

**‘Internal Marketisation’: Between Redefinition and  
Erosion of ‘Social Ties that Bind’ at Company Level**

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## **Editor's Foreword**

The Warwick Papers in Industrial Relations series publishes the work of members of the Industrial Relations Research Unit (IRRU) and people associated with it. Papers may be of topical interest or require presentation outside of the normal conventions of a journal article. A formal editorial process ensures that standards of quality and objectivity are maintained.

Guido Becke is at the Research Centre for Sustainability Studies at the University of Bremen and this paper developed from his research seminar presentation to the Industrial Relations Research Unit in November 2008. It provides a broad overview of organisational changes developing to some extent across all developed economies, driven particularly by quests for closer controls within firms over cost and performance. Increased use of external suppliers of materials and services, outsourcing, is very well developed. This paper focuses on the ramifications of internal market relations, the creation of autonomous businesses contracting with each other within the firm, and their implications for employment relations and the 'psychological contract.'

Trevor Colling

## **Abstract**

Since the 1980s, companies have tried to improve their responsiveness to environmental dynamics that are above all characterised by enhanced international economic competition, and the liberalisation of markets and public services. The management approach of 'internal marketisation' is regarded as a means to enable firms to cope with increased environmental uncertainty. Among other aspects, it encompasses the introduction of cost or profit centres, benchmarking systems, the establishment of internal 'customer-supplier-relationships', forms of indirect control, and strategies to capitalise on human subjectivity in respect to economic goals. However, this management approach is manifested quite differently in practise, above all due to specific institutional contexts companies are embedded in.

This paper deals with a still under-researched issue: it analyses the unintended effects of internal marketisation with respect to social integration at company or establishment level by the example of an in-depth case study referring to the introduction of internal marketisation in a larger German public transport company. Problematic unintended effects are highlighted with respect to three areas:

- The emergence of cooperation barriers between in-company business units,
- the disturbance of implicit employment contracts,
- changes of collegiality in the workplace.

Research results are ambivalent: on the one hand a tendency towards a redefinition of implicit or psychological contracts can be noticed. This tendency reflects the importance of German workplace institutions of Industrial Relations, i.e. works councils. It also can be attributed to a rebalance of 'give and take' between management and employees. On the other hand, internal fragmentation emerged among workmates calling into question established informal norms of collegiality. This tendency to social disintegration can partially be explained as an unintended side effect of rebalancing implicit contracts between management and employees.

In the conclusion potentials and barriers of a socially more inclusive mutual gains perspective related to internal marketisation in British workplaces are explored.

## **Introduction**

Since the 1980s companies in many industrialised countries have faced increased environmental uncertainty<sup>1</sup> which is reflected by dramatic changes within socio-economic environments. These changes can partially be attributed to political decision-making processes at national level, and even more at international level or European level. During the 1980s neo-liberal patterns of public policy emerged and became widely accepted since. These patterns are based on the core assumption that economic growth and high employment rates can be achieved by unconstrained markets. In this perspective, the privatisation of public enterprises, services and infrastructure has been promoted within the European Union and national market economies (Bieling & Deckwirth 2008; Schulten et al. 2008). Moreover, the liberalisation of finance and capital markets was highly prioritised (Huffs Schmid 2008). Among other important developments, such as the collapse of the so called socialist regimes and economies, these tendencies fuelled processes of economic globalisation and exerted enhanced economic pressure on companies. Due to the political creation of the European Common Market and the European Monetary Union as well as the EU enlargement into Central and Eastern Europe companies in Western Europe were exposed to increased competitive pressures.

Environmental uncertainty was also heightened by the transformation of product markets induced by market saturation. A fragmentation and differentiation of the demand for goods and services was the direct consequence of this development. The fundamental shift from supply- to demand-driven markets significantly contributed to the severe crisis and erosion of the Fordist production model which could not meet the challenge to produce a fluctuating variety of specific goods on the basis of standardised mass-production. This crisis initiated the search for production models and organisational forms beyond vertically integrated and bureaucratic corporations. In search for alternatives to Fordist mass production the core idea was about intra- and inter-organisational flexibility (Legge 2007: 41) that promoted business restructuring. In a dynamic economic environment organisational change was more and more considered to be the normal case instead of being an 'exception to the rule.' However, business reorganisation does not necessarily imply an entirely fundamental change to previous organisational forms. Rather, it may at least use some of their core elements. For instance, the idea of semi-autonomous internal cost or profit centres is based on the

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<sup>1</sup> Environmental uncertainty may encompass different aspects as Cyert and March (1963) pointed out: It may e.g. relate to customers' and competitors' economic action of customers, financial investors' expectations, the reliability of suppliers, to economic or social and employment policies by governments or public authorities. Moreover, increased competition may enhance the probability of emergent unintended external shocks, e.g. due to a depletion of natural resources or unforeseen side effects of newly created financial instruments as reflected in the current global economic crisis.

multidivisional form (M-form) linked to vertically integrated and capital intensive corporations (Chandler 1994).

Nevertheless, it is by ‘financialisation’ that a new quality of organisational change initiatives was induced: against the background of the liberalisation of finance markets institutional investors often gained an important influence on corporate governance in stock-holding companies. In this case, companies have to achieve excessive shareholder profits with margins that are primarily defined by institutional investors (Sennett 2006; Lazonick 2005; Grimshaw et al. 2005a). Financialisation implies that institutional investors may exert their economic power to fundamentally restructure companies covering outsourcing of business units, ‘downsizing’, dismissals and even company break-ups. The economic pressure for restructuring and outsourcing of (non-)core activities is increased by short-termism to achieve immediate financial benefits, e.g. as increased stock values. The development of new modes of business organisation can be attributed to these fundamental socio-economic changes. However, volatile economic environments neither determine the reorganisation of companies or business strategies. Rather, strategic reorientation, which is internally often subject of fierce debate, has also to be taken into account when explaining the emergence of new organisational forms.

New modes of business organisation and novel management approaches<sup>2</sup> are expected to absorb environmental uncertainty and to strengthen the competitiveness and economic survival of firms. These management approaches reflect a gradual transition from bureaucratic and hierarchical organisations to ‘networked organisational forms’ or ‘networked organisations’ (see Legge 2007). These kinds of organisational forms are designed to increase intra-organisational and inter-organisational flexibility in dynamic economic environments, primarily to support firms that are exposed to increased economic pressure. ‘Market’, ‘hierarchy’ and ‘network’ are often considered to be different modes of governance (Powell 1990) being regarded as ‘alternative designs of economic organization’ (Grimshaw et al. 2005a: 16). However, in this paper, network is conceived of as a ‘logic of organizing that is being diffused within established market and hierarchical governance structures’ (ibid: 15). Therefore, the concept of networked organisations refers to organisational hybrids that are based on usually interrelated organising practices *within and between organisations*<sup>3</sup>. Networked organisational forms are characterised by a tendency towards increased externalisation of relations, diversified activities within networks, performance-based control and moves to market-based contractual arrangements (Storey 2005: 193).

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<sup>2</sup> During the 1980s and the 1990s the most debated variants and examples of such new management approaches were total quality management, business process reengineering, lean production and learning organisation.

<sup>3</sup> For instance, the Japanese model of ‘lean production’ or ‘Toyotism’ involves intra-organisational flexibility on the basis of teamworking and cross-functional learning as well as inter-organisational flexibility via hierarchical networks of relational sub-contracting manifested in the Japanese keiretsu-system (Rubery & Grimshaw 2003; Legge 2007; Boyer & Freyssenet 2003).

Much of the debate on networked organisational forms deals with blurred organisational boundaries in respect to economic environments. The increase of permeable and extended organisational forms is primarily explained by three core factors (Rubery et al. 2002; Storey 2005; Legge 2007). The first argument refers to the opportunity to reduce transaction costs compared to bureaucratic organisations by utilising information technology to develop ‘virtual organisations’ or foster inter-organisational networks of contractually based market relations (Castells 1996). Second, it is assumed that business organisations’ competitive advantage may rest on the development of firm-specific assets and core competencies. In this case, regular activities which do not belong to firms’ core activities are outsourced. Non-core activities are acquired through contracting with other organisations as suppliers. Outsourcing<sup>4</sup> refers to the externalisation of production or services. It relates ‘to the situation when a company subcontracts to another supplier work that it was previously performing in-house’ (Storey 2005: 197). Outsourcing may imply arrangements ‘where employees are transferred to a third party, beyond the boundaries of their original employer’ (Colling 2005: 91).

Outsourcing and sub-contracting often aim at promoting cost efficiency (ibid.). The intention to restrict business activities to core value adding processes, competencies and functions often implies to restructure organisations according to the management approach of business process reengineering. It usually involves practices of downsizing, de-layering and the exercise of economic power to drastically reduce costs along the supply chain (Storey 2005; Legge 2007). Last but not least, the formation of inter-organisational networks may facilitate organisational learning, knowledge acquisition and economic risk reduction, e.g. in respect to product development or expansion into novel business areas or pooling resources to reduce costs (Storey 2005). These new forms of inter-organisational cooperation highlight the creative tension of competition and collaboration and are to create an added value for involved firms, e.g. joint ventures, strategic alliances or open source innovation processes (Oliver & Ebers 1998).

These and other permeable and extended organisational forms, e.g. franchising or public-private partnerships, often neglect consequences for the employment relationship and social relations at company and inter-organisational levels. A variety of studies particularly dealt with impacts of networked organisational forms in respect to the employment relationship (Purcell & Purcell 1998; Marchington et al. 2005; Legge 2007; Colling 2005; Frade & Darmon 2005). However, the unintended effects of networked organisational forms on employment relations can be regarded as a still under-researched area in respect to their intra- and inter-organisational dimensions. This especially refers to trust relations in (cross-boundary) work settings and implicit patterns of expectations and obligations between managers or employers and different groups of employees or workers.

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<sup>4</sup> According to Purcell & Purcell (1998: 50) outsourcing differs from subcontracting. While the former relates to cases in which “an outside contractor takes over the in-house function and manages it on the client company premises,” the latter relates to (partially) contracting out production or services to another company.

The aforementioned studies indicate risk potentials of trust erosion in cross-boundary work settings. Furthermore, it is explained that networked organisational forms externalising employment relationships lead to an erosion of informal and unwritten psychological contracts between managers and employees. Some of these unintended effects are exemplarily sketched: the blurring of organisational boundaries in extended organisational forms implies a plurality of employment forms, e.g. permanent and fixed-term jobs, agency work or self-employment. It also promotes the emergence of multi-employer sites where the general notions of organisations, such as discrete entities and an employment relationship based on clear-cut employment contracts between an employer and employees, are called into question (Frade & Darmon 2005; Rubery et al. 2002). For example, insourcing, the utilisation of agency labour within client organisations, often implies temporary staff and permanent staff working alongside one other in the same premises with similar or comparable jobs. However, the terms and conditions of their jobs and employment contracts often drastically differ (Purcell & Purcell 1998; Legge 2007). Because of comparatively short and fixed-term employment contracts agency workers are more exposed to job insecurity. The temporary agency is often unable to provide job security because the employment contract is usually terminated at the end of the commercial contract. Moreover, temps often work for lower wages compared to permanent staff in client organisations and do not draw fringe benefits. Client organisations seldom provide training or reduce training expenditures for temps to a minimum. Therefore, this model of multi-employer sites promotes the creation of an established-outsiders relationship (Elias & Scotson 1965) between permanent staff and agency workers that may foster low trust relations at work. The different terms and conditions of employment relationships contradict felt-fair norms on part of agency workers. Furthermore, the client organisation can use agency labour as a disciplinary mechanism in respect to permanent staff, e.g. as a downward pressure on salaries.

Similar problems arise from outsourcing which entails staff transfer to a new provider, e.g. outsourcing public services to private providers. Tensions and conflicts due to different employment terms and working conditions, such as working time and performance-related pay, may occur between retained employees and transferred staff working alongside one another in the same premises (Grimshaw et al. 2005a: 8 p.; Frade & Darmon 2005: 112). These conflicts revolve around perceptions of fairness and the comparability of employment conditions. Transferred employees may perceive personnel transfers related to outsourcing as a breach of psychological contracts on the part of their former employer. In this case, employees regard the transfer as betrayal and bad treatment by the former employer (Grimshaw et al. 2005a). In this view, employees' employment positions, job security, and career opportunities are called into question. The personnel transfer may also imply negative unintended effects in respect to the employment relationship between transferred staff and their new employers. For instance, studies related to staff transfers from public services to private providers report that transferred employees tended to reject work-related demands by

their new private employer that contradicted their public service ethos trying to sustain their professional identity (Legge 2007; Grimshaw et al 2005b). Inter-organisational multi-employer networks are characterised by a paradox of trust: on the one hand employees are expected to collaborate effectively across organisational boundaries which requires building high trust relations. On the other hand, these empirical examples underline a tendency to low trust employment relationships in cross-boundary work settings (Legge 2007: 50). This tendency is reinforced if commercial contractual relationships between business organisations inhibit low trust relations. Such relations are promoted, if client organisations focus on short-term benefits, cost savings, and offloading risks on service providers. In this case, it is not unlikely that providers transform these business risks into employment insecurity and work-related risks of their staff (Frade & Darmon 2005; Legge 2007).

Contrary to the external perspective of networked organisational forms, this paper emphasises the internal perspective, i.e. the intended creation of loosely coupled in-company networks which serves to facilitate internal flexibility as a prerequisite for external flexibility, e.g. in respect to fluctuating customer demands (Becke 2010). The creation of flexible in-company networks is promoted by the management approach of ‘internal marketisation’ that intends to create internal quasi-markets which are to provide competitive cooperation for economic goal attainment at company level. Internal competitive and contractual governance mechanisms are introduced to enhance firms’ capability to buffer environmental uncertainty and to sustain its competitiveness and viability in dynamic economic environments. According to this management approach semi-autonomous business units are expected to contribute their share to the attainment of overall economic company goals.

In this paper a still under-researched issue is addressed: the unintended effects of internal marketisation with respect to social integration at the establishment level or at company level. Social integration is highlighted in regard to two dimensions: trust relations in the workplace and the informal and unwritten psychological contract between the employer side or managers and (different groups of) employees. This paper<sup>5</sup> is structured as follows. In the second section the basic idea and the core elements of internal marketisation are highlighted. Moreover, it is pointed out that the application of this management approach varies with institutional settings companies are embedded in. The third section contains the empirical part of this paper. The unintended effects of internal marketisation with respect to social integration at firm level are analysed by the example of an in-depth case study which refers to the introduction of internal marketisation in a German public transport company. The analysis

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<sup>5</sup> This paper is dedicated to Guglielmo and Helen Meardi in gratitude for their hospitality and friendship. It is based on my lecture at the Warwick Business School, University of Warwick, on November 25<sup>th</sup> 2008. The paper entails preliminary conceptual reflections that refer to the current research project ‘8inno’, i.e. ‘Organisational Mindfulness as Basis for Innovativeness at Company Level’ which is funded by the German Ministry of Education and Research and the European Social Funds. This project is coordinated and carried out by the Research Centre for Sustainability Studies (artec) at the University of Bremen. For further information see <http://www.achtinno.uni-bremen.de>

focuses on three relevant unintended effects which affected social integration at company level, i.e. the emergence of barriers to cooperation between business units; an internal fragmentation within the workforce; and the disturbance of psychological contracts between managers and employees. Based on this analysis conclusions are drawn in the final section. Implications are discussed with regard to the relevance of these empirical findings for more conflict oriented industrial relations at company level, especially in respect to British workplaces.

### **‘Internal Marketisation’: Core Elements and Institutional Contexts**

The management approach of internal marketisation is closely interwoven with ‘networked organisational forms’. However, its origins can at least partly be traced back to the age of ‘Fordism’. Internal marketisation involves – among other aspects – the introduction of decentralised semi-autonomous business units which are accountable for their economic performance. The idea to create such business units was originally developed during the 1920s when vertically integrated and manager-led corporations in capital-intensive industries of different Western industrial societies introduced the multidivisional form (‘M-form’).

According to the economic historian Alfred D. Chandler (1992 and 1994) the functional or unitary organisational form (‘U-form’) prevailed from the turn of the 20<sup>th</sup> century to the First World War. The functional form presumes ‘singularity of purpose and unity of command’ (Scott & Davies 2007: 131). It is based on the introduction of departments around varying specialised business activities contributing to overall company goals. As functionally organised corporations expanded and extended their range of products, top managers were increasingly confronted with operating problems which absorbed their capacity of strategic decision making. Moreover, the increased complexity of business activities and information processing restricted firms’ ability to tie objectives of functional units to overall company goals (Chandler 1962; Barney & Hesterly 2006; Scott & Davies 2007).

The competitive advantage of vertically integrated corporations rested on their organisational capabilities and routines to fully exploit ‘SST-economies’<sup>6</sup> (Chandler 1994). The fundamental organisational change towards the multidivisional form can be attributed to new business strategies which aimed at the expansion into new geographical and product-related markets. The multidivisional form was developed by first mover corporations, such as General Motors, and became the dominant organisational form of vertically integrated and capital-intensive corporations between the 1920s and the 1960s (see Chandler 1962). The M-form is based on regional or product-related divisions. The division manager is introduced as a new

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<sup>6</sup> ‘SST-economies’ combine ‘economies of scale and scope’ and ‘transaction-cost economies’. While ‘economies of scale’ are utilised by mass production, ‘economies of scope’ rest on synergetic effects by the joint production and distribution of related products. ‘Transaction-cost economies refer to the vertical integration of suppliers and marketing services to control materials and outlets. The exploitation of ‘economies of scale’ and ‘transaction-cost economies were regarded as a prerequisite to guarantee an efficient throughput of production (for an overview Chandler 1992; Berghoff 2004).

hierarchical level. He takes operational decisions and is accountable for the economic performance related to a business line. Divisions are organised as ‘semi-autonomous’ business units which performance can be assessed in respect to divisional goals. The general corporate management is responsible for overall strategies, monitoring divisional performance and the allocation of financial resources among divisions, i.e. the M-form enables corporations to function as an internal capital market (Barney & Hesterly 2006; Williamson 1985)<sup>7</sup>.

### **The Ideal Type of Internal Marketisation**

In this section internal marketisation is sketched as an ‘ideal type’ in the Weberian sense (Weber 1947), i.e. its core features and underlying conceptual assumptions are highlighted (for an overview Becke 2008; Lehdorff & Voss-Dahm 2006). Ideal types do not intend to reflect empirical realities, rather they provide means to understand and analyse social phenomena. Therefore, it is underlined that the management approach of internal marketisation may exist in different variants. The extent to which its core features are utilised in organisational practise may vary as well, especially due to the institutional settings organisations are embedded in. In this paper, an institutional analysis of internal marketisation is not intended. However, some hints at institutional contexts influencing variants and the extent of internal marketisation are provided in the following section.

The management approach of internal marketisation rests on two *basic ideas*: first, it assumes that economic competitiveness and economic survival of companies can be enhanced if they flexibly adjust to fluctuating market demands and are capable of absorbing uncertainty induced by volatile economic environments. Second, it focuses on the idea to selectively open up the internal organisation of firms to market pressures in order to attain profitability and competitiveness. In this view, companies can only cope effectively with increased environmental uncertainty if they utilise the innovative power of market elements and competitive mechanisms *within* organisations. Internal marketisation does not promote a dissolution of companies into markets, rather it suggests to establish quasi-market structures

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<sup>7</sup> Whereas Chandler explains the ‘M-Form’ in terms of organisational learning and the development of organisational capabilities to adapt organisational structure to the strategy of diversification, Williamson as a core scholar of transaction-cost economics highlights economic performance advantages over external capital markets in terms of efficiency: First, the multidivisional form provides more precise information about business units and product lines. Second, the M-form facilitates the manipulation of incentives and allows firms to replace low performing (division) managers more easily. Moreover, the M-form enables top management to exercise control over divisional strategies (Williamson 1985; Barney & Hesterly 2006) This controversy between Chandler and Williamson is also reflected by their different basic units of analysis (see Chandler 1992): While Chandler focuses on the corporation, and its related organisational capabilities and strategies, Williamson prioritises transactions, and prefers ‘economizing’ to ‘strategizing’ (Williamson 1991: 90). In Williamson’s view, the existence of organisational structures is justified with the principle of efficiency. This view neglects that organisational structures also depend on other factors than efficiency. For instance, organisational structures can be explained by legal and historic factors or by power relations at company level (see Bonazzi 2008: 348). For a critique of the multidivisional form see Barney & Hesterly (2006). For critical comments on Chandlers theoretical assumption that ‘structure follows strategy’ see Rumelt (1986), Berghoff (2004) and Maier (1993).

within organisations. This core idea is closely associated with the conceptual fiction that organisations are regarded *as if* they were markets (see Ortmann 2004).

In the management approach of internal marketisation economic organisations are conceived as organisational networks composed of loosely coupled semi-autonomous business units, often integrated into a company holding. These organisational networks can be regarded as hybrids between hierarchy and markets which are to fully exploit the performance advantages of hierarchy and markets in the face of uncertainty in a dynamic economic environment. The management approach of internal marketisation is characterised by a rationalistic perspective. This perspective is reflected in an organisational design which is based on a purposely created web of performance-related contracts linked with economic incentives and indirect mechanisms of control, e.g. benchmarking procedures. By placing economic incentives and governance mechanisms at the heart of internal marketisation, managers and employees are primarily conceived as rational actors according to the model of 'homo oeconomicus.' In this rationalistic perspective, top management is regarded as the prime change agent to transform organisations into organisational and contract-based networks.

The management approach of internal marketisation focuses on the creation of internal quasi-markets as a means of indirect control: each business unit is to be confronted with direct or indirect market pressure in order to direct the action of unit members to the achievement of overall company-related profitability objectives. This core idea is realised by different approaches (for an overview Moldaschl & Sauer 2000; Becke 2008).

*Strategic decentralisation* refers to the delegation of competences and decision autonomy from higher to lower organisational levels which are situated closer to external markets or customers (Hirsch-Kreinsen 2005). These 'empowered' local units are organised as profit or cost centres to which economic responsibility and autonomy are granted in order to attain their specific economic contributions to overall profitability objectives. Semi-autonomous business units are regarded as internal strongholds for the absorption of external uncertainty. They are expected to deliver services completely, just in time and flexibly according to customers' specific demands. Moreover, these units are to anticipate market changes more easily in order to enhance and accelerate organisational responsiveness to dynamic markets. Work or project teams affiliated to these business units are directly exposed to external customers. It is assumed that fluctuating customer demands can at best be anticipated if local units are directly confronted with external customers. Customer-tailored services are provided on this basis in order to attract and bind customers to companies.

Strategic decentralisation is utilised to transform organisations into loosely coupled organisational networks. However, hierarchy and bureaucratic elements are not entirely abandoned (see Alvesson & Thompson 2005). Rather, they are selectively utilised as means of control, internal coordination and strategic integration. For instance, strategic economic assets are set at the holding management level. The holding management still remains in

charge of the overall company strategy and the allocation of financial resources in respect to the in-company capital market. An indirect control of local units is exercised by the means of (internal) benchmarking and controlling systems, the budgeting of business units and management by objectives (MbO) (Schreyögg 1998).

*Benchmarking systems* enable a performance-related comparison between internal units and between internal units and external competitors: such comparisons are intended to stimulate internal competition in order to increase the overall company profitability. Against this background, the holding management may decide on buy-outs or outsourcing, and accordingly the closure of business units which failed to achieve their specific profitability goals or do not fit anymore to holding strategies. It poses a permanent threat to company units and their employees to be dismissed or outsourced in case of economic failure (Colling 2005), i.e. not achieving economic goals. Benchmarking induces a continuous spiral of economic competition which is directed to a permanent increase of profitability. This permanent increase serves as a mechanism to absorb environmental uncertainty by competitive pressure.

*Management by objectives (MbO) procedures* are related to economic performance results. Cascades of MbO serve as a governance mechanism to transpose overall economic goals into specific economic objectives that profit or cost centres and their affiliated teams or single employees have to attain. Business units are expected to meet their result-based goals but they are more or less autonomous in their methods of achieving these goals. MbO-procedures contribute to the creation of semi-market structures and transactional relationships within companies. They can be established vertically and horizontally, i.e. between business units.

The establishment of internal quasi-markets or simulated markets implies that organisational relations between business units are reorganised according to the economic mechanisms of market transactions. These mechanisms involve the transformation of intra-organisational social relations into 'internal customer-supplier-relations'. To promote these mechanisms, modes of internal calculation are applied to everyday transactions between business units. In-company transactions are regulated by economic contracts between internal 'suppliers' and 'customers'. *The confrontation with internal customers* is to stimulate entrepreneurship as well as service quality and efficiency. Moreover, the introduction of internal customer-supplier-relations is to enhance the accomplishment of economic goals related to business units or sub-units (see du Gay & Salaman 1992).

Internal marketisation intends to facilitate cultural change by introducing a specific market-related language (for language related strategies Orwell 1979: 241 pp.; Klemperer 2007). This *economic newspeak* serves as an instrument to gain cultural hegemony (see Willmott 1993). It seeks to influence employees' work behaviour, mental models and the social construction of reality at company level in order to assist the transformation of intra-organisational social relations into economic transactions of simulated in-company markets. For instance, through economic newspeak colleagues or employees are – at least symbolically

– turned into (internal) customers, sometimes even competitors. This newspeak intends to adjust employees to the economic mechanisms of simulated in-company markets at the expense of a lifeworld understanding of firms based on generalised or at least balanced reciprocity between management and employees (Gouldner 1965). Social relations may increasingly be viewed through the lens of economic transaction and economic usefulness. If language contributes to managers' and employees' perception of companies as clear cut economic spaces then social ties based on mutual trust and reciprocity may be threatened to erode. Economic newspeak intends to promote an increase of utilitarian mental models and practices among managers and employees. In this view, language provides an ideological platform for the release of enhanced internal economic competition.

Economic newspeak intends to facilitate the promotion of a new *normative model of employees: the intrapreneurial self* (see Bröckling 2007). By this image employees are expected to act as an employed quasi-entrepreneur or co-entrepreneur at their workplace so that companies can use their human potentials and creativity for the purpose of economic goal achievement. Intrapreneurs are expected to take full responsibility to attain their specific contract-based economic goals. Although such an intrapreneurial attitude is mainly adopted by highly qualified professionals, it can also be adopted by less skilled employees to a lesser extent. These employees are at least expected to propose a catalogue of measures to increase the productivity and efficiency of work processes which in turn is often linked to continuous improvement processes. The normative image of the intrapreneurial self also conveys a notion of self-management in respect to a self-responsible development of qualifications, skills, and competencies on the one hand and the reproduction of health-related personal resources on the other hand. Moreover, self-management includes self-responsibility to sustain a balance between paid work and the private sphere.

Contrary to management approaches characterised by the suppression of subjectivity at work (Braverman 1998; Rose 1985; Thompson 1989) – as for example 'Scientific Management' – internal marketisation regards human subjectivity as a critical resource to reach economic goals in flexible organisations. From this it follows, that firms are increasingly interested to entirely mobilise human performance potentials being compatible with business strategies. This mobilisation also covers human potentials or resources which had formerly not been applied in 'human resource management' strategies and work design, e.g. social and emotional competencies. For example, emphasis is placed on 'cognitive and behavioural abilities geared towards multi-skilling, problem solving and decision making' (Warhurst & Thompson 1998: 6) as requirements for team working. Moreover, such personal qualities are also considered as a requirement to influence or manipulate customers' emotions and economic behaviour in favour of economic company objectives. Emotion work refers to the growing importance of emotional performance in customer relations (Hochschild 1983; Gabriel et al. 2002).

The management approach of internal marketisation intends to capitalise on subjectivity (Flecker & Hofbauer 1998) by *result-controlled autonomy* (Becke 2008: 41 pp.) as an indirect mode of control: it grants employees a high level of autonomy at work to organise their work processes and to attain economic and time-based goals laid down in contractually fixed agreements at the levels of business units, teams or individuals. Performance-related control is limited to outcomes of the work process. This indirect mode of control can be found in different work systems, such as production teams or project-based knowledge work. However, the extent to which this mode of indirect control can be utilised varies depending on work systems: it is especially applied to work systems which “are based on attitudes, motivation, willingness of the employees to contribute, to participate actively in structuring work and to solve emerging problems” (Latniak & Gerlmaier 2004: 189). Result-controlled autonomy intends to enhance the internal or functional flexibility of firms. Employees are empowered to participate at a flexible, but result-controlled ‘micro-management’ of work processes which in turn enables firms to flexibly adjust to changing environmental conditions and customer demands.

The management approach of internal marketisation includes a *redefinition of psychological* or implicit *contracts* between employees or groups of employees on the one side and the organisation, predominantly represented by (top) managers on the other side. The concept of psychological contracts relates to the incompleteness of the formal employment contract. From the management perspective this incompleteness is reflected by the problem to transform labour power into labour that produces value for the employer or shareholder through the creation of commodities or service-work (see Thompson 1989). Labour is a very particular commodity because employees remain in control regarding the extent to which they are engaged in the labour process, i.e. to utilise their skills, competencies and qualifications, bring in their work motivation and prove to be loyal to an organisation (Senghaas-Knobloch 2008: 56).

Psychological or implicit contracts are to counteract the incompleteness of formal employment contracts. In this paper psychological contracts are conceptualised as the ongoing social process and interdependence between employees and managers in which implicit reciprocal expectations evolve, are mutually adjusted, and renegotiated between the two parties (see Schein 1980: 99), i.e. ‘the contributions made by one party in an attempt to fulfill the requirements of the recipient subsequently induces a return contribution by the recipient’ (Taylor & Tekleab 2005: 255). In this perspective, the concept of the psychological contract is closely linked to the concept of social exchange (Fox 1974; Blau 1964; Coyle-Shapiro & Conway 2005). Implicit contracts between management and employees were often established on the basis of reciprocity (see Marsden 2004: 665 p.): employees were expected to offer organisational loyalty, reliability, and a good work performance. In return, employees were offered employment stability, pay and benefits linked to job tenure, training opportunities, and the possibility to climb the internal job ladder. This relational type of

psychological contract is regarded as outdated by promoters of internal marketisation. In order to keep the competitiveness and economic viability of companies stable in a volatile environment, long term employment is considered to be a barrier to numerical flexibility. The latter is often combined with downsizing processes involving outsourcing, dismissals and the reduction of hierarchical levels. This emphasis on numerical flexibility often contradicts employees' expectations regarding employment stability as well as their career expectations (Becke 2008).

The intended normative new psychological contract is based on a different understanding of reciprocity: on the one hand, management expects employees to work in an intrapreneurial spirit and to widely utilise their socio-emotional competence, skills and qualifications in order to achieve economic goals. On the other hand, employees are to be granted attractive integrated work tasks, high autonomy at work due to the devolution of responsibility and performance-related pay linked to the achievement of economic goals. Employment stability is suspended and substituted by employability, i.e. the employer side supports employees to enhance and improve their employability on internal and above all on external labour markets by training offers, the provision of networking opportunities and sometimes personnel or career consultancy.

### **Internal Marketisation in Institutional Contexts**

Internal marketisation and the extent to which its core elements are used may vary in organisational practise based on the diverse institutional contexts companies are embedded in<sup>8</sup>. Institutional contexts may constrain or facilitate actors' decisions at company level with respect to the acceptance and utilisation of internal marketisation. In this perspective, the institutional context may create path dependency, narrowing and channelling management choices in respect to 'networked organisational forms' in general and internal marketisation in particular. In the following passages, some important institutional factors that influence internal marketisation are sketched to explain different forms in organisational practise.

First, the varieties of capitalism have to be considered: the scope of internal marketisation varies regarding institutional settings and historically evolved path dependency in respect to capitalist market economies which influence corporate governance forms. While in Germany and other countries with coordinated market economies<sup>9</sup> access to 'patient capital' was provided to firms until the 1990s, in countries based on liberal market economies, such as the United Kingdom and the USA, finance and capital markets were early deregulated. This

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<sup>8</sup> According to Scott (2001: 48) institutions are composed of regulative, normative and cultural-cognitive elements that – together with associated activities and resources – provide stability and meaning to social life.

<sup>9</sup> The distinction between 'coordinated market economies' and 'liberal market economies' refers to the concept of 'varieties of capitalism' (Hall & Soskice 2001). As Bosch et al. (2009) point out this distinction is not clear-cut taking account of current changes within capitalist market economies which e.g. might even push coordinated market economies away from its path-dependent development.

facilitated the emergence of corporate governance forms prioritising short-term and often excessive shareholder interests (Hall & Soskice 2001; Fligstein 2002). Shareholder value regimes at company or corporate level necessitate elaborated variants of 'internal marketisation' which involve (most of) the sketched different core elements and are often closely linked to external flexibility strategies. Such variants are introduced to direct the entire internal organisation and business activities towards the achievement of high stock values. In contrast to stock holding companies internal marketisation proves to be the exception to the rule in small and medium-sized firms in family ownership. However, the latter does not necessarily exclude elements also linked to internal marketisation, such as self-regulation and team work in the workplace.

Second, the regulatory context has to be addressed (Colling 2005). Besides commercial law the body of labour and employment regulations can influence the extent to which internal marketisation is utilised at company level. For example, employers' autonomy in economic decision-making is constrained by labour law in Germany to a comparatively high extent, especially by the Works Constitution Act and (sector-specific) Co-determination Acts. However, these laws are not compulsory for firms, but rather require that a body of works councils is elected by the entire workforce, often with initial support from trade unions. The larger firms are, the more likely is the existence of works councils. According to this regulatory framework trade unions and / or works councils can exercise statutory co-determination rights at companies' supervisory boards to which top manager are accountable. The labour side can exercise its information and consultation rights in respect to strategic decision-making which may also refer to decisions in respect to corporate governance forms, also related to internal marketisation (Becke 2004; Müller-Jentsch 2003). Co-determination at the establishment level is based on the institution of works councils as legally protected bodies of employees' interest representation. Works councils are often a decisive factor for social integration at company or establishment level. They usually intend to avoid individualisation and workforce fragmentation in reorganisation processes, such as the introduction of internal marketisation (Kotthoff 1995). Works councils can also use their co-determination rights if managers decide to introduce internal marketisation. For example, co-determination rights refer to the introduction of performance-related pay systems, new forms of work organisation, such as team work or project-based work, which are often associated with internal marketisation. Therefore, co-determination by works councils cuts off the edge of internal marketisation in German companies, at least as long as firms are not governed by shareholder value regimes.

Moreover, co-determination rights also refer to dismissals on the basis of buy-outs or downsizing strategies which may be related to internal marketisation. Layoffs are not rendered impossible by German labour law in general and by the Works Constitution Act in special, but their costs are substantially increased for employers (Rubery & Grimshaw 2003;

Müller-Jentsch 2003). This is one important reason why internal marketisation is less frequently associated with harsh layoffs and business process reengineering in Germany compared to Anglo-Saxon countries. For example, works councils can utilise co-determination rights in respect to substantial or mass dismissals negotiating a so-called 'social plan' on the basis of joint-decision making with top management. Firms then have to consider social issues, as e.g. employees' duration of service in the company, age or family status. Social plans may also involve financial compensations and the provision of training opportunities for laid off employees. Furthermore, layoffs are hindered by German labour and employment law, e.g. the Protection against Dismissal Act that relates to all firms whose regular workforce exceeds ten employees who have been employed for at least six month (Gerlach et al. 2006: 8). These examples show that in Germany more emphasis is placed on employment security compared to the UK. Therefore, the externalisation of employment relationships occurs less frequently in networked organisations. Because of comparatively higher costs for employers regarding the externalisation of employment and numerical flexibility, German firms more often focus on enhancing internal flexibility which may foster internal marketisation.

The extent to which internal marketisation is used and associated with externalising employment relationships can also be influenced by the nature of labour markets. In countries and sectors with production models or service strategies that rely on comparatively highly skilled labour force, occupational labour markets are often established providing nationally acknowledged and certified (industry-specific) occupational qualifications (Rubery & Grimshaw 2003; Hall & Soskice 2001). In occupational labour markets firms tend to give priority to internal flexibility and internal marketisation that enable to retain highly qualified employees. In this case, forms of external flexibility, such as outsourcing or the use of agency work, are less frequently utilised (Keller & Seifert 2006). In labour markets of highly qualified employees a more elaborated use of internal marketisation often prevails: Top managers tend to utilise internal 'quasi-markets' to extend their control over high professionals. Extended self-management and performance-related incentive are supposed to foster intrapreneurial attitudes. In this view, the management problem to transform labour power into labour is to be solved by highly qualified employees' work-related self-control (Böhle 2008). In labour markets of unskilled or semi-skilled labour there is a lower probability to implement internal marketisation, whereas the externalisation of employment is more often prioritised.

Finally, the nature of product or service markets has to be considered. The more product or service markets are exposed to increased (sectoral, global or international) economic competition, the more firms will intend to proactively attract customers. Due to strong exposure to competition tendencies towards elaborated internal marketisation at company

level may be fostered which in turn are regarded as a prerequisite to gain competitive advantage and external flexibility (Korczynsky & Ott 2005).

In sum, these few examples of institutional contexts illustrate that internal marketisation may be manifested quite differently. There is a variety of variants of internal marketisation and the extent to which its core elements are used in organisational practise differs.

### **Internal Marketisation in Practice: Unintended Effects on Social Integration**

Since the 1990s a variety of empirical studies has been conducted which are directly or indirectly related to the new management approach of internal marketisation. Despite this variety, only a few studies analysed the impact of this management approach on in-company social relations. Most of the existing studies can be subdivided into two groups. The first group contains studies that focus on post-fordist forms of work organisation or post-bureaucratic management approaches. Their scope often includes the internal marketisation of companies. These studies take also account of unintended consequences and internal contradictions of such management approaches. However, unintended impacts in respect to the social integration of companies are of minor importance in these studies.

A specific trajectory of these studies relates to the creation of so called 'sustainable work systems' (see for an overview Docherty et al. 2002). This trajectory deviates from optimistic perspectives in which post-fordist work organisations are regarded as an end to alienation at work, i.e. work organisations which promote autonomy at work, self-actualisation and healthy working conditions. Such an optimistic perspective has been deeply rooted in an anti-Tayloristic tradition of work design, especially in work psychology. Contrary to this overoptimistic view, studies related to sustainable work systems emphasize the ambiguity of post-fordist forms of work organisations, such as team work or project-based work: At first glance, these forms seem to keep promises of self-actualisation and autonomy at work. However, at second sight, the internal marketisation of companies constrains a humane work design, especially in workplaces with highly qualified employees. Internal marketisation fosters the spread of highly problematic working conditions because it promotes a self-managed intensification of work which is combined with an often informal extension of working hours per week to meet contractually fixed economic goals (Lehndorff & Voss-Dahm 2005; Latniak & Gerlmaier 2004). Therefore, sustainable work systems provide an alternative frame of reference to analyse and explore requirements to develop work systems which enable employees to reproduce or develop their specific resources, i.e. qualification and health resources, in marketised work environments (see also Becke et al. 2010). Other studies primarily refer to internal contradictions of post-fordist management strategies. Such studies e.g. illustrate that post-fordist or post-bureaucratic management concepts do not overcome bureaucracy but may sustain or even enhance bureaucratic mechanisms and forms of control (for an overview Alvesson & Thompson 2005; Grey 2007).

The second group of studies primarily relates to strategies of external and numerical flexibility within new management approaches. Here, the focus is on unintended effects of outsourcing and a systematic reduction of employment and positions. This analytical focus on 'downsizing' was developed against the background of business process reengineering strategies which were predominant in the US-American and British industry during the end of the 1980s and the first half of the 1990s. 'Downsizing' initiated numerous studies which were primarily based on an organisational psychology focus (see Burke & Cooper 2000). These studies contributed to the explanation of unintended medium-term or long-term negative effects of downsizing-strategies on business performance. The 'psychological contract' proved to be an explanatory and analytical core concept (Anderson & Schalk 1998; Rousseau 1995). These studies emphasise that even employees who stayed with downsized companies often experienced downsizing processes as a severe violation or breach of their psychological contract. This experience can induce altered work behaviour, such as a withdrawal of innovative and creative action potentials, or a decrease of organisational loyalty. This altered work behaviour may damage the competitiveness of firms and their capacity of innovation (Sorge & Witteloostuijn 2004). The experience of downsizing may also result in health related problems the so called 'stayers' are confronted with, such as enhanced psychic stress due to work intensification and job insecurity, burnout, and the 'survivor-sickness-syndrome' (Kets de Vries & Balasz 1997; Noer 1993).

This second group of studies can be characterised by two limitations: they do not relate to strategies of internal flexibility and the internal marketisation of companies, although downsizing is often combined with such internal change strategies. At first glance, these studies may open up avenues to analyse the impact of downsizing on social relations at workplace level. However, these studies mostly reflect a paradigmatic shift related to the analytical core concept of psychological contract. Early approaches emphasised a social interaction perspective defining the psychological contract as an emergent and ongoing interaction process between the employers and employees in which implicit expectations to the employment relationship are mutually adjusted (Schein 1980; Levinson et al. 1966). Contrary to this perspective, the new basic conceptual approach primarily defines the psychological contract in the eye of the beholder, i.e. as a cognitive mental model which focuses on individual employees and their cognitions of organisational change processes (see Rousseau 1995). Therefore, modern studies on the change of psychological contracts in flexible firms tend to neglect the social dimension, i.e. the effects of new management concepts on social relation at company level. This limitation is also reflected by prevailing research methods that predominantly encompass questionnaire surveys (see the critique in Conway & Briner 2005) but seldom include qualitative research methods, such as group discussions with employees and managers. Qualitative research methods enable the analysis of psychological contract changes in respect to social relations at company level.

Keeping these limitations in mind, I will analyse unintended effects of the internal marketisation of companies in respect to a widely neglected dimension, i.e. social integration at company or establishment level. In this paper, the perspective of social integration relates to two core concepts: implicit employment contracts and intra-organisational trust relations, especially interpersonal trust. Whereas implicit employment contracts are related to vertical social relations between managers or employers and employees, trust relations also cover the horizontal dimension, i.e. social relations among employees. Both concepts share a social interaction perspective that is closely associated with social exchange theory (Coyle-Shapiro & Conway 2005; Lane 1998). Furthermore, the effects of internal marketisation on intra-organisational trust relations and implicit employment contracts are still under-researched.

In general terms, trust can be defined as “the willingness to accept vulnerability based on positive expectations about another’s intentions or behaviours” (McEvily et al. 2003: 92). Although trust is an ambiguous concept with different definitions and connotations in economic, social and organisation theory, three common elements or assumptions can be distinguished in respect to interpersonal trust (Lane 1998: 3). First, theories are based on the assumption of interdependence between trustor and trustee, i.e. trust is linked to social relationships: ‘expectations about another’s trustworthiness only become relevant when the completion of one’s own consequential activities depend on the prior action or co-operation of another person’ (ibid.). Second, it is theoretically assumed that trust provides a way to deal with risk or uncertainty in exchange relationships. Risk and uncertainty are considered to be inherent in such relationships due to time delays and information problems, i.e. not knowing how the other person will react. The third basic theoretical assumption refers to the expectation that neither of the parties involved in the exchange relationship will take advantage of the vulnerability arising from the acceptance of risk.

These three core assumptions are also valid for business organisations. For example, the employment relationship can be regarded as an exchange relationship characterised by mutual interdependence between employer and employee (Levinson et al. 1966). Although the employment relationship means (inherent) potential for conflict, potential for trust building is also included. This is often fostered by the emergence of implicit employment contracts (Becke 2008). Atkinson (2006: 230 p.) argues that trust does not solely correspond to relational psychological contracts, but rather is also linked to transactional implicit employment contracts. In this view, transactional contracts are based on cognitive trust which is considered to be rational and calculative in nature emerging from an economic exchange relationship. In contrast, relational implicit contracts emanate from social exchange relationships that depend on affective trust based on ‘relational bonds between the parties, respect and concern for one’s welfare’ (ibid: 231).

Interpersonal trust is highly important for systemic or institution-based trust (Luhmann 1979), also involving organisations (Grey & Garsten 2001: 231): On the one hand, the structure and

operation of (organisational) systems or institutions cannot be understood without regarding the individuals who reproduce those structures. On the other hand, trust building between individuals is always embedded in and / or facilitated by systemic or institutional contexts.

### **The Case Study of ‘Local Mobility Services’**

Unintended social consequences of internal marketisation are analysed in respect to an in-depth case study of a German public transport company, called ‘Local Mobility Services’ (LMS). This service company was restructured according to the economic logics of internal marketisation. The case study originates from an action research project conducted by my colleague Eva Senghaas-Knobloch and me over 12 months in 2003 / 04 (Becke 2008; Becke & Senghaas-Knobloch 2004). The case study stands for larger and co-determined public companies which had been characterised until mid-1990s by established bureaucratic organisational structures, an internal labour market with a high extent of employment stability and transparency of internal career ladders. Since then public transport companies have been reorganised. Company restructuring has been primarily attributed to the severe public financial crisis public companies had to face in Germany. Moreover, the successive liberalisation of public transport markets at European level enhanced competitive pressure. Thus, most local or regional public transport markets in Germany with their monopolistic or oligopolistic structures had to meet the challenge.

Our research interest focused on the extent to which internal marketisation was utilised at the level of larger public service firms. Furthermore, we were keen to explore the potential change of implicit patterns of social expectations between (top) management and employees as well as between different groups of employees, and work cultures at company level respectively. While there was hardly any research analysing the social impacts of reorganisation by internal marketisation in local or regional German public (transport) companies, the case of LMS proved to be appropriate to reflect this type of public company. Therefore, this case study entered a widely unknown research terrain in Germany. Other studies on the reorganisation of public companies primarily dealt with (partial) privatisation processes of public corporations with nationwide and often also international business activities, e.g. German Postal Services or German Telecom (Lippert 2005; Nickel et al. 2008).

The action research project was initiated by the company director of labour affairs’ request. His motivation was to shed some more light on irritating empirical findings of an internal survey study on work satisfaction which was regularly conducted in two years time. The actual survey was based on a quantitative research design highlighting a significant decline in work satisfaction among in-company maintenance workers related both to a previously conducted survey as well as in comparison with other groups of employees.

The action research design reflects a triangulation of different qualitative research methods which entails problem-focused interviews with managers, group discussions with works

councillors, participant observations of work processes and regular or project-related meetings in the maintenance unit, workshops with different groups of maintenance workers and a so-called dialogue conference primarily involving workers, managers and works councillors. Problem-focused interviews referred to managers at different hierarchical levels including top management, cost centre management, sub-centre managers and operational supervisors as well as members of the department of organisational development. Participant observations nearly covered the entire duration of the action research project with varied degrees of intensity in different project-related periods.

Workshops were offered to employees as workmates regularly cooperating in specific work environments, e.g. different maintenance areas. This particular social composition of workshops was related to our core concept of work cultures (Senghaas-Knobloch 1997). It refers to ways in which employees collaborating in a specific task-related work environment construe social reality at workplace level and at company level. In the words of Karl Mannheim (1980) work cultures can be regarded as 'conjunctive spaces of experience' knit together by a mutually shared experience basis of workaday practise, often creating a specific communally shared sense of belongingness and a specific language. Moreover, the concept of work cultures relates to the ways employees interpret, appropriate to and cope with formal orders in their daily work-related social interactions. Work cultures encompass three different dimensions. The knowledge and orientation dimension refers to employees' theories of actions in respect to the usual and appropriate ways how to deal with formal orders and work-related demands. These informal theories of action are developed in daily and work-related social interactions among employees collaborating in a specific task-related work environment. Social interactions provide communally shared implicit knowledge and orientation about how to deal with work-related demands and formal orders. The dimension of motivation refers to the ways employees develop their occupational or work-related self-image by dealing with formal orders. It also includes the views employees take regarding formal orders. These views refer to the extent of their voluntary work-related commitment which cannot be regulated by the formal employment contract. Last but not least work cultures contain a normative dimension which is reflected by the mutually shared views and social norms employees developed in their work-related social interactions. These social norms refer to expectations about appropriateness, rightness and fairness related to the ways how to deal with formal work-related demands or orders (Senghaas-Knobloch 2004; Folger & Skarlicki 1999). However, the social norms that evolved in work cultures may not completely be based on shared consensus, rather there is a notion of social coercion, usually evading collective reflection. Therefore, social norms related to work cultures can also be experienced by employees as social coercion (Mannheim 1980). Employees who harm these informal social norms in the views of their colleagues risk social exclusion and stigmatisation as outsiders (Elias & Scotson 1965).

The workshop design encompassed communicative methods of social research, above all group discussions. Two aims were associated with this workshop design. First, it was intended that employees collaborating in specific task-related work environments communally reflect on their work situation and their experience with the introduction of internal marketisation, especially at the workplace or maintenance unit level. Second, the workshops were utilised as a ‘constructive vehicle’, i.e. as dialogue space to develop ideas for an improvement of their work situation and / or procedures and rules of intended organisational change based on their experience with current or previous change processes. Workshops were designed as a ‘protected dialogue space’: participants kept control over dialogue-related contents and outcomes. They decided which information and developed ideas were to be distributed to other in-company actors utilised as information basis for the following dialogue conference. The latter was designed as a dialogue space in which ideas employees had developed before were discussed and negotiated. The dialogue conference intended to attain a compromise or consensus on negotiated ideas related to the improvement of working conditions or procedures and rules of further organisational change, at least within the maintenance centre. Results, time tables, and shared responsibilities finally were laid down in an action plan which provided common ground for further implementation.

This sophisticated action research design required a high extent of communication and trust building on the researchers’ side, e.g. to convince managers and operational supervisors that workshop participation should be realised by the voluntary principle. Moreover, it was facilitated by a project-related steering group which coordinated the internal process and controlled the implementation of negotiated and agreed on results. The steering group involved sub-centre managers, works councillors working in the maintenance unit and members of the department of organisational development.

Besides research tasks, our role as action researchers<sup>10</sup> entailed the design and moderation of ‘dialogue spaces’<sup>11</sup> and the involvement in the project-related steering group as co-coordinators of the action research process at the maintenance unit level. The transcripts of dialogue spaces, interviews and protocols related to overt participant observations were analysed utilising hermeneutic interpretative procedures (Leithäuser & Volmerg 1988; Senghaas-Knobloch & Dohms 1997). Research results presented in this paper mostly refer to an analysis of participant observations during the entire action research project.

The following box contains basic features related to the case study firm Local Mobility Services. It provides some background information to contextualise the unintended effects of internal marketisation in respect to this case study example.

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<sup>10</sup> For a methodological reflection of the action research approach and the role of researchers see Kuula (1997) and Eden & Huxham (2006).

<sup>11</sup> The concept of ‘dialogue spaces’ was mainly inspired by Scandinavian approaches of action research, above all by Björn Gustavsen’s conceptualisation of dialogue (see Gustavsen 1994)

### **Box 1: The Case Study of ‘Local Mobility Services’**

*Local Mobility Services* (LMS) is a public transport company entirely owned by a local community. More than 2000 employees work with LMS. Employee representatives exert their legally based participation respectively co-determination rights – according to the German Co-determination Act (1976) and the German Works Constitution Act (2001) – at the supervisory board and by a body of works councils which is elected by the entire workforce (see Müller-Jentsch 2003). At LMS technological and social innovation processes have had a long established tradition which fostered integrative bargaining between management and works councils. For example, social innovation processes were safeguarded by the director of labour affairs being appointed by the employee side at the supervisory board.

Since the end of the 1990s LMS has been restructured. *Company restructuring* can be attributed to different reasons: The *main reason* is the severe financial crisis of the local community. Local authorities put pressure on all publicly owned firms and organisations to successively reduce their costs. Another reason for reorganisation can be seen in the ongoing liberalisation process of the public transport sector within the European Union. Above all it exerts pressure on public transport companies to enhance their competitiveness in comparison to private competitors from all over the member countries. This economic pressure is increased by decisions of the European Court of Justice. The court decided that a competitive tendering of services could only be avoided by local authorities in the case that public transport companies were capable to prove their efficiency which is assessed against the background of sectoral benchmarking systems. If a public transport company fails to meet average economic benchmarking results, it faces competitive tendering. Sectoral benchmarking creates a spiral of economic pressure on public firms to continuously increase their efficiency.

The *reorganisation process* at LMS is anchored in a specific negotiated framework, i.e. a collective agreement between local authorities and top management on the employer side and the trade union ver.di and the LMS-works councils representing labour. This *framework agreement* or ‘political contract’ aims at reducing public financial deficit compensation for LMS by 50 % provided by local authorities between 2001 and 2010. This overall objective is to be achieved by a cost-cutting and modernisation programme at company level directed to an improved company performance with respect to foreseen further steps to sector liberalisation. In exchange, local authorities will avoid competitive tendering of public transport services and lay-offs. Moreover, local authorities promise political assistance to LMS to become a leading regional transport company.

The framework agreement is implemented on the basis of an *in-company job security agreement* between top management and works councils at LMS. This agreement is based on concession bargaining. It includes an avoidance of dismissals until 2013 (to be potentially prolonged by further negotiations) associated with a job reduction programme which is to be implemented by early retirement schemes and the decision not to substitute vacant positions. Moreover, concessions at the employees’ side contain the reduction of entry wages to newly hired employees and fixed-term contracts related to this specific group of employees. To increase the effectiveness of the in-company reorganisation programme a restructuring team was established which was formed by top managers, works councillors, and line managers of the human resource department.

The in-company reorganisation is *implemented according the economic logics of internal marketisation*. However, this new management concept is not fully implemented but takes into account the company tradition and its internal industrial relations. Steps towards internal marketisation cover a partial reduction of hierarchy levels and a limited strategic decentralisation of autonomy from top management to department level. Departments are reorganised as cost centre units with economic responsibility for their annual budgets. Internal horizontal cooperative relationships between business units are transformed on the basis of internal economic contracts which reflect the economic logics of the principal-agent-relationship. Additionally, benchmarking as a means to promote competition between in-company units is introduced. In several cases services provided by in-company units are compared with external competitors in order to increase efficiency and cost cutting. Management by objectives combined with result-based merit pay is limited to upper management levels. Moreover, cascades of regular face-to-face talks between single employees and their direct supervisors are introduced as a formalised annual procedure, thereby providing ‘discursive coordination’ (Braczyk 2000). Their aim is twofold: On the one hand, it is intended to direct employees’ attention to economic company goals and enhance their identification with these objectives. On the other hand, this procedure provides a platform for employees to develop suggestions in order to improve their quality of work or their employability, i.e. the procedure is directed to enhance employees’ motivation and commitment at work.

### **Barriers to Cooperation between Company Units**

Barriers to in-company cooperation are the first unintended side effect to be discussed in respect to internal marketisation in organisational practise. The internal marketisation of Local Mobility Services (LMS) included a reorganisation of departments into cost centres. An extended economic responsibility was imposed on these cost centres. The top management concluded annually based and performance related contracts with the cost centre management. Centre managements obtained a specific annual budget in order to meet their economic or strategic objectives. These objectives were specified at the sub-units level whose managers were held responsible to achieve their specified economic goals. The payment of centre managers included a flexible component, i.e. a minor percentage of pay was linked to the attainment of their contractually fixed goals.

The internal marketisation also included the creation of internal quasi- or semi-markets which transposed former non-contractual cooperative relations into economic transactions regulated by formal contracts between in-company units utilising the microeconomic logics of principal-agent relationships (Barney & Hesterly 2006). By these transactional contracts everyday cooperation between business units and their affiliated employees were turned into ‘as if’-customer/supplier-relations’ (see Du Gay & Salaman 1992): The top managerial intention behind this ‘as if’ construction is to foster entrepreneurial behaviour at the level of cost centre units and their members. By imposing the model of customer-supplier-relations on intra-organisational relations business units and their affiliated employees and managers are expected to behave as market actors. The creation of such customer-supplier relations rests on

the assumption that hierarchical control can at least partly be substituted by horizontal control. In this view, control ought to be exercised by 'internal customers' (see *ibid*: 619).

Cooperation between in-company units and their affiliated employees had been formerly established on the basis of work routines and non-economic exchange at LSM. The internal marketisation marked a significant change to this non-economic mode of cooperation because it attached economic indicators to each cooperative transaction. The informal flexibility of cooperation was restricted because a formal contractual agreement between involved units was always required. Costs related to the economic contract were attributed to the unit that demanded assistance or received internal services. Moreover, internal tendering was practiced which increased economic competition between centres or units. Competition was even enhanced by calls for tenders involving external competitors. External offers were at least utilised as a means of comparing prices which exerted a strong pressure on internal units to increase their efficiency. Another dimension of internal marketisation referred to the distribution of financial budgets: The volumes of annual budgets were reduced in order to meet the overall economic goal directed to cost cutting. However, cost centres could limit budgetary reductions if they succeeded in fully utilising their personnel. By this provision internal competition increased by reason of calls for tenders.

These different means of internal marketisation promoted the emergence of barriers against cooperation between – and often also within – cost centres. These barriers reflected an increased self-reference of units or cost centres. An example of such an unintended cooperation barrier can be observed in practises related to the declaration of defective parts or transmissions of vehicles in maintenance services. This cost centre was comprised of three sub-units: maintenance for busses, maintenance for trams and a service unit which encompassed a variety of tasks from vehicle cleaning to the repair of parts being highly important to the safety of passenger transport, such as transmissions and brakes. The service unit was regarded as an internal 'fire brigade' which was expected to repair vehicles as soon as possible when other sub-units were not capable to carry out specific repair tasks or suffered from staff shortage. If a vehicle proved to be defective and could not be repaired by either bus or tram maintenance, repair tasks were offered to the service unit. In this case, the bus or tram maintenance units had to indicate their need of repair on an order form, i.e. to declare whether a cost intensive or a less costly repair was to be expected. This declaration had to be based on technical fault analysis carried out by the maintenance sub-units. This economic self-assessment by their internal customers was taken for granted by the service unit.

With the introduction of cost centres new habits emerged: Employees who belonged to the sub-unit of bus maintenance sometimes declared a larger need of repair as a smaller one. This deceit was backed by their managers. The economic motivation for this false declaration based on the intention to avoid costs being attributed to their maintenance sub-unit. In this case, the service unit had to carry out repairs which took more time than estimated on basis of

the declaration, i.e. these hidden costs were to be borne by the service unit. By pure chance, service unit workers detected this informal practice of deceit. The detection was followed by a conflict between the involved units. It was resolved by the centre management in favour of the service unit.

This example shows that internal marketisation may induce a low internal trust culture and opportunistic patterns of action at in-company units level. Trust erosion causes barriers to cooperation. Coordination problems between in-company units and in work processes might be induced. The erosion of high trust relations may constrain or even impair innovation capacities of firms because innovation requires that employees and managers are willing to cooperate across internal unit boundaries and to contribute their specific knowledge resources to innovation processes. Yet, high trust relations are a prerequisite for innovation. Moreover, this example illustrates that distributive conflicts can be attributed to internal competition between in-company units. Such conflicts absorb in-company capacities of action which are not available any more to cope flexibly with environmental uncertainty. The barriers of cooperation evoked by the internal marketisation of companies sharply contradict the image of companies as flexible organisational networks.

A second example related to this case study deals with the internal tendering of orders at LMS. In a group discussion works councillors reported that different units had to compete for orders, if two or more units were capable to carry out a specific task. This internal competition was accompanied by informal practices to damage the reputation of competitors in respect to performance and reliability. These practices were based on bad gossip (Elias/Scotson 1965) meant to harm the reputation of internal competitors and to induce the development of established-outsider-relationships (ibid.) between business units. The more orders a unit or cost centre received in internal competition, the more it could secure that their future financial budgets were not cut in the following business year. At LMS, a negative side effect of enhanced internal competition proved to be an increased tendency to in-company fragmentation which impaired the socially evolved high trust culture.

### **The Disturbance of Implicit Reciprocity Expectations**

The introduction of internal marketisation and the related cost reduction programme induced a disturbance of implicit reciprocity expectations between employees and top management at LMS. The company restructuring challenged the overarching and relatively stable psychological contract or social pattern of implicit expectations between both sides. This psychological contract can be characterised as follows: top managers at LMS expected employees above all to provide a good work performance, to be loyal to LMS and to identify themselves with public service tasks related to the company. In return, employees and their elected body of interest representation (works council) primarily expected employment

stability, decent work, a fair distribution of gains and burdens, options to advance internal career ladders, training opportunities, and fairness and respect (Becke 2008).

The reorganisation of LMS was conceived as a disturbance of these implicit expectations by many employees. Employment stability proved to be a core expectation to the implicit employment contract by employees. This can be partly explained by a comparatively higher extent of job stability in German public sector (Gerlach et al. 2006). Moreover, public employees, as those working at LMS, mostly joined public companies in order to benefit from job security. At first sight, the disturbance of implicit employment contracts may be surprising because the in-company job-security agreement excluded dismissals until 2013. However, while unconditional employment stability was guaranteed before, dismissals were not generally excluded in this collective agreement for the very first time in LMS history. Therefore, the limitation of employment stability until 2013 was perceived by many LMS-employees as a severe deviation from existing implicit patterns of expectations, questioning long-term employment stability. Additionally, uncertainty concerning employment prospects was enhanced by rumours about a potential break-up of LMS into different autonomous companies. These rumours, often reinforced by local media coverage, also referred to potential dissolution or outsourcing of vehicle maintenance which in turn stoked maintenance workers' fears of future working conditions and employment stability to a great extent. As the maintenance service unit manager remarked, "absolute future anxiety and frustration" spread among maintenance workers. These fears were also attributed to a lack of transparency in respect to top management decisions on future restructuring. Publicly spread rumours and this lack of transparency questioned institutional-based trust<sup>12</sup> workers had placed in LMS. This public employer had attained a high reputation as a reliable and social responsible employer who promoted technical as well as social innovations. In employees' eyes this reputation was damaged. However, about half a year after our action research project had started, top management decided to entirely sustain LMS reducing fears among maintenance workers and halting the erosion of institutional trust.

Further disturbances to the implicit employment contract were attributed to enhanced feelings of workplace injustice on the side of maintenance employees. The maintenance cost centre was comparatively severely struck by personnel reductions, usually utilising early retirement schemes and regular retirement. Personnel reductions were also associated with hierarchical 'de-layering,' above all in respect to lower management positions. For instance, after all foremen and a maintenance workshop manager had been retired, two maintenance workshops were merged and the internal opportunity for promotion linked to the foreman position was

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<sup>12</sup> Institutional-based or system trust refers to "stable and anonymously working institutional arrangements, standards of expertise, rules and procedures" (Bachmann 2009: 457) that facilitate coordinated interaction between social actors (also Zucker 1986; Luhmann 1979; Giddens 1990). Institutional-based trust can be produced without being dependent on interpersonal relations that actors might have with each other and / or individual positive emotions, such as sympathy.

abolished. By staff reductions on the level of the maintenance cost centre internal career opportunities decreased and work intensification was enhanced.

The tendency to work intensification was reinforced by further steps to economic optimisation. The number of reserve vehicles was drastically reduced in order to save costs. This optimisation increased work intensification because maintenance workers had to face enhanced time pressure to provide functioning vehicles to transport operation. The reduction of reserve vehicles often collided with maintenance workers occupational expectations related to service and work quality. If priority was laid on a prompt delivery of vehicles to transport operation, workers sometimes became frustrated because they had to reduce their occupational quality standards. Demands of cost reduction and enhanced efficiency contradicted quality standards skilled maintenance workers had acquired during vocational training and in work practise (Becke 2008: 374 p.).

Moreover, high demands of heightened functional flexibility were made on maintenance workers. On the one hand, these demands were attributed to staff reductions which induced an adjustment, i.e. an extension of job-related terrains. This extension also enhanced job-related responsibilities and sometimes demanded further training to cope with new job requirements. On the other hand, functional flexibility was heightened due to internal 'quasi-markets'<sup>13</sup>. Tendering of internal and sometimes even external orders was utilised as an economic governance mechanism providing opportunities to cost centres or their affiliated units to increase personnel utilisation. The higher the extent of personnel utilisation, the less each cost centre had to face further staff reductions. However, tendering of orders often was associated with conflicts revolving around prioritising orders and their succession to be dealt with. Maintenance workers and their supervisors were accountable to their internal customers which required additional efforts to report and inform internal customers about the actual status of orders. Simultaneously dealing with different orders often was associated with work process interruptions. Maintenance workers primarily perceived these interruptions as a source of psychological strain, especially in respect to orders which demanded a high level of mental concentration and required to readjust utilised machinery and tools. In this view, work intensification was reinforced by often unforeseen work interruptions.

The cost reduction programme and the introduction of several core elements of internal marketisation were perceived by many maintenance workers as an imbalance of reciprocity expectations. The threat of employment instability, heightened work intensification, increased demands of functional flexibility, and disregard of their occupational quality standards were primarily considered as disturbances of implicit employment contracts. Generally, maintenance workers felt that these new work-related demands were advance concessions to company restructuring which needed to be reciprocated by LMS and its management.

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<sup>13</sup> In section ,3.4 Internal Fragmentation within the Workforce' tendering of orders, its implications to functional flexibility and work-related requirements to maintenance workers are dealt with in detail.

However, this experienced imbalance was not perceived as a breach of implicit psychological contracts by LMS and its top management.

In the following sections it is to be explored why an overall feeling of breach among maintenance workers was avoided despite an experienced imbalance of reciprocity expectations. There are at least three explanatory factors to be distinguished. First, depending on work cultures employees' views widely diverge when it comes to company restructuring and perceived imbalances regarding implicit employment contracts. Second, the action research project provided space for employees' voice to reclaim reciprocity in respect to their advance concessions. Finally, works council and maintenance managers proved to be 'trust agents' or 'trust agency' to workers and buffered their feelings of injustice.

At the maintenance shop floor level work cultures as specific groups of collaborating workers held different views, i.e. emotional and cognitive perspectives to motivate and legitimise their actions. These views provide orientation in work environments. They also influence employees' individual and collective coping strategies with work-related demands and employment conditions. In these views expectations in respect to a balance of reciprocity between (top) management and employees are expressed. Such expectations are developed against the background of workers' employment-related biographies and their experience with the company they work for (see Becke & Senghaas-Knobloch 2004: 57). Employees' implicit patterns of expectations regarding the employment contract primarily evolve from social interactions at the workplace, especially being influenced by colleagues. Moreover, social interactions with colleagues also provide a frame of reference for assessing managers' work-related behaviour in terms of social recognition, fairness, and justice in the workplace as well as for work-related reciprocations by managers. The concept of implicit patterns of expectations to the employment contract refers to the social construction and social embeddedness of these patterns (Becke 2008). In this perspective, work cultures play a decisive role in the emergence and change of employees' implicit expectations to employment contracts.

In our case study at LMS employees reacted quite differently to new work-related demands associated with staff reductions and the introduction of internal marketisation. Sceptical or adversary views to reorganisation were spread among employees belonging to intra-organisational sub-units which suffered from a comparatively severe loss of personnel and faced uncertain future prospects. Contrary to these maintenance workers other employees signalled more positive views concerning reorganisation emphasising potential gains related either to their working conditions or to their internal social status positions.

A typical example of such 'sceptical work cultures' in the maintenance unit were employees working in upholstery. This trade was severely affected in different ways by reorganisation. First, staff had been reduced several times during reorganisation, leaving only two skilled employees with one of them to be retired soon. The remaining, mostly semi-skilled

upholsterers were afraid of not being capable anymore to cope with intensified work demands, especially with pretentious demands which required more skilled personnel. The upholsterers shared a sceptical view towards reorganisation. They were of the opinion that their trade was endangered by outsourcing due to reduction of skilled staff. In case the only remaining skilled saddler might suffer from severe and long-term illness, they were afraid of not being capable to cope with increased work load, providing arguments for outsourcing. Upholsterers construed their implicit employment contract with LMS as violated. This feeling of violation rested on a felt lack of interdependency between LMS and upholsterers (see also Levinson et al. 1966). The ongoing reduction of skilled saddlers without replacement was interpreted as a management strategy to get rid of upholstery. In this perspective, the relationship between top management at LMS and themselves was conceived of as structurally imbalanced. They believed that their work-related efforts and commitment to cope with increased work load were not reciprocated by LMS-management. Therefore, most of these employees initially rejected the sub-unit manager's request to extend their repair tasks.

In contrast to such sceptical work cultures, others developed a pragmatic and positive view towards reorganisation and the introduction of internal marketisation, e.g. work cultures related to vehicle-wash or locksmith's shop. However, it has to be considered that these 'pragmatic work cultures' did not suffer from substantial staff reductions. Moreover, they partly viewed internal marketisation as a window of opportunity to improve their working conditions or status positions at the workplace level. In these pragmatic work cultures employees more often perceived a more or less balanced reciprocity of give and take between workers and company. For instance, in the vehicle washing section mostly young workers with fixed-term contracts were employed. They were paid lowered entrance wages in comparison to long-term employees with LMS. Despite their comparatively worse employment conditions young workers appreciated that LMS provided employment to them in times of high unemployment, and invested in training and occupational health and safety for the benefit of workers. This investment was perceived as a form of social recognition by young workers.

Highly skilled and experienced workers emphasised the positive opportunity structure linked to internal marketisation. Internal and sometimes even external tendering of orders was regarded as an option to develop new technical solutions to maintenance or transport problems (see for details the next section). These forms of high commitment may be partly motivated by workers' efforts to improve their internal position in respect to achieve a rare supervisor position in future. In this view, high commitment can be regarded as a kind of advance effort to be reciprocated in future by management. However, it remained incalculable to these workers achieving such a status position due to shortage of supervisor positions. Furthermore, another source of motivation has to be taken into account. Typical maintenance work is directed to repairs in order to maintain or re-establish a normal status quo of transport

vehicles. This inert tendency of normalisation was exceeded by developing new technical solutions providing a source of self-actualisation and self-respect in its own right (Becke 2002).

Nevertheless, even in pragmatic work cultures a conceived persistent imbalance of reciprocity due to work intensification, enhanced functional flexibility and uncertainty to long-term employment may turn out as a tipping point, unless returns are provided by management. However, perceived imbalance of reciprocity does not inevitably lead to feelings of breach related to implicit employment contracts. As Hirschman (1980) pointed out, employees' 'inner emigration' or exit to other employers can be avoided, if the felt injustice can be voiced and their voice shows positive effects on working conditions. In this perspective, the action research project provided spaces of dialogue enabling maintenance workers' voice by developing proposals for improvements of their working conditions to be negotiated with cost centre and sub-unit managers. The steering group established at the beginning of our action research project was regarded as a trust agency by most maintenance employees. This steering group also consisted of works councillors affiliated to the maintenance unit and of sub-unit managers whose integrity was not questioned by workers. Therefore, the steering groups' commitment on employee participation and their willingness to assist and control the internal implementation of consensus-based proposals with respect to the improvement of the quality of work were taken for granted by workers. The latter had confided in the steering group to the effect that their constructive voice concerning the negative side effects of internal marketisation was influential.

The institution of works council played a decisive role in efforts to rebalance implicit reciprocity expectations between management and maintenance workers. First, the works council at LMS supported the action research project and initiated the new institutional arrangement enabling employees' voice to internal marketisation. Second, the works councils' involvement linked the project-based institutional arrangement to overarching and more stable institutional arrangement related to company restructuring and safeguarding employees' rights. Finally, the action research project provided an innovation for works councils' participation at LMS insofar as solely works councillors who worked alongside their colleagues in the workplace co-managed this participative process, whereas full-time works councillors stayed absent. However, works councillors involved in the action research project had to report regularly on the status of the action research project to their fellow works councillors. The delegation of co-management responsibilities from full-time works councillors to works councillors embedded in work processes at the maintenance unit proved to be very effective. As co-workers these works councillors had direct access to workers' participation in newly introduced spaces of dialogue. They acquired first-hand knowledge about workers' concerns and worries related to internal marketisation. In some cases they were able to mitigate or to resolve conflicts between different groups of employees related to internal marketisation. Fellow workers regarded these works councillors as trust agents taking

account of employees' concerns and interests at the level of the steering group. Therefore, these works councillors facilitated trust building in the participatory process and the implementation of consensus-based outcomes among employees.

As pointed out before, employee participation was practised in dialogue workshops and dialogue conferences. Both of them can be regarded as a new and transitional institutional arrangement at maintenance unit level to rebalance reciprocity expectations between managers and maintenance workers. Its transitional character rested on the limited time-span this institutional arrangement covered, i.e. it terminated with the implementation of consensus-based proposals. This new institutional arrangement was communally initiated by maintenance management and works council. It was facilitated by the aforementioned steering group that served as a guarantor of rules and procedures related to this arrangement. Dialogue workshops provided workers affiliated to specific work cultures a forum to communally reflect their experience with reorganisation and internal marketisation. Especially, these protected spaces of dialogue served as 'containers' in a psychodynamic sense (Hirschhorn 1990). They allowed employees to express and to reflect their fears, psychological injuries, negative feelings and problematic experience with internal marketisation and previous reorganisation processes at LMS. Furthermore, raised criticism proved to be a platform to develop proposals to improve working conditions with respect to internal marketisation. Workers' voice also referred to procedures of employee information and involvement related to reorganisation. Proposals which were accepted by workers in dialogue workshops were set on the agenda of the subsequent multi-actors dialogue conference which provided an arena of negotiations on employees' proposals. This arena excluded negotiations on work-related issues which required regulation either by collective agreements or by works agreements concluded between works council and top management, such as regulations on working time and pay systems.

In these spaces of dialogue employees mostly expressed their willingness to disapprove of new or increased work-related demands related to internal marketisation, unless adequate returns were provided by management. For instance, employees' expectations referred to new investments in machinery and tools required to effectively deal with new orders. Such investments were also regarded as inevitable preconditions by maintenance workers to avoid an outsourcing of tasks or jobs. Investments were conceived of as prerequisites for sustainable employment stability and competitiveness of the maintenance unit with respect to internal and above all external competitors. However, workers' claims of investments also revealed a 'hidden message': in this perspective financial investments in tools and machinery conveyed a symbolic meaning. Investments stood for workers' social recognition by top management, cost-centre and sub-unit management. This symbolic meaning implicitly refers to other returns claimed by workers.

Furthermore, most of employees' proposals corresponded to 'sustainable quality of work' (see Becke 2009). This concept refers to creating or readjusting 'decent' working conditions to dynamic work environments. A sustainable quality of work enables employees to cope with new work-related demands as well as to reproduce their resources with respect to health and skills or competence. For example, workers claimed special training to cope with new work-related demands attributed to successfully acquired orders. Quality of work does not solely entail work-related outcomes, such as a good and reliable product as a source of employees' self-respect, and working conditions related to production or services. Rather, it also refers to the quality of work processes. Maintenance workers utilised dialogue spaces as a window of opportunity to initiate a debate on obligatory quality standards in respect to (new) orders and to solve priority conflicts related to simultaneously dealing with internal maintenance orders on the one hand and orders related to other in-company or external customers on the other hand. These expectations primarily were directed to their supervisors being responsible for the overall coordination of work processes at the shop floor level. With respect to quality standards negotiations with maintenance managers at different levels resulted in the development of different definitions of binding quality standards related to old and new transport vehicles. In the dialogue conference a solution to priority conflicts was developed being accepted by all involved parties. This solution placed priority on unplanned vehicle-related repairs. This priority may induce delays in respect to non-vehicle related orders by internal or external customers. In this case, supervisors were asked to timely inform customers about delays and to negotiate a new deadline.

Workers' expectation to solve the problem of priority conflicts reflects their efforts to delimit an extended self-regulation at work. Until then, supervisors evaded direct information and negotiation with customers, once the contract with customers had been settled. In consequence, workers were directly confronted with internal and external customers, usually placing the resolution of emerging priority conflicts on employees' shoulders. Workers experienced these 'negative transactions' with internal and external customers as a source of psychic strain, usually reinforcing work intensity. Therefore, their claim to solve this problem can be interpreted as an effort of self-protection. Maintenance workers were obviously aware of their own work load limits. Voice reflects workers' collective capability to delimit an extended self-regulation at work. The latter was characterised by informality. Formal rules and procedures or responsibilities to deal with priority conflicts involving internal and external customers did not exist. Therefore, workers' voice induced a formalisation of problem solving procedures and responsibilities. This example shows that formalisation can be utilised as a means of delimitation against informal demands to extended self-regulation in company-related 'quasi-markets'. Moreover, it enables to redefine workers' and supervisors' roles. In this case, redefined roles serve as a 'protective coat' (Senghaas-Knobloch 2001) for workers against overburdening work-related demands associated with 'internal marketisation'.

Moreover, a perceived breach of implicit employment contracts was avoided by trust employees placed in supervisors and especially in sub-unit managers. These trust relations partly buffered workers' perceived imbalance of reciprocity expectations. Both groups of managers shared a long-term relationship and work experience with maintenance workers<sup>14</sup>. Nearly all of these managers worked their way up, starting their career as young skilled workers or in some cases even as apprentices at LMS. Therefore, they were accustomed to the in-company life world of maintenance workers, their work practises and perspectives to construct social reality related to LMS. Moreover, they shared a common history of cooperation, also involving experience with previous changes to work organisation and working conditions, such as the introduction of team working units. Therefore, sub-unit managers and supervisors were capable of taking account of workers' expectations in their decision-making and often shielded the maintenance workforce from inadequate demands by other company units or top management. Among most workers sub-unit managers and – to a lesser degree – also supervisors were respected for their integrity and trustworthiness.

Trust relationships between sub-unit managers and supervisors on the one hand and maintenance workers on the other hand had evolved in and were reinforced by their ongoing social interactions in the workplace. In the course of social interactions an implicit employment contract evolves and can be adjusted or negotiated taking account of the reciprocal expectations of both sides. These social interactions can be characterised as social exchange involving unspecified obligations. Favours offered by one actor to another create diffuse future obligations. Furthermore, the return of favours is left to the discretion of the recipient. The latter also decides when to reciprocate a favour (Blau 1964; Coyle-Shapiro & Conway 2005). According to Marcel Mauss (1990) favours are voluntarily offered, but always imply an obligation to returns on recipients. Social exchange facilitates trust building and promotion because “one party needs to trust the other to discharge future obligations (i.e. to reciprocate) in the initial stages of the exchange and it is the regular discharge of obligations that promotes trust in relationship” (Coyle-Shapiro & Conway 2005: 7).

Trust relations between sub-unit managers or supervisors and employees reflected in social exchange also mattered to ‘internal marketisation’. This can be illustrated by the social exchange between upholsterers and a sub-unit manager. As pointed out before, the upholstery at LMS can be characterised as a sceptical work culture with respect to internal marketisation. Upholsterers initially refused to extend their range of work-related activities. Their reluctance to deal with new orders was overcome by their sub-unit manager. Observing the social interaction between upholsterers and this manager I noticed that the latter was capable of taking account of upholsterers' fears with respect to potential outsourcing. Moreover, he tentatively explored under which prerequisites upholsterers might be willing to accept an

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<sup>14</sup> The average age of maintenance workers at LMS was 44 years. Most of these workers had been employed with LMS for a longer period of time, often for ten or more years. This also counts for supervisors and sub-unit managers

extended range of jobs. In this ongoing social interaction both sides expressed their mutual expectations which induced an informal agreement. The upholsterers' expectations to deal with new orders were fulfilled by the sub-unit manager, creating an obligation for employees to reciprocate this favour by extending their range of jobs. Upholsterers' expectations encompassed advance training to deal with new job requirements and the delivery of new and appropriate tools for these repairs. Furthermore, they insisted on repairing vehicles at their workplace. In return, they accepted to meet new work requirements. On the one hand, this example shows that employees' trust in the manager's integrity and trustworthiness proved to be a precondition for adjusting their expectations. On the other hand, trust relations between both sides were sustained and enhanced by mutually fulfilled obligations. By taking account of workers' expectations the manager's integrity and trustworthiness was reinforced in employees' eyes<sup>15</sup>.

Finally, this negotiated redefinition of expectations concerning the implicit employment relationship was facilitated by an organisational context of participatory structures that had been in existence for several years in the maintenance workplace. In the maintenance service unit, which was led by a line manager, 60 workers were employed. The maintenance service unit was subdivided into four maintenance teams, each of them led by a supervisor. Each team encompassed workers from different but associated trades. Most of the supervisors organised weekly team briefings whereby employees were informed about recent in-company and departmental developments. These team briefings were not limited to downward communications but also provided opportunities for workers to suggest improvements related to working conditions or work processes. Sometimes these briefings were utilised as starting points to found project-based problem-solving groups. Moreover, these weekly meetings were supplemented by daily team meetings. In both forms of meetings actual orders or repair demands were distributed to groups of workers by supervisors. The working time required for specific repairs and the current status of repairs were communally assessed in these meetings. Supervisors purposely drew on employees' tacit knowledge to plan maintenance repairs. The detection or specification of repair demands as well as carrying out repairs rested on forms of task-based participation that also involved self-managed team working. Teams were accountable to supervisors with respect to deadlines of repairs. After the spaces of dialogue had been terminated, these weekly team briefings provided a platform to closely monitor the implementation of negotiated proposals that related to involved trades whereby the monitoring function that the steering group exercised was supplemented.

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<sup>15</sup> This example shows that the distinction between two opposing theoretical perspectives explaining trust in the workplace, i.e. the character-based perspective and the relationship-based perspective, can be called into question. Rather, both perspectives may complement each other (see Dirks 2005). The character-based perspective focuses on manager's character and its impact on employees' vulnerability. This perspective argues that employees make inferences about the manager's character, as e.g. integrity, fairness and ability, by assessing the manager's decisions in respect to achieving employees' goals. In this perspective, such inferences play a decisive role for employees' work behaviour and attitudes. The relationship-based perspective explains the nature of manager-employee relationship in terms of social exchange.

## **Internal Fragmentation within the Workforce**

In view of the threat of internal competition social tensions and conflicts may also increase within business units. In-company competition can alter social relations among employees at all levels. This change of social relations is illustrated by the example of the LMS case study. Being aware of internal competition and cost reduction pressure, most of the employees affiliated to the LMS-service unit supported the new maintenance management strategy at cost centre and unit level to apply for internal or external orders. A higher percentage of acquired orders was regarded as a safety belt against further personnel reductions within the service unit and the maintenance cost centre.

However, the enforced internal competition exerted pressure on informal social patterns of expectations or informal norms among employees. The pattern of expectations among employees affiliated to the service unit formerly was based on an informal *laissez faire* norm. This informal norm can be described as a widely acknowledged consensus to allow colleagues to utilise their informal niches at work as long as these niches did not contradict to actual work requirements (see Becke 2008: 389). Examples of such informal niches are times for relaxation at work after having carried out exhausting orders or the repair of private vehicles during working time. The informal *laissez faire* norm was not questioned by employees as long as internal competition and heightened cost reduction pressure did not prevail. In our groups discussions employees reported that during this period of time even – in their eyes – low performing colleagues did not prove to be a problem to cope with work demands.

Against the background of internal marketisation at LMS this traditional informal *laissez faire* norm was called into question by the majority of workers. They agreed with the new strategy pursued by unit and cost centre management. In their view, the informal *laissez faire* norm was regarded as outdated because it proved to be a barrier to the new strategy. This strategy confronts employees with increased work-related demands. First, the demand of functional flexibility is enhanced. Workers had to carry out tasks beyond their job-related terrain more often. For instance, the paintshop as part of the service unit acquired internal orders to renovate and paint administration offices. Other highly skilled maintenance workers extended their job-related terrain by checking and repairing in-company elevators. These examples also illustrate that new tasks had often to be carried out at other in-company premises.

In some cases even external orders were acquired. For instance, employees produced mechanical equipment for a guide system of public parks. However, the extended functional flexibility was primarily attributed to the internal tendering of orders. This new orders often required additional training efforts, which means that training-on-the-job must be provided at least. Sometimes new orders were associated with work-related demands at the same skill level. These new orders had to be carried out during regular working hours. Priority was still

placed on maintenance tasks relevant to vehicle security. However, new orders enhanced the necessity of work coordination. Work teams in the maintenance unit and their supervisors more often had to coordinate their different orders taking account of demands by other cost centres as their 'internal customers'. This kind of 'interaction work' (Böhle et al. 2006) linked to the flexible coordination of orders also had to be carried out during regular working hours. The maintenance service unit management did not solely rely on internal tendering in order to broaden their range of activities. Rather, it also pursued own, self-regulated efforts, such as the development of innovative technical solutions with respect to public transport problems. For example, a portable technical anti-freeze device to be attached to trams avoiding the freeze of overhead contact lines in winter was developed by some highly qualified maintenance workers and their supervisors.

Internal marketisation left its footprints on collegiality. Increased functional flexibility and work coordination during regular working hours induced an intensification of work at the service unit level. Workers supporting this new management strategy of 'diversification' held the view that a higher work load and increased demands to functional flexibility could only be managed effectively if all colleagues contributed their share. In their opinion, a common effort was required which did not leave room for work niches anymore. Tolerance of work niches dwindled. These niches were regarded as an unfair distribution of work load. Increased work intensification and enhanced functional flexibility were accepted as a prerequisite to strengthen internal competitiveness and economic performance of the service unit by the majority of workers. In this view, the future of the service unit and their employment perspective were at stake. The old informal norm of collegiality was more and more replaced by a new one which defined collegiality as employees' willingness to contribute to the new management strategy. This included the expectation to share (additional) work-related demands fair-minded.

However, a minority of maintenance workers still objected to this widely shared expectation. They still claimed their work niches and tried to sustain the informal *laissez faire* norm which was more and more opposed. The informal *laissez faire* norm became a contested terrain signalled by an increase of disputes between its defenders and opponents. The minority group was set under pressure. The majority group tended to stigmatise the minority group as 'lazy bones,' especially if they were not willing to alter their work attitude and behaviour. Moreover, this basic line of conflict was associated with a shift of prevailing notions of fairness and justice in the workplace. Prior to the introduction of internal marketisation the prevailing notion of fairness had been reflected by the principle of equality. Workers were regarded as equal being members of the same social entity. Equality is based on social belongingness which is regarded as a common ground for mutual respect as well as informal rights and obligations. The principle of equality is related to distributive justice based on solidarity, especially with weaker members of a social entity. The principle of equality is reflected by equal pay for the same work without considering individual work commitment or

performance. Therefore, differences in work-related performance and the existence of informal niches were tolerated in the maintenance workplace as long as work-related demands could be met without disadvantaging colleagues by an unbalanced distribution of extra work. In contrast, the new collegiality norm refers to the principle of 'equity' which is linked to the performance-contributions each employee is willing to invest for the sake of economic goal attainment and future competitiveness related to the service unit (Kotthoff 2003). In this view, fairness is defined in terms of performance-contributions to the 'project' of sustaining the service unit and employment perspectives in a more volatile internal and external economic environment.

Due to the shift from the 'laissez faire' norm to the performance-related norm of collegiality the minority group of maintenance workers faced an enhanced legitimacy and justification pressure. Workers who continued to claim their informal niches were threatened with social exclusion by their fellow workmates and being stigmatized as outsiders (Elias & Scotson 1965). They were accused to opportunistically promote an unfair distribution of work. The conflict between the majority and the minority of service units workers reveals that economic governance mechanism of 'internal marketisation' may affect social relations based on collegiality and promote the internal fragmentation of workforces.

These contrasting norms of collegiality even caused disputes among maintenance workers with respect to the established pay system at LMS. Workers backing the new informal collegiality norm argued that the in-company pay system was to be altered by introducing economic incentives for employees with high work-related performance and commitment. Supervisors and sub-unit managers supported this view arguing available soft and informal ways to reward employees were not sufficient to ensure a sustainable good work performance in future. Contrary to this point of view, workers defending the laissez faire norm of collegiality argued that the introduction of economic incentives would threaten to undermine employees' solidarity and induce an irrevocable fragmentation of employees' interest. This position was supported by the works councils at LMS who had promoted the principle of equality with respect to their wage policy. Finally, employees' proposals to alter the pay system by introducing economic incentives were rejected by fellow workers and the works council. Against the background of internal marketisation performance and pay turned out to be a contested issue enhancing a fragmentation of interests among maintenance workers.

## **Conclusions**

Internal marketisation leaves its marks on social integration at company level. This case study indicates two overarching results with respect to the unintended effects of internal marketisation on in-company social integration. First, the level and the variety of conflict between business units and in the workplace increased. Second, a tendency of enhanced fragility of the 'social ties that bind' in the workplace and at company level can be noticed.

As illustrated in the case study, this new management approach tends to result in an increase of conflicts. A variety of conflict lines can be observed. In addition to the conflict lines between top management and employees or their interest representatives concerning employment stability or numerical flexibility in reorganisation processes, new conflict lines emerge. Partially, these lines are related to conflicts between in-company business units induced by enhanced internal and sometimes even external competitive pressures. Moreover, distributive conflicts between business units are attributed to the economic allocation of scarce financial resources at company level. Partially, new conflict lines emerge within business units affecting vertically and even horizontally structured social relations. Conflict lines between line managers and employees are related to the redefinition of the implicit employment contract with respect to the economic governance regime of internal marketisation. This conflict is based on new performance-related demands and increased work intensity. Because of these new demands and enhanced work intensity horizontal conflicts between different employee groups emerge and established informal norms of collegiality and perceptions of justice in the workplace are called into question.

This increase in conflict level is also not taken account of in conceptual assumptions related to internal marketisation. These assumptions overestimate the potential benefits of enhanced internal competition for the sake of economic goal attainment at company level and neglect its (potential) unintended effects with respect to social relations and cooperation. An enhanced conflict level requires allocating and directing resources to conflict resolution and organisational learning in order to prevent a failure of intended organisational change, such as internal marketisation.

As shown before, internal marketisation turns out to be problematic with respect to the cooperation of in-company business units, usually by emerging barriers to cooperation. This side effect of internal marketisation represents a case of 'successful failure': initiatives leading to internal marketisation proved to be quite successful in terms of its underlying conceptual intentions. Internal competition between in-company units was promoted by purposefully created internal quasi-markets and the allocation of scarce financial resources. However, failure can be attributed to unintended effects, i.e. an enhanced struggle for scarce financial resources between business units promoted an erosion of trust relationships which had been based on long-term, often informal task-related cooperation. Trust erosion between in-company units was also caused by (detected) practices of deceit reflecting an increased tendency towards self-reference and opportunistic orientations at the level of in-company units.

Obviously, economic governance mechanisms of internal marketisation were not complemented with organisational routines or procedures to anticipate or reflect (potential) unintended effects on cooperative social relations between business units. Top managers as promoters of internal marketisation were not aware of such unintended effects and did not

authorise others, e.g. the department of organisational and personnel development, to monitor internal marketisation with respect to such side effects. In German industrial relations works councils are the core institution at company or establishment levels in respect to safeguarding social integration (Kotthoff 1995). However, works councils' institutional orientation refers primarily to the employment relationship. Therefore, works councils do not generally deal with cooperation problems between business units, unless employees' interests are at stake. The successive erosion of cooperation and trust between business units under the economic governance regime of internal marketisation can at least partly be explained by a lack of (institutional) actors and / or institutional arrangements that facilitate 'organisational mindfulness' (see Weick & Sutcliffe 2001) with respect to these unintended effects of internal marketisation<sup>16</sup>.

Case study results indicate an enhanced fragility of social integration at company and workplace levels that can be attributed to internal marketisation. However, empirical findings are not always clear-cut. With respect to the cooperation between business units internal marketisation tends to foster an erosion of previously established cooperative social relations based on flexible, often informal work practices and mutual trust. A contrary tendency is a redefinition of the social ties that bind which can be observed within business units. Therefore, the case study illustrates that internal marketisation might induce ambiguous effects on social integration covering both an erosion of cooperative social relations as well as a more socially inclusive redefinition of social ties that bind<sup>17</sup>.

The introduction of internal marketisation at LMS also challenged the more or less trust-based social relations within the maintenance unit. These social relations encompass a horizontal and a vertical dimension. Whereas the horizontal dimension refers to social relations among employees, the vertical dimension deals with the relationships between managers at different hierarchical levels and groups of employees or different work cultures. In both dimensions, internal marketisation did not trigger an erosion of social integration, rather it was associated with negotiated redefinitions of implicit patterns of expectations between the involved actors. In the horizontal dimension these negotiations focused on expectations related to collegiality and justice in the workplace. In the vertical dimension this redefinition referred to the implicit employment contract.

Internal marketisation affected the implicit reciprocity expectations between management and employees. As to the relationship between top management and the entire (maintenance) workforce at LMS the erosion of (institutional-based) trust was stopped by management decisions that sustained the entire company and guaranteed at least limited job security. The

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<sup>16</sup> Recently, a monitoring team was established at LMS-company level involving management, works council and the department of organisation and personnel development to evaluate and to monitor internal projects in the perspective of organisational learning and taking account of (potential) unintended effects of further company reorganisation. This monitoring team can be regarded as a manifestation of 'organisational mindfulness'.

<sup>17</sup> The 'social ties that bind' alludes to the song 'The ties that bind' written and performed by Bruce Springsteen on his fascinating album 'The River'.

case study underlined that employment stability is a core expectation that employees hold with respect to implicit employment contracts. Conceptual assumptions of the management approach of internal marketisation which replace employment stability in favour of employability underestimate the centrality of employment stability for employees' life course orientation and material existence.

Social relations between second or third level management and employees were characterised by social exchange facilitating high-trust relations. Social exchange emerged in long-term workplace relationships between both sides. This high-trust relationship was threatened by internal marketisation as the adjustable implicit balance of reciprocity was thrown into doubt. Because of new performance-related work demands, enhanced work intensification induced by personnel reductions and work process optimisation this fragile balance was challenged in employees' eyes. They expected adequate returns for their efforts, burdens and sustained work commitment with respect to internal marketisation.

However, a social disintegration and an erosion of trust relations between second or third level managers and employees were avoided by a negotiated redefinition of reciprocity expectations related to internal marketisation. This includes the adjustment of occupational roles and quality standards, and procedural rules to be applied to further reorganisation, e.g. employee participation and well-timed information about intended organisational changes. This negotiated redefinition of implicit employment contracts was enabled by spaces of dialogue which offered employees voice opportunities to develop proposals regarding their working and employment conditions. These spaces of dialogue channelled conflicts that related to an imbalance of reciprocity perceived by employees in respect to internal marketisation. Generally, spaces of dialogue provided a platform to deal constructively with conflicts between managers and employees by negotiating a consensus-based agenda of initiatives to rebalance implicit patterns of expectations between line managers and different groups of employees or work cultures. Thus, these spaces of dialogue provided a transitory institutional arrangement to deal constructively with employees' perceived disturbance of implicit reciprocity expectations. The transitory character was given as the arrangement was time-limited. It existed as long as employees' proposals to improve working conditions and work-related procedures and quality standards had been implemented. Maintenance workers mostly perceived the in-company implementation of negotiated and consensus-based suggestions as adequate returns by management. This redefinition of reciprocity expectations reproduced the social ties that bind between maintenance managers and workers.

However, this transitory institutional arrangement of employee involvement and direct participation was linked to certain prerequisites. First, it based on an in-company tradition of industrial relations that focused on an integrative bargaining culture between management and works council. Second, this institutional arrangement was backed by the institution of works council. Works councillors monitored and co-managed employee participation with respect to

spaces of dialogue. Thus, the works council at LMS can be regarded as a guarantor of this transitory institutional arrangement. Third, the transitory institutional arrangement fitted to an existing participatory organisational context. Finally, the long-term cooperation between line managers and maintenance workers has to be taken into account. This cooperation proved to be an evolving sphere of social interaction that fostered social exchange, mutual trust-building and managers' trustworthiness.

Nevertheless, this negotiated renewal of more or less balanced reciprocity in spaces of dialogue went along with increased work-related demands and work intensification that brought pressure to bear on collegiality in the workplace. Internal marketisation induced a social redefinition of informal norms of collegiality. It was accelerated and reinforced by the rebalance of implicit expectations to the employment contract. In this process the previously established informal *laissez faire* norm of collegiality was challenged. This informal norm was closely linked to notions of distributive justice based on solidarity and emphasised employees' affiliation to the maintenance workforce as a social community of practise. In the course of this conflictive social redefinition the informal *laissez faire* norm was widely replaced by an emerging novel informal norm, thereby reinterpreting collegiality in terms of equity. According to this novel informal norm employees were expected to prove their collegiality by performance-related contributions to the project of sustaining the maintenance unit by increasing its competitiveness. These contributions were regarded as efforts to promote employment stability prospects. However, a minority of employees still rejected this new and widely accepted informal norm of collegiality. These employees were confronted with social pressure exercised by colleagues to stick to the novel informal norm and to increase their level of work-related performance. That is why the social redefinition of collegiality turns out to be paradoxical: on the one hand this redefinition strengthens social integration among the majority of maintenance workers, while on the other hand it simultaneously threatens a minority of employees with social exclusion and stigmatisation as outsiders to the maintenance workforce as community of practise. Therefore, the novel informal norm of collegiality can be termed an 'excluding norm of social integration' (Kraemer & Speidel 2004: 149). The social redefinition of collegiality may imply a tendency towards internal workforce fragmentation, heightened peer-pressure and informal performance surveillance by fellow workers, even if transitory institutional arrangements are implemented and the institution of works council is involved. Due to such performance-related peer conflicts works councils have to deal with internal workforce fragmentation.

The case study results presented in this paper do not claim to be representative of internal marketisation. Yet they indicate that internal marketisation even tends to weaken social integration at company level and in the workplace, if high-trust relations prevail and the employment relationship at company level is regulated by legally established institutions, such as works councils. Despite facilitating social resilience factors, e.g. works councils, a company tradition of employee involvement or participation and high-trust relationships

between line managers or supervisors and employees, economic governance mechanisms of internal marketisation enhance the fragility of social integration. The reframed social integration can go at the expense of employee groups who are not willing to or not able to meet enhanced performance-related work demands and, therefore, may face social exclusion or stigmatisation. However, without such social resilience factors processes of severe social disintegration might be triggered more easily by internal marketisation. That is why this case study can be considered as a point of reference to other empirical studies analysing unintended effects of internal marketisation on social ties that bind.

Some preliminary reflections are presented that relate to the question if the empirical case study findings are also (equally) relevant to more adversarial industrial relations focusing on forms of distributive bargaining, e.g. in British companies. The case study primarily stands for (public) companies embedded in an institutional environment that is characterised by coordinated market economies and the provision of a legal framework containing statutory rights for employee representatives at company and / or establishment levels. This legal framework provides employee representatives with information, consultation and co-determination rights in respect of company restructuring, e.g. the introduction of internal marketisation. German works councils can utilise co-determination rights based on joint decision making, especially in terms of changes in work organisation, working-time and pay systems or redundancy plans. Therefore, this institutional setting entails a comparatively higher potential for socially inclusive reorganisation processes. In Germany works councils as employee representatives elected by the entire workforce at establishment or company levels can be regarded as a legally established institution regulating the employment relationship. In this view, works councils are the central institution to safeguard social integration at establishment or company level. Works councils are legally obliged to take account of company-related economic or commercial interests and to keep peace whereby distributive collective bargaining that potentially also embraces strikes is legally excluded (Müller-Jentsch 2003). That is why the establishment or company level is characterised by a tendency to collaborative and integrative, i.e. consensus-oriented bargaining or negotiations between management and works councils. This consensus-based agenda to regulate the employment relationship facilitates reciprocity and trust building between management and employee representatives (Kotthoff 1995; Becke 2004).

This institutional setting differs from liberal market economies with a prevailing antagonistic culture of industrial relations at company and workplace levels, e.g. in Great Britain. In British workplaces prospects for a socially inclusive company restructuring tend to be less likely than in German workplaces.

First, there are no legally guaranteed provisions for employee representation at the workplace or company level. Employee representation is based on a voluntaristic system 'where union existence and structure derive from internal strength' (Terry 2003: 264). It requires the

recognition of trade unions by employers. Therefore, a stable legal institutionalisation of employee representation is lacking at company level.

Second, British industrial relations in the workplace are characterized by a long-standing tradition of antagonistic and distributive bargaining between top management and shop stewards as representatives of unionised employees. Contrary to Germany, the company level is the core level for conflictive collective bargaining which does not only embrace the terms and conditions of employment, such as wages and working time, but rather extends to the organisation of work, innovation processes and other realms of managerial responsibility (ibid.: 266). Therefore, workplace relations are generally characterized by a comparatively high degree of conflict. It can be assumed that this high extent of social conflict is enhanced by conflicts revolving around internal marketisation. Therefore, options to promote a socially inclusive implementation of internal marketisation might be restricted by this antagonistic bargaining culture.

Third, the risk of workforce fragmentation remains comparatively high with respect to internal marketisation in British workplaces. Contrary to German works councils who represent the entire workforce at company and establishment level, shop stewards solely represent unionised employees that are members of a specific union. Therefore, higher obstacles have to be overcome to coordinate inter-union cooperation at workplace or company level where different unions are present. This implies enhanced risks that underrepresented employee groups are marginalised in reorganisation processes (ibid.: 269).

Fourth, British workplaces are embedded in a legal environment which involves comparatively few constraints on employers regarding numerical flexibility. This comparatively low level of legal regulation may explain why external marketisation, e.g. outsourcing and temporary agency work, is more established in British than in German workplaces where internal marketisation and internal flexibility prevails. Therefore, job security tends to be more fragile in British workplaces (see also Gerlach et al. 2006). As shown before, employment stability can be regarded as one of employees' core expectations to the employment relationship. If this expectation is called into question by the management then prospects for a negotiated redefinition of implicit employment contracts taking account of employees' interests are negative.

Finally, in recent years a decline in collective representation of employees' interests went along with an increase in direct forms of employee involvement and participation that was promoted by company management in British workplaces. This tendency implies risks to undermine or marginalise employee representation by shop stewards (Marchington & Wilkinson 2005: 413). Furthermore, it is associated with risks that management may capitalise on employees' subjectivity and resources without a balanced reciprocation taking account of employees' interests. The use of direct employee involvement and participation as a means of indirect marketisation can foster employees' self-regulation at work which in turn

may enhance performance-related peer pressure and surveillance. In case of weak or lacking employee representation in the workplace, internal workforce fragmentation might increase (Marchington & Cox 2007; Marchington & Wilkinson 2005).

However, prospects for a more socially inclusive and balanced redefinition of implicit employment contracts are not hopeless even in the British case. Although the problematic legal and institutional setting is currently a constraining factor, the figuration of actors and organisational culture at company level should not be underestimated. It has to be explored whether there might be any 'functional equivalents' that at least partially may compensate for a legal and institutional environment which does not facilitate social integration in reorganisation at company level, e.g. internal marketisation. Organisational cultures having a "degree of complementarity" between direct and indirect participation can be regarded as such 'functional equivalents'. This requires recognition of trade unions at company level that may foster a more open social relationship between management and shop stewards (Marchington & Wilkinson 2005: 414). The involvement of shop stewards in organisational change initiatives, such as internal marketisation, may avoid a more or less unilateral exploitation of employees' resources. However, it requires shop stewards to reflect on potential risks of being absorbed by management and by daily 'co-management' activities.

Complementarity between the direct and indirect form of employee participation can be facilitated by human resource management strategies that take account of 'psychological contracts' or implicit employment contracts with respect to internal marketisation (Legge 2005: 235). The significance of a more or less structurally balanced redefinition of implicit expectations concerning the employment relationship was shown in the LMS case study. Even in more antagonistic organisational cultures there might be opened up room for a perspective of 'mutual gains' between management and employees (for limitations of this perspective Tailby & Winchester 2005). In my view, especially companies depending to a higher degree on employees' subjectivity and their resources, such as tacit knowledge, qualifications, social competence, creativity, and innovativeness, may enable such a perspective.

Drawing on the spectre of reciprocity conceptualised by Sahlins (1974) three basic forms of reciprocity can be distinguished. On one side of the spectre negative reciprocity is situated. In this case actors involved in exchange relationships are primarily interested in maximising their self-interest at the expense of others. In this view, a gift or favour can only be reciprocated, if the giving actor exercises pressure on the recipient or acts with guile. Negative reciprocity may often be found in workplaces characterised by highly antagonistic social relations between management and employees or employees' representatives. On the other side of the spectre generalised reciprocity exists. It is characterised by trust-based social exchange relationships that may exceed directly involved actors. In between, balanced reciprocity resides. In contrast to generalised reciprocity the material side of reciprocal

exchange is at least equated with its social or interpersonal side. Reciprocity continues as long as both parties are capable of providing adequate returns within an accepted period of time. Balanced reciprocity deviates from negative reciprocity because the latter highlights the material side of exchange by not taking account of other actors' interests. Therefore, balanced reciprocity is also open to interest-based negotiations between in-company actors enabling 'mutual gains' in more transactional relations between management and employees (see also Becke 2008: 98 p.).

Finally, the case study of LMS refers to a prerequisite for balanced reciprocity in internal marketisation that is also important for British workplaces. A more or less structurally balanced reciprocity requires facilitating line managers and / or supervisors that keep employees' expectations and interests in mind and support direct employee participation with respect to internal marketisation<sup>18</sup>. That is why line managers and supervisors play a crucial role in the mutual adjustment or negotiated redefinition of 'implicit employment contracts' regarding internal marketisation.

In my view, the case study results open up at least two avenues for further research. First, it may be interesting to comparatively analyse the impacts of internal marketisation on social integration in the workplace with respect to different sectoral, legal, and institutional environments companies are embedded in. Such an analysis might be carried out in comparative case studies. In this perspective, interrelations between in-company actor figurations and these environments could be highlighted to analyse potentials and barriers to socially inclusive organisational change. Such a research perspective should take account of transitions and changes in institutional environments and / or employment systems (for an overview Bosch et al. 2009)<sup>19</sup>. Second, this case study might be utilised as a starting point to broaden the research agenda regarding the idea of socially inclusive organisational change in dynamic socio-economic environments (Becke & Senghaas-Knobloch 2008). In this view, tensions between the necessity of trust-based social relations and balanced reciprocity for social integration on the one hand and requirements of innovation and organisational change on the other hand can be analysed. This perspective also relates to the question which constellation of 'resilience factors', above all with respect to institutions, the quality of social relations and organisational routines for 'organisational mindfulness' (Levinthal & Rerup 2006), may enable socially inclusive organisational change.

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<sup>18</sup> Marchington & Cox (2007: 187 p.) inform about potential requirements that are necessitated for line managers' facilitating role in respect to employee participation, as e.g. specific training to deal with employee involvement or a change of views or attitudes towards participatory forms of organisational change.

<sup>19</sup> For instance, since the 1990s the traditional 'division of labour' between trade unions and works councils has been eroded by so-called opening clauses as a form of 'coordinated decentralisation' of collective bargaining that places new demands on works councils implying the danger of structural overcharge (Becke 2004; Jacobi 2003).

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