

Institut Arbeit und Technik
Forschungsschwerpunkt Arbeitszeit und Arbeitsorganisation
Research Unit Working-Time and Work Organisation

Thomas Haipeter, Steffen Lehndorff, Dorothea Voss-Dahm

**Internalising the market within organisations – towards an erosion of
national employment models?**

Thematic paper for DYNAMO

DRAFT

Introduction	2
1 National employment systems and the workplace	3
1.1 Societal effects and the training system.....	4
1.2 Convergence imposed by superior work organisation.....	6
1.3 Beyond lean production and path dependencies – towards a “convergence of divergencies”?	6
2 Labour recommodified?	11
2.1 Decommodification and recommodification.....	11
2.2 Elements of control through internalised markets.....	14
2.2.1 Confrontation with indicators.....	14
2.2.2 Confrontation with competitors	18
2.2.3 Confrontation with customers	19
2.3 The delegation of uncertainty.....	21
2.3.1 The rationalisation dilemma revisited	22
2.3.2 The inner and the outer world of organisations	23
3 Problems to be addressed in DYNAMO	25

Introduction

Talking about distinctive national employment systems may imply the idea that these systems reflect at the micro, i.e. workplace level. But do they really? Can we take it for granted that the ways workers assemble cars or sell goods in a supermarket differ across countries? Obviously not. The interplay of employment systems and the organisation of work is far from being self-evident, and in many, if not most analyses of employment systems the question of what is happening on the shop floor is a black box. For any follower of the concept of “varieties of capitalism” it may be hard to believe that, though there are distinctive employment systems, once people are at work things are basically similar wherever you go. However, in a nutshell, this has been for decades the point in many notions of “convergence” of national systems of work organisation and labour relations (Behrens 2004). It is only slightly oversimplified to say that the core idea has always been that, once a production technology is given there is a strong driver for a gradual convergence in the way work within organisations is organised and labour is controlled. The whole concept of the “one best way” is based on this implicit or explicit assumption.

Of course there is also a more differentiated argument. It would point at the possibility that, even if the actual work process at given types of manufacturing or service delivery does not differ substantially across countries, it makes a difference whether or not, for example, workers are protected against dismissals at short notice, or how long they have to stay at work per day or week. These aspects of labour relations make up for a great part of the literature on how the varieties of capitalism impact at the shop floor. However, is it fair to assume that there is no interaction between these measurable elements of labour relations and the organisation of work at the shop floor? Again, obviously not. There may be in fact a great deal of similarities across countries as to the organisation of similar work steps within a process of production of a particular good or service, but the process as whole and, moreover, the question of what type of product of what quality at what cost is primarily or typically produced in a particular country may be influenced to a great extent by the interaction of those measurable aspects of labour relations and the organisation of work at the shop floor. The core question here is the skills and the involvement of workers which are crucial for the predominant “production model” in a given country.

Thus, when it comes to “bring work back in” the analysis of national employment systems one should either undertake a critical account of the convergence thesis or address the potential tensions between convergence trends at the workplace and the societal environment of

that workplace. This imperative should be particularly pertinent when it comes to the analysis of *dynamics* and changes in employment systems, simply because the contradictions between the employment system and the work place may be a driver of these changes.

This is what the present paper is about. In what follows we are giving, firstly, a very short overview of some major strands of literature dealing with the interplay of the employment system and the workplace. Secondly, and primarily, we discuss the nature and implications of the trend to internalise markets within organisations as it may affect core elements of the employment relationship. In the third and concluding part of the paper we indicate some problems and open questions which will presumably be faced in later stages of the DYNAMO project once we address the importance of particular industries within the process of change in employment systems.

1 National employment systems and the workplace

The relationship between national employment systems and the workplace may be tackled from two contrasting perspectives. One possible view looks from the macro and meso levels to the micro level (or to stay at the macro and meso levels and suggest implications for the micro level). The assumption here is that workplaces are embedded in the employment system, thus being affected by what is called in this particular strand of literature the “societal effects”. The occupational training system in a country is of major importance in that respect.

An opposing perspective is from the work place to its environment, asking how this environment should be shaped in order to allow for the presumably one best way of producing a good or service. The most influential body of literature in this respect in recent years was triggered by the MIT world auto study that coined the concept of “lean production”. The Toyota production system was taken as a benchmark, from there corporate governance, inter-organisational relations and labour relations which were linked to it were analysed, and finally it was asked how in other countries these relations differed from the benchmark case. The assumption here was that labour relations in the U.S. and Europe may or should be reshaped in a way that the automotive industry in these countries can meet Japanese or Toyota productivity standards.

A third strand of literature is situated between these two poles, trying to account for the varieties of possible interactions between employment systems and working practices. The very concept of interaction without any implicit assumption about the predominance of either side could be, as we see it, a starting point for the sector studies in DYNAMO.

In what follows we make reference to those aspects within these three approaches which may be particularly relevant for our project.

1.1 Societal effects and the training system

The first approach is characterized by a high priority on functional relationships between national institutions and between institutions and the structure of firms. In this approach, the concepts of coherency or cohesion play a central role, both in a horizontal manner as in a vertical manner between levels of action in a society. This approach is deeply influenced by analysis in the tradition of the societal effects school which tried to explain why in different countries similar enterprises organized work in quite different ways (Maurice/Sellier/Silvestre 1986). The decisive variable the societal effects school identified was the training system. Both in French-German as in Anglo-German comparisons (Sorge/Warner 1986) it was shown that the ability of the respective training systems to produce systematic, practically relevant and formally recognised skills was the main factor to explain why work organization was functional and professional separated or integrated, why the organization of the enterprise was functionally divisionalized or not, or why technical professions played a more or less important role in management.

The stimulations of the societal effects school were taken up later in a comprehensive discussion about training systems in a comparative perspective. In this context the question of performance gained more importance. Training systems were regarded as one of the main factors for the explanation of a ‘comparative institutional advantage’ (Hall/Soskice 2001) of companies. In this respect training systems are solving some problems of market failure already mentioned in Becker’s analysis of human capital building (Becker 1964; also Soskice 1994). Streeck (1989) has argued that market actors alone are not able to generate marketable skills as collective and broadly available productive factors which can be used by the enterprises as a productive resource in competition. The existence of marketable skills is not only important for the employees because they can improve their negotiation positions on the labour market. It is also important for the enterprises because these skills are – different from company specific skills - a polyvalent resource that can be used for different and unknown future uses in the companies. Furthermore, they give incentives for the introduction of non-taylorist forms of work organisation based on the integration of tasks and responsible autonomy of the employees as a means to make a productive use of the skill resources.

Moreover, the training system was also regarded as part of a larger set of institutions. This point of view is also the starting point for the ‘varieties of capitalism’ approach (Hall/Soskice

2001). It was supposed that training systems can form equilibrium states together with other institutions, especially the production regime of companies, the system of industrial relations and the financial system. In this way Finegold and Soskice (1988) are distinguishing a low skill and a high skill equilibrium of the skill system. The low skill equilibrium is characterised by standardised mass production, a restricted job design, low wages, weak corporate organizations and an important role of the financial markets in financing the companies. The high skill equilibrium on the other hand is formed by what Streeck (1991) called a diversified quality production, the use of polyvalent skills, strong labour market corporations and a dense network of collective regulations, high wages and a dominance of banks in the long term finance of companies. Whereas the central feature of the low skill equilibrium is the weakness of institutions and the strength of (product, labour and financial) market pressures, the central feature of the high skill equilibrium lies, in contrast, in the dominance of collective regulations over the mechanisms of the markets. From this point of view a broad supply of high skills in an economy is only probable if these skills are also demanded by the companies as a result of their product strategies and their work organisation, if there are strong social actors in the labour market who organize and regulate the generation of these skills, if income dispersion is low, so that skilling activities of firms are rewarded.

Taken together, the societal effects school and the variety of capitalism approach are stressing – despite other statements of the main contributors (see e.g. Maurice and Sorge in Maurice/Sorge 2000) – elements of institutional coherency and social stability. Especially the concept of equilibrium contains the idea of forces which are stabilizing the equilibrium path and are marginalizing deviations. Institutional incoherencies or social instabilities are not taken into account. It is an unsolved question in these concepts what happens if institutions do not go well together or if certain social actors are trying to change elements of the institutional framework or if they just do not obey the institutional norms any longer. Power relationships and the change of cognitive orientations tend to be not considered (Rubery/Grimshaw 2003: 42; Gospel/Pendleton 2005: 9).

The focus on coherence and path dependency implies the suggestion that the divergence of national systems of institutions reflects on the shop floor, thus giving rise to distinctive patterns of employment and working practices. This analytical perspective is turned into its opposite in the approaches stressing the convergence of organizational forms under market conditions.

1.2 Convergence imposed by superior work organisation

The probably most powerful example for the „one best way“ approach to workplace studies in recent years has been the MIT world auto study (Womack et al. 1990). The relevance, for our purposes here, of the literature taking the famous “lean production” study as a starting point is its core idea of the survival of the fittest. Globalisation, or more precisely, the intensification of competition on increasingly world wide and transparent markets for industrial mass consumption goods puts the question of the most efficient system of work organisation at the heart of competitiveness. Thus, powerful multinationals may impose their one best way to other countries, which makes the adaptation of labour relations and their institutional environment to a criterion of survival of the respective core industries in those countries.

The MIT study triggered a large body of empirical studies. One axis of research was aimed at a deeper understanding of the societal background of the Toyota production system and its implications for Western countries, which had not been at the centre of the MIT study (c.f. for many others Tokunaga/Altmann/Demes 1992, Nomura/Jürgens 1995). A second focus was put on “transplants and emulators” on the one hand and the varieties of “hybridisation” on the other, aiming at alternative approaches to the concept of the one best way (c.f., again for many others, Delbridge/Turnbull 1993 and other pieces of the Japanese Management Research Unit at Cardiff Business School, Elger/Smith 1994, Flecker/Schienstock 1994, Stewart 1996, Boyer et al. 1998). Maybe the greatest scientific importance of the MIT auto study, as far as the topic of the DYNAMO project is concerned, was its provocative challenge to implicit assumptions on the embeddedness of work practices in the respective employment systems. Thus, the consecutive research mentioned here gave rise to a more open and differentiated view on the potential to interaction between employment systems and the organisation of work. It is to some major studies in this strand of research to which we now turn.

1.3 Beyond lean production and path dependencies – towards a “convergence of divergencies”?

In recent years, more empirical research into work organisation has been based on the assumption that there is an interaction between national institutions and convergence pressures (stemming from international competition, management orientations, predominant ideologies and other factors). The weakness of many of these studies is that they give little account of what is actually happening on the shop floor. It may be assumed that, by way of example, pressures on existing industrial relations systems stemming from corporate governance strategies or the power of multinational companies impact on working conditions. However, as

Marsden (2000) rightly stated, “what we lack is good evidence *on the micro-level* on whether the hitherto dominant employment systems are also in retreat”. This is something we have to keep in mind looking at the findings referred to here, as one has to take the difficulties into account which are inevitably faced once you try to tackle the interaction of employment systems and the work place.

One of the few large pieces of recent research into this relationship is the work of Katz and Darbshire (2000). They look at the industrial relations and employment practices (including in particular trade union policy and bargaining trends, employment security, pay structures, and some aspects of work organisation) in the automotive and telecommunication industries in seven countries (US, UK, Germany, Australia, Japan, Sweden, and Italy, with much less detail in the latter three cases), utilising a typology consisting of the following “patterns of workplace practices”: First, a “low wage” employment pattern characterised by strong managerial discretion, hierarchies and turnover; second a “HRM” pattern based on communication, directed teams, and union substitution; third a “Japanese-oriented” pattern drawing on standardised procedures combined with problem-solving teams, stabilised employment and enterprise unionism; fourth a “joint team-based” pattern drawing on semi-autonomous work groups and both employee and union involvement.

Their main argument is a growing diversity of work practices and employment patterns *within* countries. Thus, rather than “convergence”, they find an “increasing variation in employment systems within countries through the expansion of various patterns of workplace practices” (p. 281). However, “while there are many commonalities in the work practices that make up the key employment patterns spreading across countries, the relative proportion of the different workplace patterns and the extent to which these patterns operate on a non-union basis, vary greatly” (p. 267). Hence, they conclude that, “it is through their effects on the distribution (of employment practices within countries) that national institutions appear to have their most significant influence” (p. 282).

What is interesting for the purposes of the sector studies to come in DYNAMO is the importance of Katz’ and Darbshire’s reference of research in the automotive and telecommunication industries for their overall conclusions. On the one hand, it proves extremely valuable to look into individual industries which allow for insights necessary to go beyond convergence/divergence dichotomies. On the other, the findings in Sweden in Germany poorly support the general conclusion on divergencies within countries. It may be true that there are growing divergencies, say, within the German employment system. However, for the time

being, it proves to be hard to capture them if the research is focused on big car assemblers. Obviously, a larger choice of sectors is crucial to go further down the road.

The hybridisation thesis is supported by other research reported here. It is true that Katz and Darbishire use the paradoxical pun of “converging divergencies”, but as they contest the convergence thesis in parts of the industrial relations literature they would certainly with Rubery and Grimshaw (2003: 232) who state that, “convergence requires more than the *direction* of trends to be the same; it also requires there to be a narrower range of systems emerging”. It could be, rather, a gradual erosion of, and change in, formerly (or allegedly?) stable employment systems and workplace practices giving rise to new national configurations, which maintains important differences across countries.

The latter perspective could be supported by the evaluation of the latest European Working Conditions Survey by Lorenz and Valeyre (2003) who looked for distinctive patterns of work organisation within the EU. Their starting point is the assumption that there is a need to go beyond dichotomies of the kind “taylorism vs. lean production”. Based on the variables of working conditions and work organisation included in the survey they suggest, in their own typology, a set of four types of work organisation: “taylorist”, “lean”, “learning”, and “traditional”. They are particularly interested in the ways of moving work organisation beyond Taylorism, thus distinguishing “lean” from “learning” firms by the extent to which work places are characterised by “autonomy”, “task complexity”, “learning” and “problem solving”. In contrast, the “lean” cluster can be conceptualised as “controlled autonomy”. Obviously the definition of the “learning” cluster comes near to the “joint team-based employment pattern” of Katz and Darbishire, whereas “lean” matches their “Japanese oriented pattern”.

By and large, major service and manufacturing industries can be attributed to one of these types. Thus, there can be no single “production model” in each country. Rather, what is typical, is the variety of production models within each country, thus giving rise to “hybrid” patterns. However, within these hybrid patterns, they find distinctive profiles across countries or groups of countries, depending on the relative importance of each type of work organisation. The main distinction they find is a predominant importance of the “learning” type in the Nordic countries and the Netherlands, whereas the “efforts to transform work organisation towards more flexible forms in the UK, France, Ireland and Spain have for the most part been in the direction of the lean production principles, characterised by a low degree of employee autonomy” (Germany being located somewhere in between these two groups). Obviously sector effects play an important role in this respect. However, when controlled for some struc-

tural variables, the differences between countries remain. When looked at from a EU-wide perspective they find a significant correlation between the “learning” type and R&D expenditures (as part of GNP). However, taking the Southern European countries out of the picture, the correlation disappears and the contrast between the “lean” peak in the UK and the “learning” peak in the Nordic countries and the Netherlands becomes even more marked. As the latter group displays high scores both in the “learning” and the “lean” cluster the main difference between both groups of countries lies in the negative likelihood of “learning” types of organisation in the UK and Ireland.

As this difference cannot be explained by the importance of R&D expenditures they look for other explanations and favour the idea that labour market and employment regulation play a major role in explaining the different patterns across countries, stating that “the deregulated labour market context (in the UK and Ireland) fails to provide necessary institutional support for establishing substantial forms of autonomy in work”.

Their conclusions are tentative and leave many questions open, including explanations for the positioning of France (and Germany) within that typology. However, what they do suggest is (at least implicitly) the idea that researchers have to “locate the firm in the social context in which it is embedded”, as is highlighted by Whitley and Kristensen (1996: 33). These authors, in their work on the “changing European firm”, go even further and regard the firm itself, and not just labour relations, as one element of the social and economic development of a country.

The very focus on the firm, both on its national embeddedness and on the pressures it is exposed to, is the guiding principle of the work presented in Gospel and Pendleton (2005). The authors are interested in the interaction of corporate governance (which the editors define as the relationship between capital, management and labour) and the management of labour, the latter covering the areas of “work relations, employment relations, and industrial relations”. Their basic assumption is that in “market / outsider systems”, in contrast to “relational / insider” systems (comparable to the “liberal” and the “coordinated market economies” respectively of Hall and Soskice), the impact of finance and governance on management’s approach to labour will be accentuated, among other aspects, by a stronger dominance of owners vis-à-vis management, a greater importance of capital profits compared to product market orientations, and a bigger importance of financial measures and instruments gearing at the commitment of employees.

Country related chapters explore the interaction between “financialisation” and national institutions and practices of labour relations and the possible outcomes of the greater exposure of

the “varieties of capitalism” to financial market pressures. By way of example, for the case of Germany and the growing importance of capital market pressures in that country, the authors identify “the long-term stability of these arrangements as an open question” (p. 118): “While we think that the prospects for a German ‘hybrid’ are strong, the scope for national diversity of employment relations is declining as financial systems are becoming more alike” (p. 120). The concept of ‘*hybrids*’, rather than one of adaptation to the US or the UK, is indeed crucial to these analyses. Streeck, in his introduction to the book, suggests that employment practices may in the future become more varied *within* national economies, thus giving rise to features such as (protected) “islands in a more liberalized sea”. It is in a similar perspective that Jackson, in his cross-country comparison drawing on various quantitative data on labour relations indicators (p. 284 ff.), identifies a great variety of *within* the “coordinated market economies”, allowing for countries such as Sweden or the Netherlands to have “strong investor protection law or high stock market capitalization, but continue to have cooperative industrial relations and high employment security” (p. 290). Thus, as to both corporate governance and labour management, differences “have become much more ones of degree, rather than kind.” The (difficult to measure) indicator for differences in the future may be whether or not labour management not just responds quickly to the forces of capital markets but is able to “constrain the excesses and short-term failures of such markets”, thus giving rise to an ‘enlightened’ version of shareholder value (p. 308).

It should be noted that the work presented by Gospel and Pendleton takes primarily the perspective of labour *management*, whereas Katz and Darbishire explicitly address strategic problems faced by the labour *movement*. Nevertheless, what both groups of authors would certainly agree upon is the need for researchers “to shift away from the preoccupation with national differences and (to) look more closely at the distribution of employment practices within countries” (Katz/Darbishire, p. 282).

Looking at the few studies presented here, which may fuel our own debates about how to tackle the sector studies in the 2nd year of DYNAMO, it is obvious that “labour relations”, “work practices” or “work patterns” are primarily looked at in terms of the institutional framework of the processes at the shop floor, whereas the knowledge about these processes themselves remains limited. Given these shortcomings, it has to be noted that the focus of research has partly moved to the analysis of ‘hybrids’ and their future, rather than maintaining the traditional convergence / divergence dichotomy (let alone the convergence towards an “Anglo-Saxon model” whose alleged existence is being questioned by various authors, in-

cluding Wickham, Rubery/Grimshaw and Gospel/Pendleton (p. 20) who criticize the implicit subsumption of the UK under the US).

As already mentioned before, it may be that a gradual erosion of national employment systems gives rise to new national configurations, which on the one hand, adapt to “global” pressures of capital markets and liberalisation ideologies and policies, but on the other continue to maintain distinctive country-specific features when it comes to labour relations and working conditions. However, these *unstable* equilibria (if the concept of equilibrium is suitable here at all) may be challenged continuously by overriding trends of utilising and instrumentalising markets for corporate control of the work process. These trends, to which we now turn, may exert additional pressure on the standard employment relationship in its national varieties.

2 Labour recommodified?

It is widely accepted that the standard employment relationship with its national variants is coming under strong pressure to adapt (Bosch 2004). In the following section of the paper we argue that this pressure is, in part, the result of the infiltration of the market into corporate organisational structures and work processes. If the market has indeed become a means of control with a claim to universal application even within organisations, then this raises the question of the fate being experienced by the national variants of the employment relationship. Are the changes within firms leading to a convergence of national employment models?

2.1 Decommodification and recommodification

For a long time, social scientists have linked fundamental changes taking place in work in both manufacturing and services with the metaphor of the market. At a time when, in Germany at least, the dominant intellectual trend in economic and politics advocates the market as the best possible instrument for the management of the most diverse areas of activity in society, then the assumption that this mainstream also encompasses the organisation of work processes cannot be easily dismissed. However, if the market were actually being used as an instrument for the management of companies and of work, then this would represent a fundamental turning point in work organisation and labour policy.

Analyses of the systematic and organised production of goods and services in firms have repeatedly brought out how – and to what extent – firms succeed in protecting their internal work processes from as many as possible of the uncertainties generated by the market. Whitley (2004) summarises this in his statement that the development of organisational routines by

management hierarchies is intended to create 'islands of order in oceans of market disorder'. And Williams et al. (1994: 97) describe industrial mass production as a 'struggle to maintain production flows against the constraints of the market'. Of course – and these authors indicate as much in the same breath – the uncertainties and constraints of the markets ultimately always have the upper hand. However, if the market could be transformed by management from a constraint into an instrument of control, then something fundamental would have changed in the 'division of power' between the market and the systematic organisation of production by a management hierarchy.

This would also have consequences for the dependent employment relationship. In so far as trade unions and workplace representative bodies counteract the structural imbalance of power in the external labour market and within firms, management has to take account of the results of negotiations outside the workplace in any labour-related decisions or such decisions will themselves become the object of negotiations within the firm. Thus as negotiations proliferated, the firm became a space in which the influence of the market, filtered by management hierarchy and the institutions and actors of the industrial relations system, was much reduced.

This applies both to the labour of dependent employees and to firms' work organisation systems. While it is true that labour remained a commodity in the labour market, the direct linkage between people's living and working conditions and the fluctuations and uncertainties of product and labour markets was mitigated. Work organisation, in turn, remained primarily the result of unilateral management decisions taken in an attempt to reconcile the many and diverse constraints found in firms' internal and external environments. However, depending on the nature of each national industrial relations system, work organisation, particularly with regard to its implications for employee performance policy, became an object of negotiations with the organised employee representative bodies. Since the 1970s, occasional attempts have been made to supplement or even replace such collective bargaining processes with individualised bargaining. Even here, however, the theoretical starting point was the negotiability of work organisation, which presupposes some degree of decoupling from the market.

In retrospect, the gradual change in the dependent employment relationship up until the heyday of industrial capitalism was in many cases analysed as 'decommodification', picking up on an idea developed by Karl Polanyi (1944) in the mid-1940s. Indeed one can argue that the process of decommodification has had three dimensions, including the system of social security within national welfare states, the form of the labour contract, and implicitly also the very content of the labour contract (Bosch 2001). This process, which reached its apogee in the

three decades after the Second World War, is now seen in the context of withdrawal or retreat. However, if many sociologists and economists are increasingly observing a trend towards the 'recommodification' of labour, this trend may appear, and may be interpreted, in very different ways.

First, 'recommodification' is frequently used to denote what is essentially an erosion of the standard employment relationship. The new prominence of the market in working life is said to be reflected in the fact that the permanent full-time employment relationship is historically on the retreat. However, the existence of a *general* trend in this direction cannot be substantiated empirically (Smith 2005, Erlinghagen/Knuth 2004). Nevertheless, it is possible that, in certain countries and under certain conditions, the recommodification of labour is reflected in an increase in precarious employment relationships.

A second element of 'recommodification' may be seen in the growing importance of 'fragmented work' (Marchington et al. 2005), i.e. the blurring of boundaries between organisations, giving rise to various new relationships between employers, self-employed and employees. As Marchington et al. point out the concept of networks makes things unclear rather than contributing to a better understanding of power relations and dominance within these new relationships. In the present paper we will touch upon one particular aspect of this process of blurring organisational boundaries, namely the importance of outsourcing for changes in the employment relationship of the core workforce of the outsourcing organisation.

In the present paper we are primarily addressing, however, a third and increasingly important element of decommodification which we perceive as a radical change *within* the standard employment relationship in the shape, namely the 'new immediacy of the market' in the work process (Sauer 2003). For example, if dependent employees are explicitly confronted with demands arising out of market events and their survival in their jobs depends on their ability to deal with these demands, then this may result in a change in the dependent employment relationship that gradually renders obsolete the national particularities of this element of national employment systems. For this reason, we enquire more closely in what follows into what forms or elements of control through internalised markets we can identify on the basis of the research we have carried out to date and what contradictions we see in their implementation.

In the course of this enquiry, we draw in particular on research in which we have been involved in recent years in a number of very different service industries in various European coun-

ries (cf. the overview in Bosch/Lehndorff 2005). Since the research was qualitative in nature, we are unable to draw any conclusions based on representative surveys as to how widespread the phenomena described here are, whether and how quickly they are increasing and in what areas of activity of industries they are concentrated. Nevertheless, we regard the findings to be empirically and theoretically relevant and for this reason we consider what follows primarily as an exercise in the formulation of research hypotheses.

2.2 Elements of control through internalised markets

As we show in what follows, employees can be confronted with the market in three ways. In the first, the market takes the form of indicators and budgets drawn up by senior management on the basis of a company's strategic orientations and with due consideration being given to investors and product markets. In the second, competition in product and labour markets is deliberately allowed to infiltrate internal work processes. In its third and final manifestation, the market confronts workers in the concrete form of customers. Our studies show that these three manifestations of the market may occur individually or in combination with each other. In the course of our research, they were observed in very different areas of activity, from software development via elder care to department stores. Control through internalised markets is not linked to particular task structures and so is not to be equated, for example, with the elimination of standardised work processes. Nor does it mean that the bureaucratic, technical or direct personal forms of control (Edwards 1979) that have predominated hitherto no longer play any role. Rather, it is added to these already established forms of control. Whether this mix will survive in the longer term or is just a transitional phenomenon and how the various forms of control interact and come into conflict with each other we regard as unresolved issues for future research.

2.2.1 Confrontation with indicators

The changes that can be observed in direct work processes are taking place against the background of the upheavals in contemporary capitalism, the extent of which has been the subject of intense debate among social scientists. In contradistinction to the so-called 'Golden Age' of the 1950s and 60s, some analysts have seen these changes as a fundamental shift in the type of growth towards a new accumulation regime, the driving force of which is the increase in the profits achieved in financial markets (Aglietta 2000). The obviously increased significance of shareholder value for economic policy and corporate management induced Streeck and Höpner (2003) to ask, pointedly: 'All power to the market?'. In Germany in particular, these authors observe a radical process of change compared with the system of organised industrial

capitalism that emerged in the post-war years. The reasons they adduce include, among others, the intensification of competition in increasingly globalised product markets, the break-up of previous state monopolies as a result of European deregulation policy, the establishment of an international financial market architecture, which has given the capital market a new and important role in corporate financing in Germany and marks a departure from the traditional strong links between industry and banks, the growing importance of institutional investors and the use of forms of corporate governance geared to the capital markets that are designed, among other things, to facilitate the constant round of mergers and acquisition that companies now engage in. At the same time, Streeck and Höpner note that there is no unanimity in the debate as to causative relationships or the extent of the change relative to the continuities that can also be observed.

If we accept this assessment, with all its inherent contradictions, then it follows, at the very least, that the 'market' in a market-driven corporate strategy can no longer be defined solely as the relevant product market but must also encompass the capital market as well. In private services, for example, if performance in equity markets acquire its own independent significance in corporate strategy, then investors become customers and in many cases even the ultimately decisive customers. The key role now being played by the providers of finance can also be observed in social services such as healthcare or elder care. A reduction in the funds allocated from public budgets is the most far-reaching restriction on the organisation of care services. Beynon et al.'s observation (Beynon et al., p. 266) that 'the state has come to operate as a stern financial regime as the City' also applies to countries other than the UK, at least as far as the overall trend is concerned. A key instrument in this regard is the policy of privatisation and deregulation, which forces the remaining public providers of social services to behave as if they were in private ownership. The principles of private enterprise are being applied to areas that hitherto operated on the basis of the principles governing the provision of public goods.

It is reasonable to assume that these changes are having a major impact on both internal and inter-firm work processes. After all, it is only a small step from a corporate strategy geared to the financial markets to the 'financialisation' of internal corporate structures. The principles governing corporate financing are becoming the criteria for evaluating internal processes. Head office can, for example, translate the predicted demands of a company's capital providers into profitability targets and then make those targets binding throughout the entire organisation and its subdivisions. It can also identify business areas whose continued presence within the company depends on how they fare in competition with external providers. At the

same time, making business units autonomous is an essential prerequisite for making them tradeable in the massive new mergers and acquisitions business. This is why the decentralisation of operational decisions can easily go hand in hand with the concentration of strategic decision-making competences at senior executive level (Haipeter 2003).

As a result, business performance indicators acquire a completely new significance in internal communications. Whereas they used to be strictly a management preserve, performance indicators and budgets – that is a set of coordination instruments defined in terms of prices – have been turned into benchmarks by which to assess the profitability of individual divisions, departments and, ultimately, even jobs. The success or failure of the decentralised units in reaching these benchmarks is the criterion used to calculate the budgets allocated to them. At the same time, individual departments or links in the value-added chain are being given greater responsibility for costs; cross-subsidies are to be avoided as far as possible. Cost and yield targets broken down to the level of individual work processes, business units and even individual jobs subordinated by means of indicators to central management's profitability targets: these we regard as key elements in the reorientation of corporate strategy, even though there are as yet few data from representative surveys on the prevalence of these forms of control (the only finding known to us is that 'decentralised self-monitoring by means of customer-oriented indicators' increased sharply in the 1990s [Brödner/Lay 2002:54]).

Particularly striking examples of this shift in strategic corporate management are to be found in the banks where, in emulation of measures taken by their counterparts in the English-speaking world, considerably higher profitability targets have been set for individual business units (Haipeter/Pernod 2005). Benchmarks also play a decisive role in productivity and price competition in IT services. The crucial factor here is whether a fixed price has been agreed for a particular deliverable, e.g. a software solution. In principle, the expected volume of work must be taken into account when calculating such a price, but firms or project managers do not always manage to base their contracts on realistic figures – whether for strategic reasons or simply because the actual volume of work is difficult to assess *ex ante*. In each case, indicators for the direct time input (in hours) and for indirect costs are derived from the figures specified in the contract, which are then used as the basis for controlling.

Comparable trends are also emerging in retailing, a sector which, alongside call centres, is most frequently regarded as the prototype for the 'Taylorisation' of service work. In large retail companies, headquarters sets individual branches or departments sales and yield targets that have to be reached within a certain period of time. Benchmarks are also laid down for the

ratio of personnel costs to turnover. The branch or department management then has the task of planning manning levels and deployment in such a way that these target levels are not exceeded. Control by means of indicators is gaining ground at the expense of the traditional system of personal control by supervisors on the sales floor. Another reason for this is that, as staffing levels are reduced, hierarchies are being flattened, so that planning and organising tasks have to be assumed to some extent by sales staff. Consequently, employees are increasingly seeing themselves becoming individually responsible for helping to achieve the targets that have been set. If they do not succeed, the company reserves the right to transfer sales staff, to reduce the volume of hours or to cut jobs. In practice, a certain level of commercial success is the only way workers can remain reasonably secure in their jobs.

The generation of indicators broken down to the level of individual organisational units also plays a key role in public services. The primary purpose of these indicators is essentially to provide a basis for drawing up budgets. However, as a result of privatisation, competition between public and private providers and, more generally, the increased importance and use of controlling procedures, competitive principles are increasingly finding their way into the world of social services. The basic objective here is to determine a market price for goods that, in the past, were often provided exclusively by the state. This is supposedly easiest when the awarding of care contracts by local authorities is linked to a compulsory tendering procedure. It is in the UK that competitive tendering of this kind, including private providers, has flourished most extensively, and for a long time contracts had to be awarded to the lowest bidder. The market price can be used, in domiciliary care services for the elderly for example, to calculate a standard number of minutes for a given cost that can be allowed for each 'unit of care' (with due account being taken of previous experience, of course, and possibly also of negotiations). This indicator then becomes the basis for determining staffing levels.

The more rigorously the indicators are broken down to the level of individual departments, the greater impact this 'abstract mode of control' (Dörre 2001) has on employees' daily work. The decisive point in this context is that indicators of this kind are absolutely not regarded as a strictly management preserve. On the contrary, management sees it as its responsibility (and has to do so if it wants success) to ensure that all employees constantly have these indicators in mind as they go about their work. In order to make sure that this actually happens, the survival of each organisational unit is linked to achievement of the targets. This applies not only to customer interfaces but to the back office as well.

Benchmarks can also be used as a basis for direct cost and performance comparisons with competitors. We now turn to this second element of control through internalised markets.

2.2.2 Confrontation with competitors

When large firms publicly compare labour costs at individual sites in Germany with those in foreign plants, whether they already exist or are merely hypothetical ones in possible alternative locations, then this usually proves to be an extremely effective way of exerting pressure on employees and works councils in the German plants in question. If works councils within large companies begin to cooperate with each other across national boundaries, then in many cases all those involved quickly realise that the pressure of competition can also operate in the opposite direction, since each lowering of a minimum standard in Germany restricts the opportunities to raise social standards for workers in foreign plants. The same applies to the competitive pressures on employees in the care sector, for example, or in public transport arising out of local authorities' privatisation policies.

This manifestation of the confrontation between individual employees and the competition are now ubiquitous in the daily press. Two aspects are always inextricably combined in press reports: comparison with the performance of other companies (or other sub-units within the same company) and competition in the labour market. They are always inseparably linked because the competitive situation in the product market in question is highlighted or even manipulated in such a way that the competition between firms and that between their employees becomes, from the workers' perspective, one and the same thing.

One specific way of engineering this competitive situation is outsourcing. Various objectives can be pursued by means of outsourcing. On the one hand, it can help to increase external *quantitative* flexibility through the use of fixed-term contracts or agency workers; on the other hand, it can contribute to an increase in external *qualitative* flexibility through the acquisition of competences. Indeed, the use of outsourcing as a means of increasing qualitative flexibility is taken so far in IT services that teams within a company compete for contracts with each other as well as with outside bidders. A comparable process can be observed in some large retail companies when the sale of certain types of goods is delegated to concessions within department stores ('shop in shop'). Here too, internal competition is being generated within the commissioning company.

Irrespective of what advantages companies are seeking to achieve through outsourcing, the important point for our argument here is that this practice intensifies the direct confrontation between employees in the commissioning firm and competition in the product and labour

markets. The unspoken message is: ‘Whatever you can do, others can do as well’. The higher the level of unemployment in an industry or country is, the more penetrative power this message will have.

What we are dealing with here is the ‘opening up’ of organisations and internal processes to influences from the external environment. If, as we stated in our introduction, the basic purpose of organisational routines is, as Whitley (2004) put it, to create ‘islands of order in seas of market disorder’, then the objective now is to allow that disorder in to the organisation in a targeted and regulated way – in so far as that is possible. Market pressure and competition are being brought to bear on the inner workings of organisations. In this sense, the *internalisation* of the market represents the *instrumentalisation* of competition by management.

Our observation about the limited opportunities for organising this process in an orderly way is intended to indicate that the boundaries between strategic action and management impotence are in practice frequently different to identify clearly. The boundaries between a management making excessive demands and a management retreating from responsibility and deliberately confronting departments, project teams or individual employees with competitive pressures are ill-defined (Latniak/Gerlmaier 2005). This difficulty in clearly identifying the intentions behind management behaviour is perhaps made particularly clear by the fact that the changes in the management of organisations and work processes described here are taking place in part ‘behind management’s back’, that management is both driving the changes and being driven by them.

As would be expected in service organisations, the alleged kings in the service sector – customers – play a prominent role in exposing companies’ internal processes to influences from the external environment. It is to them that we now turn.

2.2.3 Confrontation with customers

For many service workers, the market has a visible face – customers. True, it would be wrong to regard the market and customers as synonymous. In our view, this is convincingly brought out in the literature on customer service (cf., for example, Sturdy et al. 2001; Holtgrewe/Voswinkel 2002). And yet in order to understand the effectiveness of control through internalised markets in the everyday work of service workers, it must be borne in mind that such control is implemented within the triangular relationship between management, workers and customers. Under these circumstances, the increased job performance demanded of them may appear to workers both a commercial necessity in the face of the competition and a professional obligation towards customers.

The basic problem facing large service organisations can be more clearly understood if their task is imagined as one-of-a-kind production on an assembly line. Korczynski (2001: 86) coins the pun 'tailored and Taylored' to describe a situation in which, in response to a massive intensification of competitive pressures in various service activities, products and processes have to be standardised in order to reduce unit costs while at the same time remaining sufficiently 'customised' to enable firms to defend or win market shares. It is true that standardisation sometimes gives rise to forms of work organisation reminiscent of Taylorist mass production. However, mass production immediately sets limits again on this. For as Korczynski (2002: 14) asks: 'What is the contested terrain here? Does the competition revolve around price or service quality?... The answer is that (service firms) have had to compete on both levels *simultaneously*' (italics in original).

This simultaneity poses a major problem. It is true that service organisations can achieve considerable economies of scale by standardising products and processes, and thereby increase their chances of surviving the price and/or cost competition. However, if service quality is to be ensured, then even more wide-ranging changes are required. It is the interaction between employees and customers that largely determines service quality. However, when the quality of a social interaction becomes a significant factor in competition, the opportunities for direct management control of the work process are reduced accordingly. Management is not itself an actor in this important interaction. It can of course lay down rules structuring the interaction and monitor compliance with those rules; after the event, however, 'product faults' can be eliminated only to a limited extent, unlike faults in goods manufactured on a production line. In the case of services at the customer interface, there is no quality control prior to delivery of the 'product', that is the service itself.

In some service activities, such as call centres, for example, attempts are now being made to compensate for this lack of opportunities for direct management control by increased use of monitoring and surveillance systems. However, Smith and Thompson (1998: 559) rightly point out that 'supplanting the concept of control with that of surveillance is particularly unfortunate in that it leads to a one-sided and top-down approach. Labour therefore disappears from the process partly because of the tendency to believe management monopolizes knowledge and marginalizes other representations and identities'. If management were to try to make surveillance the main means of controlling and monitoring service work, this would ultimately conflict with the goal of harnessing employees' individual attributes and abilities in

order to enhance the quality of service provision (Weinkopf 2002). The opportunities for direct control of the work process are limited when service quality is to be achieved through a process of social interaction that is actively and competently structured by employees themselves.

Of course, the role of customers in their triangular relationship with management and employees depends to a large extent on the nature of the service. Thus in many IT services, for example, particularly in software consultancy and development, where customer-specific solutions are developed or existing standardised solutions have to be adapted to specific environments, customers are not confined to receiving the completed service. In many cases, they play an active role in the work process or project over a long period. Sometimes it is supervisors or managers who maintain the links between a company's internal and external environments, but in other cases it is employees themselves who work with customers directly. Yet even in supposedly 'simple services' such as retailing, it is customer contact that is the main factor in determining service quality, albeit in a completely different way to IT services. Sales staff have to be present as personalities, even though they are subject to strictly defined rules of behaviour.

Overall, it is clear from various studies, which also, as it happens, encompass social services, that the more important workers' professional standards are in determining service quality and the more management can rely on an internalised sense of customer orientation grounded in professional pride, the more it is feasible 'simply' to lay down the economic framework within which employees are to operate and to transfer responsibility for the planning and implementation of the actual work to care workers themselves. Ackroyd and Bolton (1999), in their studies of British hospitals, conclude that management pursues its economic objectives by means of a 'remote control' system. It is left up to the workforce to use their professionalism to resolve the many and various organisational problems they face and thus to ensure service quality, while at the same time remaining within the budget drawn up by management. Employees are thereby placed in a situation in which they have to strike a balance between the demands of the external environment and those emanating from the organisation itself. It is to this set of problems that we now turn.

2.3 The delegation of uncertainty

If the solution of organisational problems is no longer regarded as part of management's basic remit but is devolved to the workforce, this should not be confused with employee empowerment. Real empowerment requires appropriate resources. Most individuals require a 'secure

framework ..., in order to be able to interpret market risks as positive incentives for action' (Dörre 2003: 27). With control through internalised markets, however, something different is happening. Companies create working conditions in which employees' own initiative is to be brought to bear and may in consequence reduce direct work allocation and control, although not necessarily in all cases. Thus management can, up to a point, relinquish control over the actual *organisation* of work processes in order to encourage employees' subjective potential to develop as they struggle to reconcile the conflicting demands of indicators, competitors and customers. In doing so, however, they become all the more reliant on setting binding economic targets in order to control the labour process. As a result, the workforce is subject to '*indirect control*' (Peters 2001). The principal means of achieving this is to ensure that the resources that employees actually need in order to carry out their work are in short supply.

Up to this point, we have described management's efforts to take the 'detour' of using market mechanisms in order to control the labour process as an attempt to manage the contradictions that service organisations face. In what follows, our aim is to show that these efforts also give rise to fresh contradictions.

2.3.1 The rationalisation dilemma revisited

Service organisations have to be prepared for uncertainties of the most diverse kinds arising out of the nature of their activities and their market environment. In order to deal with these uncertainties, they have to allow themselves some degree of latitude in scheduling and some reserve capacities. At the same time, restrictions have to be placed on these reserve capacities on cost grounds. Thus there is an irresolvable contradiction between such safeguards and efficiency improvement measures. Berger/Offe (1984) have described this contradiction as the '*rationalisation dilemma of white-collar work*'. If the uncertainty as to the required level of reserve capacity in a company is no longer regarded as a problem to be resolved by management, then the contradiction between safeguards and increased efficiency is de facto devolved to the workforce. Thus the new element in control through internalised markets can be summarised as an attempt to put in place the safeguards required in service work by deliberately keeping resources in short supply.

What we are dealing with here ultimately is the problem of transforming labour into a commodity, which lies at the heart of the Marxian labour theory of value and to which Berger/Offe and many other social scientists investigating the world of work also refer. Firms can merely purchase labour in the labour market. A commodity can only be produced when that labour is utilised in a process organised by the firm. Sengenberger (2002: 48) reduces this

transformation problem to a readily understandable statement: 'employers recruiting a worker usually know the price of labour but do not know exactly what they are getting for that price'. The exertion of control through internalised markets shifts part of the risk inherent in the conversion of labour into a product or commodity on to the workforce. In the process, part of the entrepreneurial risk is also shifted on to employees.

Working conditions are particularly adversely affected when the delegation of uncertainty is combined with a reduction in resources, which usually manifests itself in tight staffing levels (Haipeter/Lehndorff 2004). The removal of certainties from the work process, the permitting of customer interventions, the involvement of external applicants in internal project assignments and much more besides are no mere blemishes or minor deficiencies in a 'high-performance culture' programme but rather an essential element of that programme. The tight staffing levels, which seem irrefutable for cost reasons, are the firm basis of fact by which workers are urged to reconcile service quality and cost efficiency. This does not generally happen without extra work having to be done. The freedom acquired within open work processes is being turned against workers, since they are the ones who have to try to cope with the problems that arise. They do this on their own initiative, with one of the strategies of course being to devote additional time to resolving any difficulties that crop up. The more limited the financial and human resources that can be provided while still adhering to the targets laid down by management, the more closely autonomous working and the shifting of risk from firm to workforce are associated.

2.3.2 The internal and the external worlds of organisations

These tendencies have far-reaching effects on employees' working conditions. Thus it can reasonably be assumed that the increase in work intensity and time pressure observed in a number of recent surveys (e.g. Merllié/Paoli 2001) is due in part to the shifting of risk described here. However, the studies to be carried out in the course of the DYNAMO project will not focus primarily on the micro level, at which this problem could be further investigated. Our attention is focused rather on the meso and micro levels. Here, it is the link between what happens within firms and their external environment that is interesting.

When firms supplement or partially replace a particular system of management control with one based on internalised markets, that is one that brings workers face to face with competitors, indicators and customers, they are putting in place a particular form of market. This is what Beynon et al. (2002: 241) have in mind when they write, with reference to the British experience, 'The phrase 'internalising the market' is often used as a shorthand for the trauma-

tic break-up of structured employment conditions. What is needed is a critical account of the way in which the management of employment change is *designed* around the apparent need to meet market conditions' (our italics).

Thus when a system of control based on internalised markets is put in place, the market is not, as it were, being deliberately stage managed. The competitive situations that are being allowed to infiltrate firms certainly exist objectively in the external environment. However, which elements are allowed into firms, in what way and in what form is still a strategic decision. The market principle never operates in a vacuum. In reality, there is no market without regulation: 'A society has the markets it creates for itself' (Gadrey 2003: 74). All markets are social constructions, irrespective of whether the market in question is a product market, a labour market or an internal market in which teams tender for development projects. Even within a firm, the market the firm creates for itself predominates. Internal markets are created and function in accordance with rules laid down by the management of the company. In particular, the industrial relations system has a considerable influence on the extent to which and the way in which control through internalised markets can be introduced.

It follows from this observation that the structuring of the external environment also impacts on conditions within a firm that has introduced market-based control. Organisations can internalise and instrumentalise only that which is available in the external environment. The actual ways in which the market is internalised and its consequences for workers, firms and customers depend to a large extent on how the relevant product and labour markets are organised in a particular society. In an international comparison of the construction industry, Bosch and Philips (2003) recently revealed the very different ways in which countries deal with the long-term costs of construction (i.e. the training of the next generation of skilled workers, the ensuring of workers' health and safety on construction sites, the protection of workers against seasonal fluctuations, etc.). In some countries, such costs are externalised from construction companies, while in others policy decisions have ensured that they are internalised and reflected in the price of the product.

Thus the question for researchers to investigate is the constitution of markets in a given society. Management can import only that which is available in the external environment. It is true that companies will always try to influence the societal approach to markets; conversely, however, arrangements and conditions in product and labour markets are becoming increasingly important for organisations' internal environment. If societies succeed in maintaining their particular ways of organising these markets (which may also include reform of those

arrangements), then market-based control within organisations will be more malleable as well.

Against this background, it should be interesting for the DYNAMO sector studies to come to think about, firstly, how tendencies towards control based on internalised markets could be identified in the respective industries, and secondly, how to find indicators for whether or not these processes, if they occur at all, contribute to a gradual erosion of the standard employment relationship. Some of the problems that may confront us in these efforts are outlined in what follows.

3 Problems to be addressed in DYNAMO

There are many open questions linked to our analysis. The most obvious one is the empirical pertinence of the observations summarised here. The mere fact that they may be encountered in various countries and activities, based on qualitative empirical evidence, does not necessarily imply a general trend, given the diversity in work organisation and employment forms amongst and within EU countries. What is needed in this respect is a greater quantitative evidence, drawing on a set of meaningful indicators. It is hard to see, however, how DYNAMO could possibly contribute to overcome this lack.

A second major question is to what extent the ‘delegation of uncertainty’ interferes with traditional institutional frameworks of the employment relationship. Labour market institutions are not just subject to pressures but they may also modify the functioning of the tendency of market control. Control through the market can only be implemented under the conditions that prevail in the particular social environment, even when the objective of such control is to change that environment. The logic of control based on internalised markets tends can only assert itself fully until the countervailing social and political forces and institutional counterweights have been sufficiently weakened. However, these are not necessarily weak, nor are they enfeebled everywhere. There are certainly countervailing forces and counterweights, albeit of variable strength from country to country, acting against the unchecked advance of product market competition (or shortage of resources in public budgets) and the consequent impact on the working and employment conditions of workers. Empirical evidence on this interaction could be found by looking at working conditions on the shop floor under different national conditions, i.e. in a cross-country comparison. However, as to work organization on the micro level an investigation of that kind will, in general, not be possible in the course of the DYNAMO project.

What will be possible, however, is to look at those indicators available at the meso level. In particular, it should be useful to look at the interplay between market control and some of the major aspects of national employment models referred to in the conceptual paper for DYNAMO, including training systems, industrial relations, elements of labour market regulation such as employment protection, the production model and innovation system, and the pay and working-time systems. On the last few pages of the present paper we present some hypotheses about what some of these interactions could look like.

With regard to the *training system* several hypotheses could make sense. On the one hand the ‘delegation of uncertainty’ may benefit from an occupational training system producing broad skills, because this offers incentives for companies to choose the high road path in work organisation and to concentrate its core competencies in product markets with a competition based mainly on innovation and qualification. What was referred to earlier in this paper as a reliance on professional standards could prove crucial for the functioning of the shift of risks in the work process.

On the other hand the internalisation of markets may establish barriers for companies to engage continuously in the basic occupational training system. The main reason for this could be the diminishing of budgets and resources which could reduce the willingness of companies to invest in qualifications of an apprenticeship system for example and to pay more attention to public founded qualifications of schools and universities or to invest only in areas where special company requirements are seen. In this context it is possible that a kind of polarization of skills will occur with a higher demand for highly qualified personnel from universities or other higher education systems (e.g. for management functions, knowledge intensive white collar work like research and development or customer advice for wealthy clients), a smaller demand for apprenticeship skills for qualified work (in service departments and highly automated processes or in service support functions) and a higher demand for qualifications below the former level of apprenticeship qualifications (in direct production or in customer advice for mass clients).

With regard to the *industrial relations system* the internalisation of markets can also have important impacts. One plausible hypothesis could be that the role of company and plant level interest representation will change. On the one hand, the pressure on plant representatives – works councils or union representatives – could be growing because of the fostered competition which is connected with the development of internal markets and the splitting up of the value chain in the companies. This pressure also is intensified by the financial targets plants

or business units are confronted with. Moreover, the defence of workforce interests may become more complicated due to a shift in perception of interests at the side of many employees. As control via internalised markets puts the responsibility of the individual at the centre, individuals may find 'collective' interest representations less helpful as long as these bodies do not find ways to support the individuals in coping with their workload.

A second plausible hypothesis concerning the system of industrial relations is that the decentralisation of bargaining is fostered further. This may, on the one hand, put industry-wide norms under pressure as they are regarded as obstacles for improving competitiveness. On the other, the same process may give local union or workforce representatives the chance to act as 'co-managers', as they are called in Germany. The bargaining power of unions may be deteriorating but a minority may be benefiting all the same. Thus, the outcomes of this new drive for decentralisation are not obvious. Question is whether it fuels a race to the bottom or a trend of growing wage dispersion in both directions. It should be interesting to look for indicators that allow for better founded assessments in that respect.

With regard to the *innovation system* also a weakening of innovative resources is within the range of possible outcomes. The main reason for this fewer incentives to invest in long term innovations than companies that can benefit from long term financing by banks for example. This does of course not mean that innovations are excluded. There are e.g. some hints that financial markets are better able to make available resources for radical innovations because they can produce more risk capital, especially if there is a stock market hype like it was at the end of the 1990s. But in the long run the availability of financial resources is more cyclical and return expectations are more oppressive than in other forms of finance. And investment in innovations has a decreasing effect on the return expectations of companies. This may have side-effects on the inclination of firms to invest into training and thus affect the production model in general.

Finally, *employment protection* and other aspects of more or less regulated labour markets may interact with the tendency to internalise markets. The hypothesis could be that control based on internalised markets is focused on the core work force the more labour markets are regulated. In a more 'liberal' model, in contrast, greater emphasis will be put on outsourcing, the use of self-employed, and the use of contingent workers as forms of the 'delegation of uncertainty'. Further, the strengths and weaknesses of existing labour market regulations may be indicated by the trends of working-time. The effectiveness of working-time regulation vis-à-vis the pressures of internalised markets should reflect in the actual working hours of particular

groups of employees in a cross-country comparison. Whether or not countries are heading towards the internal hybridisation of employment practices, featuring “islands in a more liberalized sea”, must reflect, sooner or later, in adequate outcomes regarding core working conditions such as working-time.

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