard that raises labor productivity so need quality workers (Oi & Idson, 1999). Thus, non-standard employment could be a double-edged sword for big firms.

Empirical studies reported inconsistent evidence in the relationship between firm size and non-standard employment. For example, Davis-Blake and Uzzi (1993) reported that big firms tend to less use temporary workers whereas Cappelli and Keller (2013b) found out that bigger firms use more temporary agency workers. This may partially due to the differences in classifying various type of the employment. In this paper, I will focus on direct and indirect form of non-standard employment to show the importance the social factor. Indirect employment is a type of employment that there is an intermediary between a worker and employer who actually gives jobs for the worker, such as temporary help agency, leased employment, and in-house contract. Direct employment includes standard employment and some type of non-standard employment such as temporary work and part-time work that the workers sign an employment contract with the firm he or she actually works for. Whether contracting with a firm who works for directly is important because through third parties, firms can dilute a stain that they provide unsecured jobs at the cost of reduced control over the workers.

The purpose of this paper is to extend our knowledge of the mechanism of non-standard employment. Focusing on the meaning of firm size and type of employment, I argue that big firms tend to use indirect form of non-standard employment more to protect their reputation. Data from the Workplace Panel Survey provides the evidence that establishments of conglomerates were more likely to use indirect form rather than direct form of non-standard employment. Small establishments showed the same pattern but they also used direct form of non-standard work arrangements more than the other establishments.

II. Theoretical Background

1. Types of Non-standard Employment

Temporary work, leased employment, contract work, part-time work, and so on. Calling these work arrangements atypical employment, non-standard work relations, or nontraditional employment relations (see. Kalleberg, 2000), a lot of researchers have been interested in the rapid increase of using non-standard work arrangement. However, our knowledge about the mechanism of non-standard employment is somewhat vague, partially due to the difficulty in classifying various type of the employment (Cappelli & Keller, 2013b). Investigating the determinants of non-standard employment as a whole is not sufficient to show why firms use various form of employment with what reasons. There are only few empirical studies shed light on the differences between types of non-standard employment. For example, Davis-Blake and Uzzi (1993) distinguished independent contractors from temporary workers, focusing skills and experts that workers have. Cappelli and Keller (2013b) reported various types of non-standard employment but they focused on overall non-standard employment rather than differences of determinants for each type.

Work arrangements are different from each other and can be classified by some dimensions such as part-time or full-time, temporary or regular, and direct or indirect (see. Cappelli & Keller, 2013a). Among various dimensions, the current paper focuses on indirectness of non-standard employment contract. Indirect form of non-standard employment makes the relationship of employer and employee more complex. In indirect form of non-standard employment, employees who work for a focal firm are hired by a third party such as agencies so the directive control and legal responsibility of workers are shared between the focal firm and the intermediary firm (Cappelli & Keller, 2013).

Through non-standard employment, firms expect to have more flexibility and

reduced labor cost that comes to enhancing their market competitiveness (Lautsch, 2002). Using intermediaries can be seen even more efficient way to bring about cost reduction because the third party takes charge of recruiting and paying wage for workers that lighten the work load of management and human resource department of a user firm, putting employment related responsibility beyond the firm's boundary (Pfeffer & Baron, 1988). Although indirect form of work arrangement seems to economic way of hiring, it is just a type of employment that would never substitute direct form of it because a firm have to control its workers, and that is the reason why firms are exist. User firms can obtain more right to control indirect workers through negotiation with intermediaries but it is followed by cost. Pfeffer and Baron (1988) pointed out that intermediaries rarely direct workers after assign them to clients but the clients still sharing the right to control workers. Then, why do firms use indirect type of non-standard employment rather than direct type of one?

2. Firm Size and Non-standard Employment

1) Big firms

Mangum, Mayall, and Nelson (1985) argued that large companies have more rationalized HR practices and are better able to identify where non-standard workers can be used efficiently than small companies. Those HR practices such as redeployment and wage-peak system also can help firms to achieve flexibility and reduce labor cost. Big firms need more organizational commitment because they tend to have more bureaucratic employment practice, having pressure for workforce stability (Davis-Blake & Uzzi, 1993). However, firm size is related to speed of new technology adoption (Oi & Idson, 1999) that substitute and simplify routine tasks in the workplace (Acemoglu & Autor, 2011). Complex job are difficult to monitor and typically interdependent with other jobs (Davis-Blake & Uzzi, 1993) so big firms would likely have as many

non-standard workers as they want with their more rationalized HR practices (Mangum, Mayall, & Nelson, 1985), under the condition that there are no one who watches them.

Big firms tend to show higher productivity and profitability (Ju & Jo, 2006; Oi & Idson, 1999), and have higher reputation (Fombrun & Shanley, 1990). Reputation of an actor is an overall evaluation of the actor's capabilities that is formed by third parties who are comparing the actor with its competitors (Fombrun, 1996; Fombrun & Shanley, 1990). Many researchers argued the importance of reputation for growth and survival of an organization and suggested that high reputation of an organization grant benefits to the organization; to protect incumbents from new competitors (Milgrom & Roberts, 1982), to place high price on firms' products (Podolny, 1993), and to select good workers with increased quality of applicants (Turban & Cable, 2003), for example. Losing reputation means weakening competitive advantage which would never desirable for a firm, and it is even worse for large firms because who has high reputation receives more market penalty than a firm with low reputation when the firm discloses its defect (Rhee & Haunschild, 2006).

According to theorist, reputation is closely related concept to legitimacy. Legitimacy is a historical legacy that leads acceptance of norms given to organizations whereas reputation indicates the order of quality among competitors by the firms past business activities (Bitektine, 2011; Deephouse & Carter, 2005; Deephouse & Suchman, 2008; Washington & Zajac, 2005). Therefore, accumulation of bad reputation can lead losing legitimacy in the long run.

Although some literature argued that non-standard employment is needed by firm and we have to see its positive effects, for many other researchers and societies, it is a social problem (Lautsch, 2002; Nienhuser & Matiaske, 2006). So Non-standard employment is not fully legitimated in contemporary world. Reducing jobs such as restructuring tarnish reputation of a firm (Osterman, 1988) so providing too much direct form of non-standard employment which

tend to have worse conditions and compensations than standard employment (Nienhuser & Matiaske, 2006) also can be troublesome. It could be a signal that a firm experiencing bad times in terms of its performance behind the firm's financial statements. A large organization sets a higher performance standard that raises labor productivity so need quality workers (Oi & Idson, 1999). Hiring temporary workers of part-timers may have positive effect to a firm's profitability in a short time but can bring about threats for a firm reputation that helps to employ a quality worker in a long run (Turban & Cable, 2003). Thus, big firms who are more capable to hire non-standard workers may want to find a way to take benefits from direct form of non-standard employment and avoid employment related responsibility beyond the their boundary, indirect form of non-standard employment.

2) Small firms

Productivity and profitability are related to firm size (Ju & Jo, 2006; Oi & Idson, 1999). Bigger firms tend to be more efficient whereas small firms have higher possibility of being under strong pressure to improve financial performance. Performance pressure stimulates firms to reduce costs and even make managers to engage manipulating real business activities to avoid reporting loss (Roychowdhury, 2006). Moreover, hiring non-standard workers is more favorable for small firms because the situations of small firms are quite opposite to big firms in terms of HR practices and firm reputation. Probably, small firms would not have high reputation (Fombrun & Shanley, 1990) so there would be almost nothing to lose.

Pressure for workforce stability also quite weaker than big firms (Davis-Blake & Uzzi, 1993). For small firms having the right to control workers may not be the issue because they may not have enough system even for the standard workers. The management of intermediaries even can be helpful, supplementing the user firms' HR manager. Thus, for small firms, using non-standard employment

will be helpful for their performance and have less limitation to hire indirect form of non-standard workers than big firms.

3) Hypotheses

Although all establishments of a firm share same company name, specific HR practice can be different among the establishment (Davis-Blake & Uzzi, 1993). So the level of analysis of this article is establishment.

As we argued above, big firms are more able to employ non-standard workers with limited side effect as they have rationalized HR system. However, reputation concerns make the firms reluctant to actively adopt direct contract forms of non-standard employment. Especially, operation activities of conglomerates are more salient. On the other hand, for small firms type of contract will not have significant effect to manage employees. Therefore, I hypothesize the followings:

Hypothesis 1: Conglomerate affiliated establishments will tend to use indirect form of non-standard employment more than direct form of non-standard employment.

Hypothesis 2: Small firms affiliated establishments will use both forms of non-standard employment among other firms.

III. Methods

1. Data

Data from the Workplace Panel Survey (WPS) of Korea Labor Institute (KLI) was used to test the hypotheses. Based on the Workplace Demographics Survey which is provided by the National Statistical Office, a total 1,700 Korean establishments were selected as sample among those that have 30 or more

employees. The survey is conducted once in every 2 years since 2005. As pilot survey, WPS 2002 and WPS 2003 have different sample and survey item, so I only used WPS 2005, WPS 2007, and WPS 2009. The WPS has 4 parts of survey items that are basic facts, HR personnel, labor personnel, and employee representatives. I mainly used first two parts of which respondents are HR and finance part managers.

2. Measures

1) Dependent variables

Ratios of using direct and indirect form of non-standard employment to using standard employment, and ratio of using indirect form to direct form of employment was examined at the establishment level. All type of employment is measured number of workers. WPS provides specific type of non-standard work arrangement so I categorized them based on contract relationship. Direct form of non-standard workers is temporary workers and part-timers who contract with the firm they actually work for. Indirect form of non-standard workers works for the establishments that the respondents belong to, but their regal employers are third parties. Among survey items of WPS, temporary help agency, in-house contract, leased employment and unskilled foreign workers are included.

2) Independent variables

Although the number of employment used generally to measure size of organizations, I made a dummy variable that has three groups of firm size based on the information, whether a establishment is an affiliate of a conglomerate, whether a establishment belong multi-establishment firm, and the number of employment of establishments. Establishments who are members of big business groups in the list of equity-investment limits of the anti-trust law, those have

assets over 5 trillion won classified as big firms. WPS 2009 doesn't have the survey item for conglomerates so I assumed that a large firm in 2007 still would be a large firm in 2009. Based on the Minor Enterprise Basic Law, I coded small firms that are independent establishments with fewer than 300 employees.

3) Control variables

At firm level, profit ratio, operating profit to revenue, and assets are used to control. Because I focus firm size as reputation, public organizations also were distinguished. Industry was measure at establishment level but WPS 2005 and WPS 2007 and 2009 used different version of Korean Standard Industrial Classification (KSIC) so I coded 1 if an establishment was manufacturers and 0 otherwise. Establishment size can affect to use of HR practice (Davis-Blake & Uzzi, 1993) so the number of employment of establishment was controlled.

Three HR practices were coded as dummy variables. I coded 1 if a establishment had official appraisal system, profit sharing system, and wage-peak system, respectively. Very small amount of establishment adopted wage-peak system (4%, 6%, and 6% for each year), and around half of establishment had profit sharing system (57%, 49%, and 37% for each year). Appraisal system was a quite general practice but the adoption rate had decreased (83%, 80%, 66% for each year). I made union dummy because unions are important party in workplaces and some labor relations managers in establishments responded that their unions are nominal so those 33 in 3244 observations were coded as 0, treating as a nonunionized workplace.

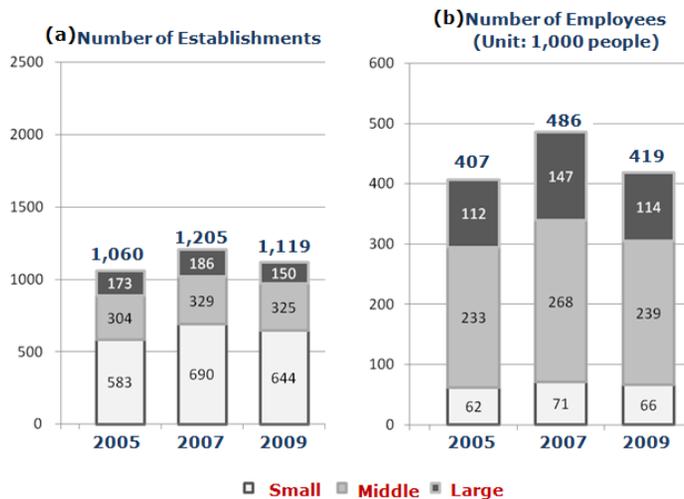
Finally, turnover ratio was controlled because high turnover rate reflects burdens of HR department to recruit employees and the job stability of workplace. Voluntary turnover dominated in every year and every size of firm, over 80%.

IV. Results

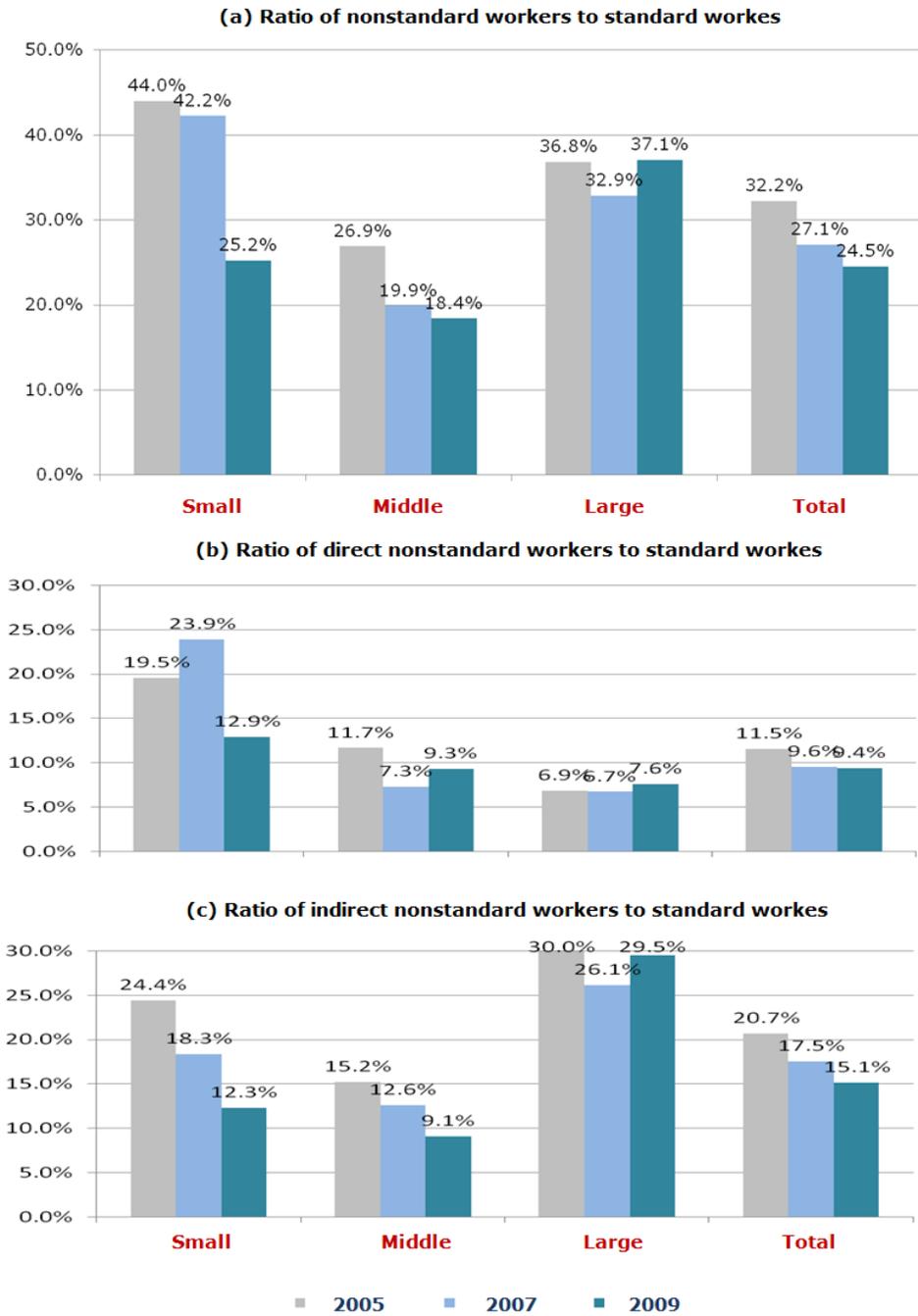
1. Descriptive statistics

Figure 1 presents the number of establishments and employees in the data for each firm size. The numbers of emplacements include only direct type on employment that is standard workers and direct form of non-standard workers. Figure 2 shows the ratio of non-standard workers to non-standard workers by firm size. Establishments that belongs small and middle firms have been reducing their non-standard employment ratio especially, ratio of indirect form of non-standard workers who work for small and middle firms' establishment decreased steadily whereas those for conglomerate firms' establishment seemingly unchanged.

Table 1 shows the means, standard deviations, and pairwise correlation of the variables. Size of establishment has positive correlation with conglomerate. Every HR practice related variable correlated positively to conglomerate and negatively to small firms. Union dummy shows that large establishment and the members of a conglomerate are associated with union.



〈Figure 1〉 Number of Establishments and Employees



〈Figure 2〉 Ratio of non-standard workers

〈Table 1〉 Mean, Standard Deviations, and Pairwise Correlations

	means	s.d.	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	
Direct/Standard	0.55	8.52	1.00															
Indirect/Standard	0.26	1.29	0.11 ***	1.00														
Indirect/Direct	7.47	32.68	-0.02	0.08 ***	1.00 ***													
Conglomerate	0.15	0.36	-0.01	0.04 *	0.21 ***	1.00												
Small Firm	0.57	0.50	0.04 *	0.00	-0.14 ***	-0.48 ***	1.00											
Employees ^a	5.31	1.26	0.03 †	0.12 ***	0.22	0.28 ***	-0.63 ***	1.00										
Profit Ratio	-0.18	7.67	0.00	0.00	0.01 ***	0.01	-0.02	0.02	1.00									
Asset ^a	11.09	2.42	-0.06 ***	0.01	0.20 *	0.49 ***	-0.65 ***	0.59 ***	0.02	1.00								
Public Org.	0.08	0.28	-0.01	-0.02	-0.05	-0.11 ***	0.00	0.09 ***	0.00	0.02	1.00							
Appraisal	0.76	0.43	-0.05 ***	-0.02	0.04	0.18 ***	-0.22 ***	0.25 ***	0.03 †	0.34 ***	0.12 ***	1.00						
Profit Sharing	0.48	0.50	-0.02	0.02	0.06 *	0.20 ***	-0.16 ***	0.16 ***	0.02	0.26 ***	0.13 ***	0.36 ***	1.00					
Wage-Peak	0.05	0.22	-0.01	-0.03	-0.02	0.05 ***	-0.10 ***	0.10 ***	0.00	0.12 ***	0.10 ***	0.11 ***	0.11 ***	1.00				
Union	1.61	0.51	-0.03 †	-0.02	0.12 ***	0.17 ***	-0.34 ***	0.41 ***	0.02	0.39 ***	0.23 ***	0.15 ***	0.06 ***	0.13 ***	1.00			
Turnover Ratio	0.36	3.68	0.75 ***	0.10 ***	-0.02	-0.02	0.04 *	0.04 *	0.00	-0.06 ***	-0.02	-0.02	-0.01	-0.02	0.05 ***	1.00		
Manufacturer	0.48	0.50	-0.05 ***	-0.08 ***	0.20 ***	0.03 †	0.04 *	-0.02	-0.01	0.09 ***	-0.28 ***	0.02	-0.02	0.00	0.05	0.05	-0.04	1.00

† p<0.1, * p<0.05, ** p<0.01, *** p<0.001

^a Logarithm.

2. Hypotheses test

Because the dependent variables are rates that are left-censored at zero, I estimated Tobit models. Unfortunately, the WPS has only three years data but the number of establishments is over 1,000, I had to use random effect model. The dependent variable in each model bounded between 0 and 100. Table 2 shows the analyzed model and the σ_u and the ρ of each model show that the data has the characteristics as panel data.

Columns 1 and 2 in Table 2 represent the ratio of non-standard workers to standard workers while Column 3 represents the ratio of indirect form of non-standard workers to direct form of non-standard workers. Supporting hypothesis 1, establishments of conglomerates associated indirect form of non-standard employment. Conglomerate variable was not significant only in column 1. Small firm variable was significant in all columns so those small establishments hired more non-standard workers using indirect form more than direct form. Moreover, the beta of the third column was much higher than of others that mean the management of intermediaries might be helpful for the user firms' HR managers. Number of employees at establishment level also was significant in each model and this result consists with the analysis of Cappelli and Keller (2013b).

HR practice variables were only related to the ration of direct form of employment. Establishments who had appraisal system tend less use direct form of standard employment whereas who had profit sharing system tend more. This result implies rationalized HR system can be a friend and an enemy at the same time, facing on flexibility and cost reduction pressure. Interestingly, union effect was a negative relationship for indirect form of employment although it was marginal, but a positive relationship for direct form of employment. This result may partially due to the fact that conglomerate member establishments tend to have unions and use indirect form of non-standard employment. Turnover

ratio was significantly related to utilizing non-standard employment, meaning those establishments who have lower stability tend to utilize non-standard employment. Meanwhile high turnover ratio could mirror bad working conditions: alluding establishments under poor condition had to use non-standard employment because workers didn't want to work there permanently. Year dummies in columns 2 and 3 reflects the trend of small and middle firms decreased ratio of indirect form of employment.

〈Table 2〉 Results of Tobit Analysis on Non-standard Employment Ratio

Variables	Direct/ Standard b (s.e.)	Indirect/ Standard b (s.e.)	Indirect/ Direct b (s.e.)
Firm Level			
Conglomerate	0.43 (0.32)	0.40 (0.13) **	7.11 (1.85) ***
Small Firm	1.63 (0.31) ***	0.99 (0.13) ***	6.81 (1.97) ***
Profit Ratio	-0.01 (0.01)	0.00 (0.01)	0.02 (0.07)
Asset	0.17 (0.07) *	0.05 (0.03) †	1.12 (0.40) **
Public Organization	0.48 (0.48)	-0.25 (0.18)	-0.94 (2.37)
Establishment level			
Number of Employees	0.91 (0.12) ***	0.70 (0.05) ***	6.43 (0.76) ***
Manufacturer	-1.95 (0.28) ***	0.04 (0.09)	10.94 (1.49) ***
Appraisal	-0.47 (0.23) *	-0.10 (0.10)	2.20 (1.82)
Profit Sharing	0.44 (0.17) **	0.07 (0.08)	0.77 (1.27)
Wage-Peak System	-0.40 (0.37)	-0.06 (0.17)	-2.96 (2.59)
Union	0.95 (0.27) ***	-0.19 (0.10) †	2.72 (1.50) †
Turnover ratio	1.53 (0.06) ***	0.02 (0.01) **	-0.28 (0.23)
year			
2007	-0.23 (0.15)	-0.42 (0.08) ***	-3.17 (1.19) **
2009	-0.11 (0.16)	-0.55 (0.09) ***	-3.91 (1.33) **
Constant	-9.48 (0.94) ***	-5.13 (0.39) ***	-62.34 (6.08) ***
/sigma_u	4.06 (0.15) ***	1.08 (0.06) ***	13.93 (0.78) ***
/sigma_e	2.51 (0.07) ***	1.51 (0.03) ***	16.12 (0.52) ***
rho	0.72 (0.02)	0.34 (0.03)	0.43 (0.04)
Observations	3244	3244	1573
Log Likelihood	-5058.00	-4103.19	-4497.19
Wald chi2(14)	981.82 ***	317.34 ***	271.23 ***

† p<0.1, * p<0.05, ** p<0.01, *** p<0.001

V. Discussion

The overall pattern of results suggest that indirect form of non-standard workers carry weight in the actual work done inside establishments of Korean conglomerates while various type of non-standard employment accounts for a sizable component of every workplaces. Usually, swimming with the tide is quite safe strategy for obtaining social legitimacy and survival but sometimes it come to a mere excuse regardless of situation. Non-standard work arrangements are pervasive but big firms may have to pay attention to a society that generally thinks increased non-standard employment as a problem to solve. To tempt quality applicants, high reputation is needed but to neglect easy way to save money is not a clever strategy for many business organizations. The results give evidence that the big firms do consider social factors.

There can be other explanations for the results because I didn't count unemployment rate and politics. The non-regular employee protection law took effect since 2007 for the firms with more than 300 employees, forcing firms to hire a non-standard worker who works for them over 2 years. The coverage of the law expanded gradually and it included the companies that have 5 or more workers in 2009. Although this may can explain why small firms' establishments have reduced their direct form of non-standard employment dramatically in 2009, establishment running by conglomerates used less direct form of non-standard work employment before the law was enacted. The unemployment rate of each year didn't much changed during the analyzed period: 3.7%, 3.2%, and 3.6% respectively, according to the Workplace Demographics Survey which is provided by the National Statistical Office. Additional analysis that includes unemployment rate variable didn't show different results from original models.

Job polarization arguments may be able to give other explanation to describe the result patterns. Some researchers reported that middle skill occupations

have diminished in terms of the weight in total employment, due to the advanced technology (see Acemoglu & Autor, 2011). Having better capability, big firms are early adopters in business (Oi & Idson, 1999) that could bring about fast job polarization than small firms, resulting increased labor market supply. Enjoying reduced labor cost that alleviate cost pressure, small and middle size firms may try to enhance their control to employment or feel equal whatever the employment type is used. However, this argument is still vague to explain why big firms use indirect form on non-standard employment more. Future researches are needed to consider all of factors above together to see clearer picture of employment.

Finally, all these behaviors of conglomerates that leave employment related responsibility beyond the firm's boundary by using intermediaries may reveal legitimacy managing strategies of the firms. When firms are involved in illegal events or conflict among social actors, the firms use decoupling, negotiation, and impression management tactics to maintain their legitimacy (Elsbach & Sutton, 1992; Patriotta, Gond, & Schultz, 2011; Westphal & Zajac, 2001). Thus, connecting non-standard employment and legitimacy management can be considered in future researches.

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기업 규모와 고용 형태에 관한 연구: 비정규직 고용의 직접성을 중심으로

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요 약

비정규직은 많은 기업들이 유연성과 비용절감 등을 이유로 채택하고 있는 고용 제도이다. 그런데 많은 사회에서는 비정규직이 고용 불안정 및 낮은 처우 문제 등으로 인해 사회적 문제로 인식하고 있으며, 비정규직 근로자들을 위한 보호 정책 등을 실시하고 있다. 기업은 사회적 행위자로서 속해있는 사회 내에서 정당성을 얻어야 한다. 특히, 대기업은 많은 미디어에 노출되어 사회적 관심을 받기 때문에, 정당성과 평판 관련 이슈에 민감하다. 따라서 대기업에 속한 사업장들은 비정규직 고용을 통한 효율성 획득과 함께 사회적 정당성을 유지시킬 수 있는 전략으로서, 고용 중개 업체를 이용한 간접 계약 방식의 비정규직 고용을 선호하게 될 것이다. 대기업의 보다 합리적인 HR 시스템이 간접 고용을 통한 통제권 희석을 최소화시키는데 도움이 되기 때문이다.

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