

Climate of Flexibility: The Effects of Employment Externalization on Internal Workers

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Abstract

Externalization can increase a firm's flexibility in confronting the conditions of a changing market and the needs of the organization. The research has stressed flexibility in the management of human resources, given that organizations must face a complex and dynamic environment that requires flexibility to adapt to changing conditions. The goal of this study is to analyze the consequences of externalization from the perspective of the employees, contributing to this line of research by examining how externalization influences internal employees' perceptions toward flexibility. The hypotheses were tested with data collected from 249 internal workers in five organizations. The results of this study indicate that externalization has a negative and significant effect on climate of flexibility among internal workers. The negative consequences decrease in a context of group potency. However, these negative effects increase among employees with greater supervisory responsibility.

Keywords: Flexibility, Employment, Externalization

1. Introduction

Recent analyses of labor market tendencies suggest that the proportion of employees with temporary and stable work contracts remained constant from 1984 to 1992, although it has been growing progressively since (Beatson, 1995; Gallagher and Sverke, 2005). Similar developments seem to be occurring in all of the advanced industrial economies of Europe, the United States and other Pacific Rim countries (Bergström, 2001). Contingent or external work is an “umbrella” concept used to describe any employment relationship in a firm other than salaried, full-time and permanent work (internal work). The broadest understanding of the term includes not only jobs available through Temporary Agencies (TAs), but forms of employment such as part-time work, direct temporary hiring (without recourse to TAs), and contracts and subcontracts for goods and services (Conelly, 2004; Kunda, Barley and Evans, 2002; Walsh and Deery, 2006). Externalization has been the term used to describe these practices. Pfeffer and Baron (1988) distinguish between three kinds of externalization: externalization through reduction of length of employment (temporary employment), externalization of management control (independent contracts/outsourcing) and externalization from the workplace (e.g., e-work).

Internalization facilitates control within the organization, whereas externalization can increase a firm’s flexibility in confronting the conditions of a changing market and the needs of the organization (Davis-Blake and Uzzi, 1993; Storey, Quintas, Taylor and Fowle, 2002). For client firms, the use of contingent or external work provides greater flexibility to respond to changes in the demand for products, whether these changes are foreseeable or unforeseeable. However, employing a contingent or external workforce can have negative consequences (Broschak, Davis-Blake, 2006; Cardon, 2004; George, 2003). Davis-Blake, Broschak and George (2003) find that internal employees who work with a large number of temporary employees show lower levels of loyalty and intent to stay in their organizations, as well as higher intention to form unions. Along the same lines, George (2003) concludes that the scope and dimension of externalization is negatively related to the attitudes of internal workers, especially those with fewer supervisory responsibilities.

Now that we have presented the important tendency in firms to use an external workforce, we are interested in investigating how this circumstance affects the work environment, specifically, how it influences the permanent workers. The configuration of this context will thus span multiple dimensions (Schneider, Brief and Guzzo, 1996) and determine the nature and way of working to be developed. As Schneider et al. (1996) establish, one of the dimensions of climate is the nature of the work, whether the tasks performed by the workers are more or less adaptable or rigid, which we can associate with the variable of flexibility—that is, whether the workers are more or less flexible when performing their tasks.

Many prior studies have analyzed the influence of structural and contextual variables on firm flexibility. We believe that the organizational climate play a relevant role, although there has been little research in this area. Our study introduces the variable climate of perceived flexibility by the employees into models of firm flexibility. In recent decades, research has stressed flexibility in the management of human resources, given that organizations must face a complex and dynamic environment that requires flexibility to adapt to changing conditions (Wright and Snell, 1998). Human Resource flexibility is one of the important aspects of organizational flexibility, and it focuses on adapting employee attributes (such as knowledge, skills and behaviors) to changing environmental conditions (Ngo and Loi, 2008). Researchers have considered two kinds of strategy in using labor flexibility (Kalleberg, 2001): enhancing employees’ ability to perform a variety of jobs and participate in decision-making, and reducing costs by limiting workers’ involvement in the organization. Both strategies have received different names: numerical vs. functional flexibility, or internal vs. external flexibility. A firm achieves flexibility by coordinating behaviors through

individuals and groups, such that flexibility in the behavior of the employees will provide us with an indicator of the firm's flexibility (Wright and Snell, 1998).

Our paper focuses on the consequences of externalization from the perspective of the employees, contributing to this line of research by examining how externalization influences internal employees' perceptions toward flexibility. Therefore, we will relate one kind of labor flexibility, externalization or utilization of contingent workers, to the flexibility that workers perceive in their own behavior and responsiveness when they perform their work, in the framework of the organizational climate. Our goal is to examine the relation between externalization and climate of flexibility. First, we analyze how the dimensions and scope of externalization are related to climate of flexibility in organizations. Second, we examine how these relationships can be moderated by contextual variables related to the work environment, organizational support perceived, and collective perception of efficacy. More specifically, we analyze contextual variables such as supervision, monitoring and group potency.

2. Theoretical Review and Hypotheses

Externalization and Climate of Flexibility

Although relatively few studies analyze the degree to which externalization impacts organizational climate of an organization directly, we believe that this idea is consistent with the hypothesis of attraction-selection-attribution proposed by Schneider (1987) and revised by Schneider, Goldstein and Smith (1995). The ASA model establishes that the result of three interrelated dynamic processes, attraction-selection-attribution, determines the type of people in an organization, and that the collective characteristics of the people define an organization (Schneider et al. 1995). These authors support the role of leadership in the implementation of organizational practices and the resulting climate. The idea that some practices that reflect the objectives and personality of leaders can influence the configuration of organizational climate is of great importance for research. The kind of contracts that workers have, specifically the use of employment externalization, it can influence the configuration of the organizational climate, therefore in the climate of flexibility. This may occur because hiring contingent workers can have affective consequences for the permanent workers' attitudes which, in turn, lead to cognitive consequences. For example, Johnson and Ashforth (2008) establish the negative effect of employment status (i.e. limited term vs. permanent) on service agents' customer-oriented service behavior.

Some researchers on flexibility have suggested that the right organizational climate is important for promoting flexible behavior and improving work performance (Dyer and Shafer, 1999). Some signs of this climate are open intraorganizational communication, recognition of individual excellence, orientation to and support for creativity, etc. Organizations with these attributes are more flexible and more successful (Breu et al., 2001; Dyer and Shafer, 2002). If climate affects work motivation in the way suggested by Schneider (1981), employee involvement could be strengthened or weakened in the long term by management policies and practices imposed by managers to raise levels of flexibility, since individuals' interpretations can lead to changes in their behavior. Thus, upper management's attitude toward change influences the adoption of practices that seek to increase flexibility (for example, externalization). Some top management teams have conservative behavior toward flexibility and change; they prefer the *status quo* and continue to use the same methodologies or those tested by time. Other managerial teams are open to risk, truly stimulating the use of flexible or radical methodologies that direct organizations proactively. Management for flexibility is considered a responsibility that is competence of top management.

Since the managers develop organizational systems that determine how goods and services are designed, processes of flexibility should begin with the commitment of management itself. Employees' work efficiency is a direct result of the quality of the systems that directors create and manage. Therefore, specific practices in the organization (such as externalization) should be related to the climate of flexibility, as it is assumed that they affect managerial policies and the consensual perceptions of individuals.

In this context, permanent employees may believe that the organization has chosen to hire external workers because such workers allow them to adjust personnel levels in response to fluctuating market demands. In this case, permanent employees may perceive the external workers as necessary to satisfy market demand and thus as beneficial for the organization and for the internal employees themselves. However, most studies show that permanent employees usually see recourse to external workers as a mechanism to facilitate changes in internal structures.

Hypothesis 1: *The greater externalization will influence negatively in the perceptions of the internal employees about climate of flexibility*

Contextual factors

The foregoing arguments suggest that externalization can influence climate of flexibility, although these relationships can vary depending on contextual conditions. In this study, we suggest that different aspects of the context can intervene, such as perceived organizational support and collective perception of efficiency.

Any aspect of the employee-organization relationship that indicates high organizational commitment to internal workers can mitigate the negative effects of externalization. According to research by Eisenberger, Huntington, Hutchison and Sowa (1986), people's perception that the organization takes an interest in them, seeks their well-being and offers them help with personal problems when necessary will yield very favorable results for the organization in terms of employment and permanence. Riel, Berens and Dijkstra (2009) indicate what the perceived managerial efforts to stimulate the employee capabilities are needed to implement the company's strategy with success. We therefore expect this factor to constitute an important moderator of the effects of externalization. The two traditional ways that organizations have favored commitment to workers are protecting employees and making them feel valued and supported by the organization (George, 2003). This study will analyze three elements of context: monitoring and supervisory responsibility as linked to support; and group potency or beliefs shared by members of the group concerning their capacity to achieve specific goals or perform predetermined activities.

Group potency as moderator

One construct that influences nearly all factors determining people's efficiency working in groups (for example, satisfaction, motivation, or cohesion), as well as groups themselves as operating units, is without doubt the "collective perception of efficacy", where "perception of efficacy" indicates the same behavior in the group as in the individual. Bandura (1982) defines perception of efficacy in the context of his cognitive social theory as self-perception of one's own competency. In a work on "group potency" or collective perception of efficacy, Lester, Meglino and Korsgaard (2002) apply Bandura's cognitive social theory to group and organizational productivity with interesting implications. "Group potency" is defined as the belief shared by members of a group concerning their capacity to achieve specific goals or perform predetermined activities (Lindsley, Brass and Thomas, 1995).

Such feelings of group potency could lead internal workers to increase their motivation in the organization, decreasing the possibility that they interpret externalization in a negative way. A greater feeling of self-efficacy in the group of internal workers may mitigate the threat of externalization, as the situation is perceived as more controllable and less damaging, diminishing the negative effects on flexibility. However, expectations of efficacy determine how much effort workers wish to dedicate to an organization and how long they will persist in the face of adverse experiences and obstacles. The group's confidence in itself and its ability to achieve objectives is a fundamental motivating factor for facilitating and stimulating flexibility. Predisposition to change should be interpreted not only from the perspective of the need for change, but also from the ability to cope with new and possibly different or unfamiliar situations. Research on group potency supports these relationships (Lester et al., 2002; Shea and Guzzo, 1987). We thus propose that internal workers' level of group potency will reduce the negative relation between externalization and climate of flexibility.

Hypotheses 2: *A greater perceived group potency by the internal employees will moderate the relation between externalization and climate of perceived flexibility.*

Monitoring as moderator

Individual autonomy has a positive effect on performance, based on the model of characteristics in research by Hackman and Oldman (1976). Numerous studies of self-esteem suggest that employees who have autonomy in their work are likely to feel more valued by their organizations (Pierce, Gardner, Cummings and Dunham, 1989). However, Langfred (2004) suggests that this positive relationship depends on the level of monitoring and that the autonomy-performance relationship can become negative if monitoring is insufficient. In other words, high levels of individual autonomy should be accompanied by relatively high levels of monitoring, and insufficient monitoring could lead to lower performance. Monitoring consists of a program of support and follow-up to help the worker develop capacities according to his or her potential and succeed through his or her behavior in uniting knowledge and abilities with other colleagues to satisfy the firm's overall needs. Along the same lines, Powell (1996) affirms that it is necessary to monitor employees, even if confidence on the part of management grants them greater autonomy. Although some research shows that monitoring and follow-up affect individual motivation negatively, most studies support the argument that performance benefits from monitoring (Larson and Callahan, 1990). Sabel (1993) also suggests that internal cooperation is based on sustained contact, regular dialogue and constant monitoring. However, Hales (2005) conclude what the persistence and prevalence of external supervision reflects a senior management reluctance to trust work teams to manage themselves and an abiding conviction that levels of effort and quality of work can only be guaranteed by close external monitoring.

Monitoring has been used to help workers in organizations to build on past experiences in order to break barriers that limit their progress or to inspire them to try to grow and realize their full potential. Monitoring facilitates change and flexibility in organizations, providing a structured, efficient model that enables good management of performance and stimulates development of workers' potential. If the results of applying more monitoring make workers feel that they are valued by the organization, permanent workers in a context of externalization might interpret externalization less negatively than workers not involved in similar programs. First, participation in a monitoring process can give permanent workers more information on external workers, which makes the threat of externalization more controllable. Second, the organization's decision to improve its potential will transmit security and mitigate the personal risk that externalization can pose.

Hypotheses 3: *A greater perceived monitoring among internal workers will moderate the relation between externalization and the climate of perceived flexibility.*

Supervisory responsibility as moderator.

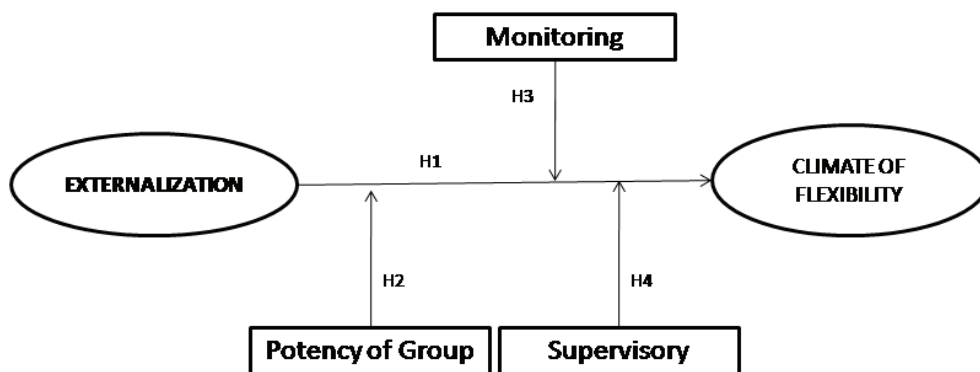
Assigning internal workers supervisory responsibility involves a creative distribution of authority. This management practice is typical of the effort many organizations are currently making to give their employees a larger leading role, capacity for influence, visibility and ultimately power. To act with efficacy, to believe that being efficacious is important, is a necessary but certainly not a sufficient condition. Part of the secret of effective people is that they focus on activities over which they can exercise control. In so doing, they give substance to their personality and self-confidence and face any challenge positively. They seek and obtain pleasurable, reassuring experiences—this does not mean easy or simple ones—creating a base of confidence for future challenges. This is a very sure mechanism for affirmation and motivation, and it depends essentially on organizations (Hogg and Terry, 2000). In a context of externalization where internal workers acquire the role and responsibility of supervising and training their external colleagues, the former can feel more essential to the organization (George, 2003). Acquiring the role of supervisor can mitigate the perceived threat that processes of externalization could create, as the processes come to be seen as more controllable (Thomas, Clark and Gioia, 1993). The role of supervisor can also facilitate easier access to information about the external workers, which can also reduce the perception of risk (George, 2003).

Hypotheses 4: *A greater perceived supervision responsibility among internal workers moderates the relation between externalization and climate of flexibility.*

The relationships proposed between these variables are presented in Figure 1.

3. Methodology

Figure 1. Hypothesized model



Sample

To contrast the different hypotheses, we performed an empirical study from a selection of five firms. The five organizations belonged to the following sectors: facilities, water management, integral management of administrative processes, transport and auto mechanics. The first

organization studied was a firm for the integration of systems handling the full water cycle, meteorology and environment. This firm was a model in automatic information systems for water quality and systems for the control of water resources. It had a multi-disciplinary staff of over 240 professionals, of whom more than half were technicians with secondary school or university degrees. Most of the firm's professionals specialized in systems, telecommunications and computer science. The firm employed 142 internal workers.

The second firm analyzed worked in the management of public services included in the full water cycle, such as supply of drinking water, the sewer system, and customer management. The organization had a team of 102 workers to deliver its services, of whom 76 had permanent connection with the firm. The employees were primarily engineers, technicians and administrative personnel. The third organization had, since its beginning, performed various tasks related to large-scale data collection and analysis of documentation, particularly for credit-related organizations. This firm delivered technical support services with human resources specialized according to the needs of the different departments. It employed over 400 workers, of which 238 were permanent. The internal workers were mainly involved in the automation of processes through platforms based on new technologies, optical character recognition and image management. Most of the external workers were directed to technical support or administrative work. The fourth firm was dedicated essentially to ocean transportation and the export and import business. It had a multi-national dimension and participated in sectors such as transport, information technologies, and the commercialization and distribution of industrial products and raw materials. Its staff was over 500 employees, of whom somewhat more than half had a temporary relationship. The fifth firm offered integrated solutions for tires for all kinds of vehicles, as well as complete mechanical and maintenance services. It had a staff of over 100 employees, of whom only 30 had a permanent relation to the organization.

The firms invited to participate in the research were not involved in processes of suspension of payment, regularization, lay-offs or any other situation that could affect their structural work conditions. In choosing these firms, we considered the presence of the following essential motives for using externalization: flexibility with contracts, possible cost reduction, and the task of pre-selection that the intermediate firms perform. Some of the firms analyzed used externalization as a source of candidates for positions of indefinite duration. Although this personnel policy was not declared explicitly, the employees provided by the intermediary considered the session a trial period in the user firm that would end in the firm's deciding whether to hire them as part of its permanent staff. In some cases, one of the main reasons that these firms contracted temporary services was that they provided a relatively cheap and low-risk procedure for the job selection process. In all five firms, internal and external employees usually worked together, even if there were no formally established human resources policies for their integration.

The data were gathered through the distribution of questionnaires to the 313 internal workers of three organizational units in each participating organization. We explain how these units were selected in the next section. Due to the common problem of the low response rate to questionnaires on strategic issues in the firm, we were especially careful to maximize the response rate. To do this, we first performed a pre-test of the questionnaire through a series of in-depth interviews with workers at the five firms. We sent a second questionnaire to workers who had not answered by approximately one month after the first mailing. We obtained 249 valid responses, for a response rate of 79.55 %. Of the workers surveyed, 182 (73%) were men and 67 women; 85 (34%) had studied at the university; 11 (4.3%) were managers, 44 (17.9%) professionals, 64 were in administration (25.5%), 70 were technicians (28.2%) and were 60 operators (23.9%). Finally, we analyzed the possible risk of bias between non-respondent and respondent firms. The database provided secondary information on the number of employees and billing of all sample firms that did not respond. We

used the Kolmogorov-Smirnov test and did not find significant differences in occupation ($p=0.496$) or gender ($p=0.633$), nor did we find any other evidence of bias in the sample.

Measures

Externalization. The study measured externalization with the procedures used by George (2003). We obtained data that indicated the scope and duration of these firms' externalization. To measure scope, the employees responsible for human resources in the five firms participated actively as key informants in the research, following the methodology suggested by Seidler (1974) and George (2003). Each classified his or her organizational units into the three following groups: low, medium and high scope of externalization. This division is based on the subjective perception that each held of the organizations. To collect the data, we then randomly chose one organizational unit per category. Questionnaires were sent to all internal employees in these organizational units. To confirm the information provided by the people in charge of human resources, we analyzed whether the current number of external workers in each organizational unit corresponded to the subjective classification of the human resources directors. The data were adjusted to the categories of the managers. In the organizational units with high externalization, external workers represented on average 42% of the labor; in units with moderate externalization, 24%; and in units with low externalization, 11% of the personnel. We applied ANOVAs to analyze whether, within each organization, the three organizational units differed significantly in distribution of external workers. The differences were significant for all of the organizations. According to the arguments of Lawrence (1988) and George (2003) and to the results of the ANOVAs, which indicate that the categories themselves differ, we codified scope of externalization as a categorical variable. The value one represented low scope of externalization, the value three moderate scope, and five high scope. To measure the duration of externalization, we also requested the participation of the people responsible for human resources in these five organizations. Each classified the organizational units chosen previously into the three following groups: low, medium or high duration of externalization. This division is also based on the participants' subjective perception of their organizations. To confirm the information given by the people responsible for human resources, we gathered data from records on the first time that they used external workers in each of the units studied. For each unit, we chose the position occupied for most time by external workers. Its duration provided the measure the duration of externalization in this unit. The data obtained from the records agreed with that provided by the people responsible for human resources. We then codified duration as a categorical variable. The value one represented low duration of externalization; the value three, moderate duration; and five, high duration.

Finally, for each unit, we calculated the average value of the scope and duration, which generated an index that approximated the degree of externalization of each unit in each of the organizations.

Climate of flexibility. To measure the climate of flexibility, we used a scale based on eleven items adapted from Nystrom, Ramamurthy and Wilson (2002). This scale measured to what extent the internal workers perceive whether the organizations to which they belong favor, encourage and recognize initiating practices and processes that favor flexibility. The internal consistency of the scale was analyzed using the Cronbach's alpha. The resulting value was above the limit usually considered acceptable ($\alpha=0.855$).

Group potency. This variable was measured by a 5-point Likert scale composed of eight items from the scale of Guzzo, Yost, Campbell and Shea (1993). Internal consistency of the scale

was measured by the Cronbach's alpha, and the statistical value is higher than the limit usually considered acceptable, 0.7 ($\alpha = 0.863$).

Monitoring. To determine the degree of monitoring, we used the four-item scale of Cummings and Bromiley (1996). The scale used was a 5-point Likert-type scale, and the value obtained for reliability was high ($\alpha = 0.911$).

Supervisory responsibility. To determine perception of the degree of supervisory responsibility that permanent workers had in their firm, we used a scale based on four items that enabled us to determine whether the workers used part of their time supervising and training their colleagues. This scale was proposed by George (2003). The scale used was a 5-point Likert-type scale. We analyzed internal consistency with the Cronbach's alpha, and its value was higher than the limit usually considered acceptable, 0.7 ($\alpha = 0.845$).

Other variables. The questionnaire measured age (in years), sex, academic level (primary school, secondary school, university study), professional occupation (managers, professionals, technicians and operators) and length of time with the organization (in years). Time with each of the five organizations studied was codified by five binary variables.

4. Results

To contrast the hypotheses, we used hierarchical regression analysis. In a preliminary stage, we performed a regression among the dependent and moderating variables. The next phase included the independent variable. Finally, we added five terms that represented the interactions between the independent variable and each of the moderators.

To complete the contrast of the hypotheses on moderation, we confirmed that there was a significant moderating effect and then analyzed the sign and significance of the slope of the relation between externalization and the dependent variables, as argued by Jaccard, Turrisi and Wan (1990), as a function of the values taken by the moderating variable. To do this, we performed an additional analysis, in which we evaluated the effect of the independent variable on the dependent variable, while distinguishing between different levels of the moderating variable. Following the recommendations of Jaccard et al., we classified values of an above-average standard deviation in the high level and values below the average standard deviation in the low level.

The descriptive analysis and the correlation matrix between dependent and independent variables can be seen in Table I, which also shows the reliability of the different scales. From analysis of the matrix, we see that there are no highly significant correlations between the variables, which would indicate a priori that there are no problems of multicollinearity in a regression between the variables considered. This was confirmed by calculating the tolerance indexes and inflation factors of the variance for each regression model. In all cases, we maintained levels well below those recommended, indicating that the results are not affected by possible multicollinearity

Table 1 Mean, Standard Deviation, reliability and correlations^a

Variable	Mean	S.d	1	2	3	4	5	6
Climate of flexibility	3.122	0.86	0.855^b					
Externalization	3.31	1.32	-0.248**	-0.266**	-			
Supervisory responsibility	3.02	1.30	0.022	0.229**	0.439**	0.845^b		
Monitoring	3.61	0.93	0.250*	0.141*	-0.090	0.022	0.911^b	
Group potency	3.844	0.63	-0.378**	0.059	-0.083	-0.016	0.080	0.863^b

^a n=249; ^b Cronbach's alpha

* p< .05; ** p< .01

The results of the hierarchical regression analysis are presented in Table II. Hypothesis 1 suggests that greater externalization will influence climate of perceived flexibility unfavorably. As seen in Model 2, which incorporates the independent variable externalization, this variable has a negative and significant relation to climate of flexibility ($\beta = -0.168$, $p < 0.05$). The introduction of this variable indicates an increase in the variance, meaning a change in $R^2 = 0.023$ ($p < 0.01$). These results support the validity of Hypothesis 1. Hypothesis 2 suggests that group potency moderates the relation between externalization and climate of perceived flexibility. As Model 3 shows, the resulting term of the product of externalization and group potency predicts the climate of flexibility significantly ($\beta = 0.249$, $p < 0.001$).

Table 2 Effects of Externalization on Climate of Flexibility

	Climate of flexibility		
	Model 1	Model 2	Model 3
Supervisory responsibility	0.148* (2.157)	0.079 (1.073)	0.147 (0.884)
Monitoring	0.266*** (3.955)	0.260*** (3.913)	0.202*** (3.061)
Group potency	-0.387*** (-5.668)	-0.383*** (-5.677)	-0.360*** (-5.357)
Externalization		-0.168* (-2.308)	-0.244*** (-3.453)
Externalization * Responsibility			-0.164* (-2.419)
Externalization * Monitoring		0.273 (0.622)	0.041 (0.622)
Externalization * Group potency			0.249*** (3.728)
R^2	0.258	0.281	0.374
ADJUSTED R^2	0.244	0.263	0.347
F	19.203	16.112	13.810
CHANGE IN R^2		0.023	0.093
F		5.329*	8.004***

* $p < .05$; ** $p < .01$; *** $p < .001$

For a more detailed examination of the first interaction, we verify the nature and strength of the moderating effect. To do this, we perform an additional regression analysis that enables us to confirm the effect of externalization on the climate, distinguishing between high and low levels of group potency. Thus, the analysis of the interaction term shows that, under the condition of low group potency, externalization is negatively related to climate ($\beta = -0.41$, $p < 0.001$), as can be seen in Table III. Because this effect is not significant when we establish the condition of high group potency, we have confirmed that the multiplicative term is significant in the multiple regression analysis. This, together with the analysis of the nature of this term, provides support for Hypothesis 2.

Hypothesis 3 suggests the moderating effect of monitoring. The results indicate that monitoring does not moderate the relation between externalization and climate. Therefore, Hypothesis 3 is not supported by the results.

Hypothesis 4 suggests the moderating effects of supervisory responsibility. As Model 3 shows, the interaction between externalization and supervisory responsibility predicts climate significantly. To

confirm the strength and nature of the moderating effect of supervisory responsibility, as shown in Table IV, we perform an additional regression analysis to confirm the effects of externalization on the climate of flexibility, distinguishing between high and low levels of supervisory responsibility. The detailed test of the interaction term shows that, when we establish the condition of high supervisory responsibility, externalization is negatively related to climate ($\beta = -0.422$, $p < 0.001$). This effect is not significant when we establish the condition of low supervisory responsibility. Thus, the interaction term in the regression analysis and the research on its nature do not support Hypothesis 4, leading us to reject the moderating effect of supervisory responsibility.

Table 3 Effects of Externalization on Climate of Flexibility for Different Levels of Group Potency

	Climate of flexibility	
	Model 1 ^a	Model 2 ^b
	High group potency	Low group potency
Externalization	0.017 (-0.158)	-0.410*** (-3.992)
R ²	0.000	0.168
ADJUSTED R ²	0.000	0.157
F	0.025	15.936***

*** $p < .001$

Table 4 Effects of Externalization Climate of Flexibility for Different Levels of Supervisory Responsibility

	Climate of flexibility	
	Model 1 ^a	Model 2 ^b
	Supervisory responsibility	Supervisory responsibility
Externalization	-0.422*** (-3.924)	0.062 (-0.615)
R ²	0.178	0.00
ADJUSTED R ²	0.167	0.000
F	15.396**	0.379

** $p < .01$;

*** $p < .001$

5. Discussion

Our research has analyzed whether externalization influences the perceptions of internal employees toward flexibility. More specifically, we have examined their relation to climate of perceived flexibility. The results show that externalization has a negative and significant relation with climate of flexibility. However, these effects are moderated by perceived group potency by the workers and supervisory responsibility. We will now explain the implications of these results.

The results obtained add evidence to the small body of theoretical research that has studied the negative effects of externalization on internal employees' perceptions (Chattopadhyay and George, 2001; Geary, 1992; George, 2003; Smith, 1994). The data support the argument that externalization is related to climate of flexibility. The results show that externalization causes internal workers to perceive their environment as jeopardizing their flexible action. This can mean

that management policies and practices imposed by managers to raise levels of externalization can weaken the employee's involvement in the long term, as negative interpretation of these policies and practices will influence employees' behavior.

This paper suggests that flexibility and the reduction of costs may be the two main motives for the firm to use externalization (Kalleberg, 2000). An organization may choose external workers because they allow the firm to adjust its personnel levels in response to fluctuating market demand. Externalization may also allow the firm to reconfigure the deployment of resources and reduce the time of response to significant changes in the environment (Hitt et al., 1998). All of this can lead to greater flexibility. However, firms should consider the social costs that this firm strategy may incur. This suggests that organizations try to be flexible in the deployment of human resources by means of externalization but do not stimulate the conditions to make these resources in themselves flexible or to adopt flexible behaviors. Thus, the employment of external workers can be a source of static but not of dynamic flexibility. Organizations can have the flexibility to change or reconfigure their deployment of resources, but not the abilities they need to change in the direction required to navigate a competitive scenario efficiently, due to the low involvement of their internal workers.

The foregoing leads us to conclude that, in scenarios of externalization, climate is not favorable to flexibility to the extent that they condition negatively people's way of working, as well as the development of the processes through which they raise levels of flexibility. The perceptions of an organization's members can be determining factors in the adoption of flexible practices. However, the fact that the organizations chosen for the research were not involved in processes of suspension of payment, regularization, lay-offs, or any other circumstance that could affect their structural conditions of employment leads us to think that, even in situations of growth or stability, externalization has a negative influence.

This study extends prior research on externalization and flexibility. The research performed shows, paradoxically, that externalization can negatively influence an organization's capacity to be flexible by causing its workers to be less open to acquiring new knowledge and abilities to tackle the changes needed. Further research is needed to study what practices top management could impose in the organization to make the benefits of externalization compatible and not deteriorate the perceptions of its workers toward the phenomenon.

The results indicate that the negative relation between externalization and climate of flexibility is greater among internal employees who share lower group potency. Workers who share a greater sense of self-efficacy as an organization can mitigate the negative perception caused by externalization, since they perceive the situation as more controllable and less threatening. These feelings can increase their commitment to the organization and lead them to interpret externalization less negatively. In other words, in situations of externalization, group potency favors proactive behavior of coping successfully with new situations that require flexibility, such as different and unfamiliar situations.

Contrary to our expectations, the effects of externalization are worse among employees with greater supervisory responsibilities. These results can lead us to conclude that the high rotation of personnel involved in externalization can jeopardize the perception of the internal workers responsible for supervising and training their external colleagues. This can occur especially when the supervising workers help others to develop by acquiring new abilities, internalizing perspectives and fulfilling their potential. The internal workers make an effort to supervise, develop, care for, share and help, establishing a relationship in which they invest time, know-how and effort. They stimulate the other person's development in the area of knowledge and abilities and respond to critical needs in

the life of this person in ways that prepare him or her for greater productivity and greater fit in the organization. Yet when the time is up, the external worker must leave the organization, and other workers arrive. This can lead the supervising worker to question his or her perception of the organization's support for the development of abilities that enables workers to face the changes and demands of the environment. However, these findings suggest the need for more research in the direction proposed.

The emphasis this study places on firms that are not involved in processes of suspension of payments, regularization, lay-offs, or any other circumstance that could affect their structural conditions of employment can be both an advantage and a limitation. We are studying firms in a phase of stability or growth. Situations of expansion or seasonality can justify the hiring of external workers. The foregoing leads us to ask what happens in situations of crisis or restructuring.

Our arguments are based on permanent workers' interpretations of externalization. However, the data were not obtained by asking them explicitly about their perceptions and interpretations, but rather from independent sources and not directly from the workers on which this study focuses. This is also a limitation in the study by George (2003). Previous research has shown that internal workers changed their interpretations of externalization. Future research could explore the perceptions and interpretations of internal workers in greater depth. Specifically, these studies could analyze the repercussions on internal workers of the kind and content of the information and monitoring received prior to the strategy of externalization that is being pursued or that the organization is planning to pursue.

Our research does not differentiate between different kinds of contingent work. Essentially, there are four differences that enable us to distinguish standard from atypical forms of employment. First, some atypical relations of employment do not provide a direct relation between the employee and the formal employer. Second, the work day can be shorter than that in relations of traditional employment. Third, it is very common not to ensure continuity either implicitly or explicitly in non-standard relations of employment. Finally, in some kinds of atypical hiring, there is no employer as such. Future studies could examine whether different kinds of externalization, such as temporary employees, independent contracts, outsourcing, or e-work, generate different perceptions about flexibility in internal employees.

Finally, this study used a convenience sample of five organizations. The non-random nature of choosing the firms in the sample as well as their cross-sectional character may limit the generalization of the results. Longitudinal studies should be developed to extend this line of research in order to determine the long-term implications of externalization policies and their long-term consequences.

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