

“HRM in Multinational Value Networks: The Case of Lummerland Express Tours”

Competitive Paper

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Stefan Zagelmeyer, International University of Applied Sciences Bad Honnef, Muelheimer Strasse 38, 53604 Bad Honnef, Germany, Tel: +49 (0) 2224 9605 260, Fax: +49 (0) 2224 9605 500, Email: s.zagelmeyer@fh-bad-honnef.de

Claudia Keunecke, International University of Applied Sciences Bad Honnef, Muelheimer Strasse 38, 53604 Bad Honnef, Germany, Tel: +49 (0) 2224 9605 260, Fax: +49 (0) 2224 9605 500, Email: claudia.keunecke@fh-bad-honnef.de

ABSTRACT: Service sector companies frequently use products or services of external suppliers to provide their own products or services. Especially when a companies' service involves face-to-face interaction between customer and employees of external organizations, the effective management of all human resources involved in the service delivery process across organizational boundaries may have a crucial influence on the quality of the service and ultimately customer satisfaction.

The analysis and discussion of this phenomenon is still in its early stages. The issues of vertical integration and vertical boundaries have featured prominently in the strategic management literature, but the topic of managing human resources across organizational boundaries has only recently attracted the attention of academic research.

This explorative case study investigates organizational structures and human resource management and employment relations practices of Lummerland Express Tours (LET Co), a tour operator specialized in train tours, and the multinational value network of organizations involved in the production and delivery of LET Co's services. The first part of the paper introduces the core concepts related to the issue of fragmented work across organizational boundaries. The second part introduces the research methodology and the case study value network. The third part describes and discusses the employment policies and practices involved in the service delivery process. The final section of the paper discusses the human resource management implications that arise from such complex organizational forms.

1 Introduction

It is quite common for companies, in particular in the service sector, to use products or services of external organizations to provide their own products or services. Tour operators, for example, are frequently subcontracting (or outsourcing) catering, cleaning, room management and technical services. Especially when a companies' service involves face-to-face interaction between customer and employees of external organizations, the effective management of all human resources involved across organizational boundaries may have a fundamental influence on the customer's satisfaction.

The analysis and discussion of this phenomenon, especially with respect to the management of the human resources and industrial relations involved, is still in its early stages. The issues of vertical integration and vertical boundaries have featured prominently in the strategic management literature (Grant 2005, Saloner et al. 2001), but the topic of managing human resources and industrial relations across organizational boundaries has only recently attracted the attention of academic research (Baron/Kreps 1999, Ashkenas et al. 2002, the contributions in Marchington et al. 2005a).

This explorative case study investigates organizational structures as well as human resource management and industrial relations practices in a boundaryless organization (Ashkenas et al. 2002). The next section introduces existing approaches that may be used to discuss the rationales and challenges of fragmented work across organizational boundaries. The following part introduces the research methodology and the case study value network. The subsequent part describes and discusses the employment policies and practices involved in the service delivery process. The concluding section of the paper discusses the implications that arise from such complex organizational forms.

2 Value Networks: Rationales and Challenges

There are several approaches that can be used to analyze the rationales and challenges for boundaryless organizations and value networks. The following section introduces the strategic management perspective, Atkinson and Meager's flexible firm perspective, the transaction cost perspective, and the organizational analysis perspective.

2.1 The Strategic Management Perspective

The strategic management literature refers to an organization's configuration as consisting of 'the structures, processes, relationships and boundaries through which the organization operates' (Johnson and Scholes, 2002:420), with structures being associated with the design and definition of roles, responsibilities and liabilities. Value creating activities do not necessarily have to be organized exclusively in-house. Already Porter's (1985) value chain 'describes the activities within and around an organization which together create a product or service' (Johnson and Scholes, 2002:160). A 'value network' represents a 'set of inter-organizational links and relationships, which are necessary to create a product or service' (Johnson et al., 2005:140).

In 'fragmented work organizations', the creation of value added and the related organization of work is split between the different parts of a (value) network of organizations, and each part is administered by a specific and more or less independent business organization (Grimshaw et al, 2005a:1pp). This means that the company selling a product or service requires services provided by other companies to be able to create its own product or service.

Value creation across organizational boundaries is associated with two strategic management concepts: integration and fragmentation, sometimes also called disintegration. Integration means to 'integrate [...] knowledge and activities of different [...] organizations, particularly within the value chain' (Johnson and Scholes, 2002:443). Fragmentation implies a 'strategic choice based on an assessment of capabilities' (Grimshaw et al., 2005b:44), and then buying a service which is better performed by an outside organization. Alliances, subcontracting, partnerships or joint ventures comprise examples of value network types, where parts of the supply chain are shared by multiple independent businesses.

The strategic management literature distinguishes, among other things, between competence, resource or cost arguments as rationales for choosing such organizational forms. While the competence perspective argues that a company may benefit from another organizations' special skills and capabilities by integration or fragmentation (Coombs and Battaglia, 1998:21), the resource based view of the firm aims to access valuable resources, a potential partner or supplier can access (Barney, 1988:71pp). Finally, an organization may benefit cost-wise, if partner organizations are able to produce or provide the service at lower cost.

The concept most frequently associated in discussions of fragmented work across organizational boundaries is outsourcing. While outsourcing in the original sense refers to 'firms externalizing activities previously undertaken internally' (Coombs/Battaglia 1998:2), most of the arguments may also be applied to processes of subcontracting, which do not require that an activity was previously performed internally. Domberger (1998) distinguishes four rationales for strategic outsourcing: capacity outsourcing (supplementation to accommodate peaks), specialized outsourcing (use of businesses providing niche products or services), market discipline (cooperation with businesses that otherwise would be competitors) and cost savings. Baron/Kreps (1999) argue that the relative advantages of different types of outsourcing depend on (1) the strategic importance of the outsourced activity and (2) the interdependence of tasks and social aspects. Processes that are characterized by low levels of strategic importance and interdependence may be outsourced in order to achieve cost efficiency and flexibility, while high levels of interdependence and low strategic importance call for either the use of internal or outsourcing to firms with similar cultures or HR policies in order to provide for the required levels of trust and cooperation. If the process scores high on strategic relevance, but scores low on interdependence, quality as the key criterion requires long-term relationships with contractors or other tight relations. If a process is characterized by high levels of strategic importance and task interdependence, the firm would be best advised to use internal employees.

There is fundamental disagreement in the literature as to whether and to what extent fragmentation and the permeability of organizational boundaries are required for gaining competitive advantage. Ashkenas et al. (2002) are convinced that breaking down hierarchical, functional, external and geographical boundaries is required in order to score highly on the four key success factors speed, flexibility, integration and innovation and thus to be able to gain a competitive advantage. Yet it is important to note that Ashkenas et al. (2002) do not advocate a deterministic approach, but rather a contingency approach to organizational boundaries. Contrastingly, others like Rushmer/Pallis (2002:59pp) argue that 'rather than blurring boundaries, the establishment of clear boundaries is essential for successful inter-professional working.' With special view on the employment policy implications Grimshaw et al. (2005c) stress, that, in order to avoid costs of fragmentation and integration it is essential to follow certain consistencies in policy and practice, in particular, as far as the management of labor across organizational boundaries is concerned.

As far as the outsourcing of tasks is concerned, Baron/Kreps (1999 :449) summarize that outsourcing is less appropriate for tasks that are core activities, highly interdependent with core tasks, require high-levels of firm-specific human capital, are open-ended, require trust and cooperation, and/or involve employees who are socially similar to the firms' regular employees. Outsourcing was recommended if performing a certain task requires employees who don't fit vis-à-vis the organizations employees, in areas where the organization lacks expertise, and whose supervision and monitoring is too costly. Baron/Kreps (1999) argue that there are transactional, social and administrative considerations for outsourcing.

2.2 Meager/Atkinson's Flexible Firm Perspective

In their analysis of the flexible firm, Atkinson (1985) and Atkinson/Meager (1986) distinguish between different types of approaches to managing labor firms can pursue in order to achieve different types of flexibility, which can be achieved by different types of contracts. Functional flexibility is achieved by the core group of employees, who perform the key activities, can perform several different tasks, and enjoy long-term employment relationships, extensive training and development policies, and career opportunities. Numerical flexibility, i.e. being able to vary hours and periods that people work to match the organizations needs and labor demand, is achieved by employing a peripheral group of employees, including part-timers and temporary workers. While the previous types of employment relationships relate to the internal labor market and HRM policies and practices, 'distancing' is an external alternative to flexibility. Internal employment relationships are replaced or supplemented by commercial ones, i.e. employers may subcontract task or intermediate services to companies, professional employer organizations, work agencies of self-employed persons. The rationales for distancing strategies are 'a wish to concentrate corporate resources on areas of competitive advantage, to find cheaper ways of undertaking non-core activities, to shift the burden of risk and uncertainty elsewhere and to reduce (or contain) formal headcount and wage bill' (Atkinson/Meager 1986: 9).

Tour operators may benefit from distancing strategies in several ways. The company may concentrate on the core elements of its business where it has most expertise. The company may also use specialist expertise for whom the activity is their core business. Demand for different types of travel packages and specific trips may be sensitive to a number of factors that are difficult to predict, such as the weather, the political situation, and terrorism. Depending on the extent of its application, distancing shifts the business risk to the

commercial partners. This may not be problematic for the partner companies as long as they are not depending on the contracts for survival, i.e. represent a small share of the subcontractors revenue, or if subcontractors can shift the risk to crewing agencies or self-employed persons. Or the costs of operating an activity may be reduced.

Yet there are challenges of the distancing strategy. The organization loses direct control over an activity that affects its business. Distancing may be a risky strategy if the customer associates bad service quality of a subcontractor with the distancing organization. In the human resources area, employees working for subcontractors may be less committed to the service than core employees, since their motivations and agenda may not be completely in line with those of the organization.

This is how far the core-periphery-distancing model applies. However, the firm needs to distinguish its core activities from peripheral ones and from the ones that it can subcontract to specialist or niche providers. The relationship between the core firm and the contractors needs to be a partnership in which the core firm needs to be able to protect its reputation, brand image, core skills and property rights (Knowles 1998, 215). Yet the niche operator or subcontractor needs to still be able to manage its operations effectively. It may be better geared and competent to serve customers' needs at a faster pace than the tour operator itself. A critical success factor of outsourcing activities is a strong level of trust and cooperation between the contracting parties (Knowles, 1998:215).

In so far as purchasing and supply management is concerned with the development of supplier firms, then human resource issues within those firms may have to be taken into account as well (Saunders, 1997:282). Buyer-supplier relationships may be seen as having a key effect on the rates of learning in both organizations (Saunders 1997:283).

2.3 The Transaction Cost Perspective

The vertical scope of the firm, i.e. the extent to which a firm encompasses vertically linked activities or, in other words, parts of their value chain are included within their organizational boundaries, is at the core of an organizations corporate strategy. This perspective very much touches the fundamental decision about what activities should be optimally internalized and included within the organizations boundaries, with employees bound by employment contracts, and which should be left to the market with commercial contracts. Transaction cost theory suggests that the answer to this question depends on the

relative transaction costs of the different contractual alternatives. 'If the transaction costs associated with organizing across markets are greater than the administrative costs of organizing within firms, we can expect the coordination of productive activity to be internalized within firms' (Grant 2002, 390).

Vertical integration refers to a firm's ownership of vertically related activities. The degree of the latter increases with the firm's ownership and control over successive stages of the value chain for its product. An indicator of a firm's degree of vertical integration is the ratio of the firm's value added to its sales revenue (Grant 2002:393). Benefits of vertical integration are related to technical economies, i.e. cost savings that arise from the physical integration of processes. Conditions that foster market like relationships are associated with low transaction costs in the market, for example related to competitive supply conditions, the availability of information, and low switching costs for buyers and suppliers (Grant 2002:394).

Coordination of production flows through the vertical chain may be compromised when an activity is purchased externally. In a situation where information is shared, private information may be leaked when an activity is performed by an independent market firm. Further problems are associated with opportunistic behavior of the one or both of the contracting parties, and transaction-specific investments.

In some cases, firms may just not be able to reach the optimal scale of operation for the different stages of production, and thus may be reluctant to provide those products and services internally. Market firms may achieve economies of scale. Coordination costs may occur for managing strategically different businesses, related to management systems and organizational capabilities. As a consequence, companies may even vertically de-integrate. Specialization advantages, possibly related to learning economies, of specialized companies may allow the firm to develop distinct capabilities and provide the firm with key advantages over non-specialized firms. In relation of motivation, market based relations may solve agency problems of administrative internal structures related to the management of human resources. Market contracts may provide for high-powered incentives, each party to the contract motivated by maximizing profits. In case of dissatisfaction with product quality, the contract would be terminated and the supplier replaced by a different one. Market firms are subject to market discipline and must be efficient and innovative in order to survive. In addition, there are potential advantages of flexibility. Where demand is uncertain and requires rapid responsiveness, there may be advantages in market transactions. Vertical integration

may tie the company to its internal suppliers, and possibly represent a compounding of risks insofar as problems at any one stage of the production process threaten production and profitability at other stages (Grant 2002, 396-399).

The overall balance of costs and benefits associated with vertical integration depends on the costs associated with the internalization of vertical transactions, as compared with the costs of undertaking them in separate companies linked by market transactions.

There are different types of vertical relationships, characterized along the two dimensions of formalization of the agreement, and the degree of commitment of resources to the relationship by both parties. Spot market contracts work well under competitive conditions, but where closer supplier-customer ties are needed – in particular when transaction cost-specific investments are made - longer-term contracts may avoid opportunistic behavior and provide for the security needed to make the necessary investment. Since not all circumstances and future contingencies can be regulated, the contract will necessarily be incomplete, potentially giving rise to opportunism and conflicting interpretations (Grant 2002, 401-402).

2.4 The Organizational Analysis Perspective

From the perspective of organizational analysis, the structure of the analyzed value network may be categorized as a network organization or a virtual organization. In network organizations, vertical communication and control relationships are replaced by lateral relationships among partners in a network. Consequently, it is not a single organization that produces a good or service, but rather the network as such (Hatch, 1997:191).

While network type of organizational forms may result from outsourcing activities, or cooperation of small firms not able to compete independently of each other, virtual organizations are characterized by the phenomenon that all task activities are outsourced (Hatch, 1997, 191). In virtual organizations communication and information networks have replaced centralized hierarchies and agglomerated location of employees, possibly endangering interaction dynamics, a sense of community and organizational connectedness. Virtual organizations are borderlessness in the sense that a key element of their organizational form is temporary collaboration, teams and projects, networking and interorganizational cooperation of firms. An implication of this is the elimination of all organizational units and staff which are not considered core competency or are not directly contributing to value-

added. For the remaining employees, this will lead to the increased need of communication across organizational boundaries with personnel from other organizations (Jaffe, 2001:203). Challenges related to this organizational form, among others, are supervision and monitoring of employees, as social control is no longer available to solve the agency problem. Emphasis on empowerment and self-control, mediated through market-based contractual relationships, and communicated through shared culture and common corporate values may alleviate this problem (Jaffe, 2001:204).

Both organizational forms are characterized by the linkage of the business partners via supplier-customer or –buyer relationships similar to those of a market system, which allows firms to reduce vertical hierarchy as a coordination mechanism as well as overhead to a minimum (Hatch, 1997:191p.), while providing all partners in the network with high-powered incentives of the market-based business contracts. In addition, networks have superior characteristics with respect to information-sharing, innovation and learning (Hatch 1997:192).

Problems may occur in form of opportunistic exploitation by partners who control critical information or critical suppliers, on which the network depends, misusing its power position and holding the rest of the network hostage. These problems may overcome by the development of relationships which are based on personal friendship, reputation or shared ideology, generating trust and cooperation. Boundary spanning is an activity which includes environmental monitoring including passing information to decision makers as well as the external representation of the organization to its environment (Hatch, 1997, 92).

There are two important issues which require consideration when entering relationships with other businesses. The first is related to relative power or interdependence in the relationship. Contract partners (or suppliers) may acquire quite a considerable level of relative bargaining power if the supplied service is difficult to substitute. This relative power position may provide an incentive for opportunistic exploitation of the buyer by the supplier. The second issue is risk. Depending on the contractual arrangement, buying in services may shift business risk as well as the responsibility for managing labor to the supplier (also see Davidov, 2004:727pp). Sourcing out activities where certain skills or performance standards are crucial to the quality of the product or the service experience of the customer bears another risk for the buyer.

Marchington et al. (2005a) argue that controlling the outsourced processes is practiced in different ways and requires specific forms of control by all parties involved, depending on

written contractual terms and effective performance monitoring.' An appreciation of the complex dynamics of inter-organizational relations suggests that trust, power, and risk are relevant concepts of examining the processes and relations that comprise network forms.' (Grimshaw et al., 2005b:56). These factors have to be assessed for each network formation, and also with respect to the employees involved.

When services are provided face-to-face by employees of the supplier to the customers of the buyer, employment relationships may become triangular, i.e. there is a buyer of a service, a supplier, and then there are finally the employees of the supplier who provide the service to the customer of the buyer. Rubery et al. (2002:63pp) distinguish the term employer, used for those relations where a formal employment contract exists - usually between supplier and employee - from the term non-employer, where there is an informal employment relation – usually between the buyer and the suppliers' employee, and argue that the non-employer has an important influence on the employment relationship, for example in terms of task and job design, work assignments, control of work, performance assessment.

In order to align the interdependence of organizational structure in fragmented work organizations and the management of the human resources involved, so-called boundary-spanning agents (Marchington et al., 2005b:135pp) act as intermediaries between the non-employer and the employer and sometimes also between the non-employer and the employee. Their role is 'potentially contradictory. On the one hand, it requires the development of close, open and trusting relations in order to achieve positive results for their own organization, while on the other the maintenance of distance and formality helps to protect their own organization from the risks associated with breakdowns in inter-organizational relations.' (Marchington et al., 2005b:135).

3 Introduction to the Case Study and Research Methodology

The objectives of this exploratory case study are to describe a specific organizational network that is characterized by organizing work across organizational and national boundaries, to gain an explorative insight into the contractual relationships between the different network partners, and to discuss HRM and industrial relations implications of such complex organizational configurations.

The case study includes the organizational (value) network of a tour operator. Tour operators are companies that combine components such as a flight, accommodation and

activities to create a holiday. In order to preserve the anonymity of the companies and people involved in the real case study, this paper reports organizational structures, relationships, contract provisions at Lummerland Express Tours (LET Co), a fictitious rail tour operator in Lummerland (Ende, 2004), and companies in its organizational network. LET Co is a successful medium-sized tour operator based in Lummerland, and was established by the owner-entrepreneur some 30 years ago.

It is common in the tourism industry that different businesses make a contribution to deliver a specific product or service without the customer noticing it. While the customer usually assumes that all people involved in the service delivery are employed at the tour operator, in our case, Lummerland Express Tours, there is actually a network of contractual relationships and a large number of different types of employment relationships involved, ranging from formal to informal ones, which is not obvious to the customer at first glance. For the tour operator, managing human resources and employment relations across the different elements of the supply chain (or the business network) is quite important to deliver the quality of the customer's service experience.

In order to deliver services, LET Co has created and manages a network which consists of the tour operator itself and seven independent businesses (Figure 1), each of which supplies services and thus contributes to the service the customer buys and experiences. There are several companies contributing involved in the value network:

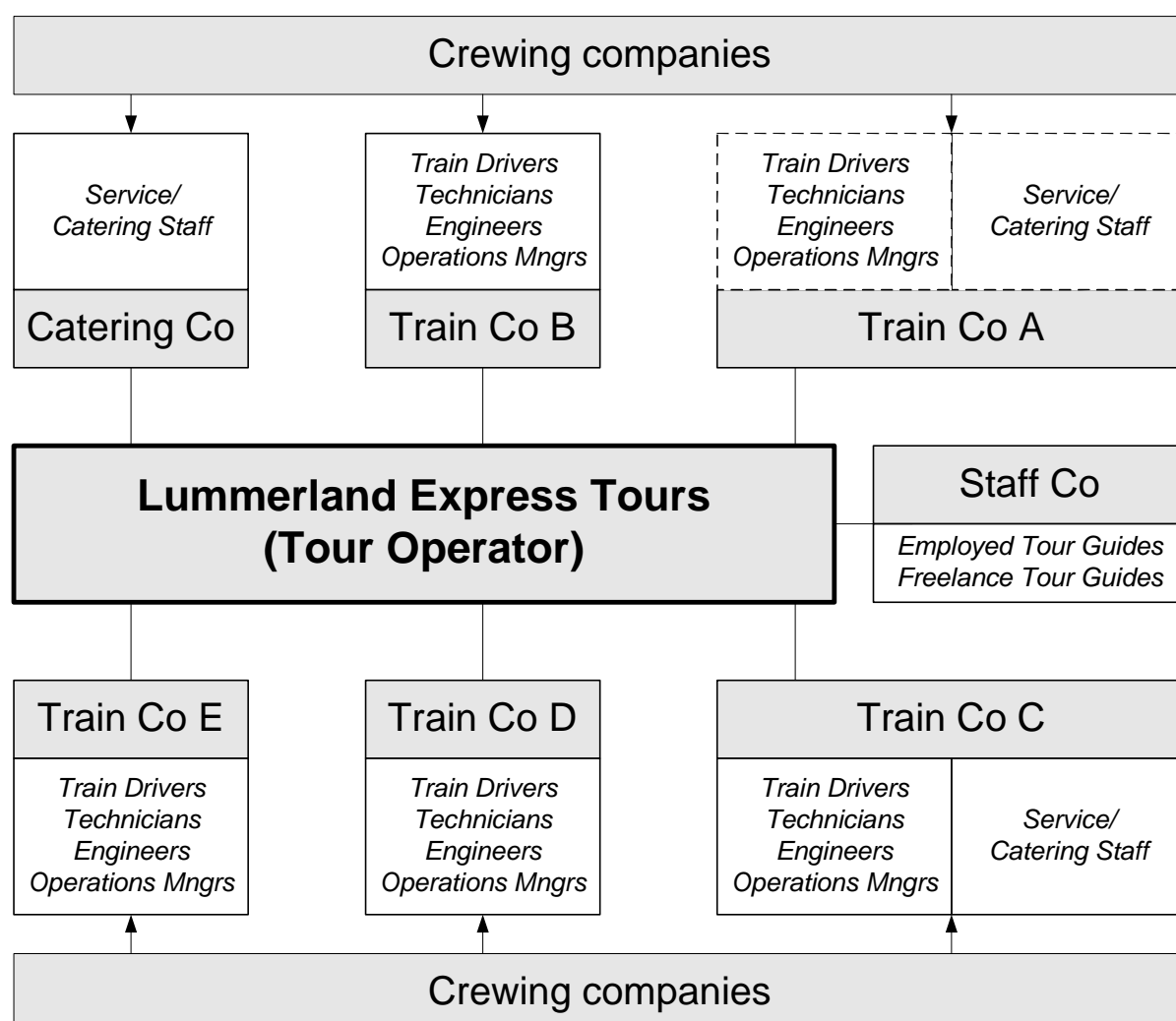
Lummerland Express Tours Co (LET Co), the fictitious tour operator, offers rail tour travel packages, for example on the fictitious routes from Mandala to Jambala. The train trips usually start in a country different from Lummerland, may cross the borders of one or several other countries, and end in yet still another country. LET Co is the core company within the network and can be categorized as a medium sized enterprise. LET Co is based in Lummerland (country A) and exclusively serves customers from Lummerland.

Train operators (Train Co A-D) execute operations and services to run the trains. Some train operators also provide catering and hospitality services. Train Co A and Train Co B, which were interviewed, are based in countries A and B, employ home country nationals, and are operating in international markets. Let Co is one of their many clients. They provide trains and coaches as well as services. The range of the services includes technical management, route operations, crew and sleeping-car management as well as catering (Train

Co B only). Train Co A and Train Co B are representative of all train operator companies LET Co does business with.

The catering company (Catering Co), based in country C, is a global player in servicing the daily operations on board of all types of vehicles. Their services include hotel management, housekeeping, reception, all kinds of kitchen management, restaurant services, logistics, etc.

Due to the fact that the terms and conditions of the contracts as well as the practices of the catering company and the train operator companies all correspond and are based on the same organizational and operational principles, these network members are classified as service providers (SPs).



Note: All members organizations of the value network are located in different countries.

Figure 1: LET Co's operational network

The staffing company (Staff Co) is an agency specialized in international employment services for tourism and hospitality. Staff Co places and employs the tour guides. The agency is based in country D, and is a global services provider. The tour guides are the primary contacts for the traveling customer. They are responsible for turning the itinerary into a positive experience, by organizing trips and entertainment programs and to sort out all kind of problems that arise at short notice. Tour guides are usually Lummerland nationals.

LET Co offers different types of train trips. The configuration of companies for a specific value network is determined by the type of service, i.e. for each different type of train trip, there is a specific organizational configuration of the value network. For example, for the Mandala to Jambala trip, LET Co may be working with Staff Co, Train Co A, Train Co D, and Train Co E, while other trips may be served by LET Co, Staff Co, Catering Co and Train Co E. Staff Co

The case study is based on using questionnaires and semi-structured interviews. Interview partners were chosen due to their positions within the network. Of the eighteen interview candidates approached, two refused to take part in the research without providing specific reasons. One cited a lack of time as a reason not to participate. Three vehicle companies did not reply to the invitation to take part in the research. The tour operator mentioned an unwillingness to involve tour guide interviewees directly, but then offered access to a few selected tour guides. Even though only 12 candidates were interviewed, it was a homogeneous frame to get a comprehensive and holistic view of the relevant aspects from different perspectives.

Semi-structured interviews (face-to-face, email, or telephone) were conducted with a specifically selected number of employees from several network partners. The questionnaire comprised a mix of open and closed questions. While some parts of the questionnaire were standardized and asked in all interviews, other questions were specifically designed for each type of interviewee, depending on his or her organization and his or her function. The first part of the interviews covered aspects of organizational structures and interests of the different actors involved. The final part investigated employment relations.

Company	Position
LET Co	Managing Director
LET Co	Operations Manager A
LET Co	Operations Manager B (HRM)
LET Co	Product Manager
Catering Co	Operations Manager
Staff Co	Operations Manager
Staff Co Employee	Tour Guide A
Staff Co Employee	Tour Guide B
Staff Co Employee	Tour Guide C
LET Co (former Staff Co Employee)	Sales Assistant (Tour Guide)
Train Co A	Operations Manager
Train Co B	Operations Manager

Table 1: The case study interviewees

This piece of research amends previous research published in Marchington et al. (2005) in several ways. While Marchington et al.'s sample of companies focuses on large and unionized British companies, with the majority of the companies having some links with the public sector, and most companies having moved from traditional bureaucratic organizations to boundaryless organizations, LET Co is a medium sized private sector company based in Lumberland. Furthermore, although LET Co serves an exclusively national market with its services, its network of suppliers includes of companies from different other countries. Finally, while Marchington et al.'s companies have been moving from traditional bureaucratic and hierarchically organized companies, some of which undergoing a process of privatization, to more boundaryless organizations, LET Co has been growing from a small start up company with pre-bureaucratic organizational structures to a medium-sized company, using the strategic advantages of a boundaryless organization in order to gain a competitive edge over competitors.

4 The Organizational Configuration of the Value Network

This section introduces the organizational configuration of the LET Co's operational network, starting with the core company, LET Co. The first part of the section summarizes information derived from an interview with the Managing Director of LET Co. The second part includes an outline of the elements of the tour operator's organizational network as well as of the main relationships between the different elements.

4.1 LET Co and SPs

As LET Co does not own any of the trains itself, it charters trains. Under the charter agreement, the charterer (LET Co) has the complete possession and control of the vehicle, including the right to appoint its crew (Operations Manager B, LET Co). Some train operators offer all required operational services, i.e. technical as well as catering services. However on other trains, the train operator may only cover technical services, while other services are contracted to a catering company.

The contractual arrangement between LET Co and the SPs are described as that of 'business partners providing fundamental product elements, which are outside the LET Co's range of resources and capabilities' (Product Manager, LET Co). SPs are usually based outside Lumberland (Operations Manager A, LET Co). Reputation concerns are perceived as being of relatively little concern. The operations manager of Train Co A stated that tight quality control measures contribute to an optimal service to the customer, which, in the end, contributes to LET Co's market success. When asking LET Co interviewees about reputation concerns and the involved risk when cooperating with third parties, they argued that LET Co intends to benefit from using reputable partners (Product Manager and Operations Manager A, LET Co). All LET Co and SP interviewees stated that, in general, LET Co takes more risk due to the necessity to break even for each train tour. Power would be equally divided, and the interviewees of both business partners in this respect refer to the business contracts between LET Co and SPs. Some interviewees consider trust to be of medium importance, while others believe it to be highly important. All interviewees, however, again, referred to the underlying (business) contractual ties. The Operations Manager of Train Co B argued that the services his company provides have two target customer groups at the same time, LET Co and the travelers.

4.2 LET Co and Staff Co

It is common practice for train tour operators to use destination service agents such as Staff Co to employ on-the-spot associates, i.e. tour guides. During the interviews, the rationale for using Staff Co mentioned first was that it possesses specialist knowledge and capabilities in relation to destination contracting. However, in later discussions it became clear that financial reasons are even more important. All LET Co interviewees stated that it is a matter of outsourcing, but also emphasized the fact that tour guides have never been

contracted directly by LE Co, and thus the use of an intermediary destination service agent would not be a consequence of cost-cutting policies.

The risk for the tour operator to lose reputation through using an agent (Staff Co) is considered as negligible due to the power of LET Co. The cooperation is described as a 'close and trustworthy partnership' and problems are addressed immediately and not bureaucratically (Operations Manager B, LET Co). On the part of Staff Co the risk to lose reputation through the LET Co is also considered to be very small because the employees wear LET Co uniforms and thus cannot be identified as Staff Co employees. In addition to this the person buying a travel package from LET Co is not seen as a potential customer of Staff Co (Operations Manager, Staff Co). LET Co monitors the terms and conditions of the employment contracts between Staff Co and the tour guides, and would terminate its contract with Staff Co if it was no longer happy with the contractual terms offered to tour guides by Staff Co (Product Manager of LET Co). All interviewees mentioned that trust is highly important, since the business relationship would contain many aspects regulated by informal agreements. While the power and decision-making authority lies with LET Co, execution of decisions formally falls within the authority of Staff Co. The overall risk concerning the employment of tour operators is with Staff Co since all tour guides have employment contracts with Staff Co only.

5 Employment Practices

5.1 LET Co and SPs

The employment contracts of on-train service staff are agreed between the SPs and the individual employees. The responsibility for assignments remains with the SP. LET Co is not involved in any employment contract or concerned with any management of the SPs employees. Nearly all SPs offer personnel management as well as quality management as part of the services they provide (Operations Manager, Train Co A). The SP is explicitly identified as the formal employer of the on-board service staff, technicians, engineers and train drivers. Recruitment, compensation, supervision and performance management are all exclusively dealt with by the SP, and are outside LET Co's sphere of influence. The relationship between SPs and LET Co is exclusively based on business contracts. Performance control on the part of LET Co monitors the adherence to the existing contractual terms. Even though LET Co has no input in matters concerning the on board SP workforce, LET Co should have an interest in what the HR practices of its suppliers are, not least because the SP's service is an integral part of the LET Co's product or service.

In addition, Catering Co and some of the train operators are using subcontractors for crewing matters (Operations Manager, Catering Co, and Operations Manager A, LET Co). In such cases the SP uses human resources via a so-called 'crewing company'. This is associated with 'typical' triangular relationships between the SP, the crewing company and the employees of the crewing company. Since the objective of the case study was to explore the 'first-tier' relationships in the value network, HRM and industrial relations in the 'second tier' was not explicitly the focus of the interviews with SP management representatives. Yet the comments and statements of the interviewee still provide for some information.

Usually these crewing companies are based in the regions of the world where the majority of employees are recruited. There appears to be a strong link between occupational groups and country of origin, i.e. most or all cleaning staff are country A nationals while all mechanics or waiters come from countries B and C. The crewing companies then recruit and contract these subcontracted employees. Training is conducted by the SP, and LET Co is not involved at all (Operations Manager, Catering Co). Operations Manager of Train Co A stated: 'We mainly use subcontractors for technical issues and maintenance.' A majority of interviewees did mention that conflicts between the different types of employees did not occur. However, the Product Manager of the LET Co highlighted the example of one train operator, where pay differentials between its employees and subcontracted employees would occasionally cause some frictions.

None of the organizations appears to be unionized, to have formalized collective employee representation or to be covered by collective bargaining. As far as employee participation and involvement is concerned, it is common practice for staff members employed by the SP to raise issues and voice concerns via a crew committee, which holds regular (staff) meetings on each vehicle (Operations Manager B, LET Co). The Operations Manager (Train Co B) stated that the train management agreements between LET Co and Train Co B included clauses which made unionization and collective bargaining the sole responsibility of the SP.

The contracts between LET Co and SPs do not provide LET Co with the (legal) option to change, terminate or influence the terms and conditions of any of SP's employment contracts. Yet LET Co likes to see that crewmembers identify themselves with LET Co. The train operator interviewees stated that crewmembers usually identify themselves with their formal employer (SP). In some cases, however, employees would identify themselves with the train (or its name), and in some rare cases with the tour operator. Some interviewees

mentioned that some senior staff even preferred to stay on a particular train even though their employer (SP) did no longer service that train. In such cases employees sometimes change the employing SP. Sometimes, LET Co recommends certain people to the SP for certain positions (Product Manager, LET Co).

One of the most important issues in the relationship between LET Co and each SP is the fulfillment of contractual terms, especially as far as performance standards are concerned. Each network member involved in the provision of a particular service controls and monitors the on-board performance. Unsatisfactory results are discussed and communicated among the business partners and the situation is usually checked against the provision in the contractual agreements. According to LET Co's Operations Manager A, this performance assessment is the only action taken by LET Co with direct reference to SP employees. Operations Manager B of LET Co added that the train director (who is a Staff Co employee and who represents LET Co on board) is the person who would intervene at short notice if necessary. 'Processes and process quality is managed by service standards and regular controls', the Operations Manager of Train Co A Co stated. Issues related to cultural diversity and related challenges are limited due to employees nearly all having the same cultural background. He added that Train Co A mainly recruits employees with the same nationality and ethnical background, who all speak English and have western attitudes. However, he also stated that it is not unusual to have a workforce consisting of 15 to 20 nationalities on board of one train.

Apart from the LET Co-SP relationships, an additional and secondary layer of business relationships exists between the SPs and the crewing agencies. This specific relationship is now truly triangular and involves the management of human resources across organizational boundaries, assuming that the involved crewing company covers functions comparable to those of Staff Co in its relationship to LET Co. Industrial relations issues such as collective employee representation and collective bargaining are dealt with by the crewing agencies within the respective national industrial relations system.

Even though all interview participants stated that employee commitment is not targeted as part of any strategy, the workforce's tendency to identify with the train offers potentially positive effects for Let Co. This is comparable to the tour guides who also identify themselves with the train, contributing to job satisfaction and motivation. When LET Co recommends certain staff members (usually the master of a train), this aims to add value to the processes through certain individuals, their behavior and personal contribution.

While it may be that there are different employment groups with different wage levels performing similar tasks, the low levels of conflict between different employment groups reported on the interviews is quite surprising. One reason for this might be that only management representatives were interviewed. In addition, even though the interviewees play down the effects of the cultural diversity amongst the employees, it generally bears implications which have to be managed.

5.2 LET Co and Staff Co

LET Co recruits and selects all tour guides but Staff Co deals with all tour guide contracts (on behalf of LET Co). The individual employment contracts are then agreed between Staff Co and the individual employees (Operations Manager B, LET Co). Staff Co uses two different types of contracts. The first type of contract is a freelance contract, where the freelance tour guide provides services for a fixed period of time, for example a season. Freelancers are paid on a daily rate. The second type of contract is an (usually open-ended) employment contract, according to which tour guides receive a fixed salary (Operations Manager, Staff Co). Resulting conflicts between employees due to different employment contracts are not known of (Staff Co Employee, Tour Guide A), since usually the tour guides in one destination 'are employed under the same type of contract' (Operations Manager, Staff Co).

All LET Co interviewees claimed that each tour guide has some form of employment relationship with LET Co, while everybody also stressed the fact that the formal and legally binding employment contract only existed with Staff Co. Even the operations manager of Staff Co confirmed that the tour guides informally agree an employment relationship with LET Co. In fact, most tour guides employed with Staff CO only work on assignments with LET Co. While the tour guides' formal employer is Staff Co, all involved tour guides would probably claim that they are 'LET Co people'. All tour guide interviewees confirm that they feel, without exception, that they belong to LET Co. One of the former tour guides (Sales Assistant, LET Co) even presumes that some tour guides are not aware that the LET Co is not their formal employer.

LET Co fosters the tour guides' commitment. It is in the interest of LET Co that its on-board representatives identify themselves with LET Co or at least with the train, rather than with Staff Co during the trip. One of the on board employees also said that she 'works for LET Co' and she very much emotionally identifies herself with 'her train' (Tour Guide B).

LET Co provides uniforms with LET Co's corporate identity for all tour guides and further introduces the on-board team regularly in its print media. In addition, all training activities are organized and conducted by LET Co (Operations Manager B, LET Co).

Should LET Co not be satisfied with the tour guides' performance, this is discussed between both business partners (Operation Manager B, LET Co, and Operations Manager, Staff Co). LET Co negotiates with the train director who is the most senior representative of Staff Co on board and supervisor of the tour guides. Should there be a perceived necessity of personnel management interventions (e.g. additional personnel or dismissals), after discussions with LET Co the train director consults Staff Co headquarter and then again communicates with LET Co.

From time to time tour guides choose the option to join LET Co headquarters to continue employment in administration. The sales assistant (LET Co) who was interviewed explained that she has followed this career path. The interviewed tour guides all have the feeling that the secure workplace is generated by LET Co and not by Staff Co.

During the interviews the 'boundary-spanning agent' was introduced as someone who is responsible for effective operations across organizational boundaries. All interviewees (LET Co, Staff Co and tour guides) could immediately identify and name the person(s) who execute(s) this function. At LET Co, the boundary spanning agent is having contact to all tour guides, and is getting involved in managing the tour guides. Issues that have implications in contractual terms are discusses with the train director. At Staff Co, the boundary spanning agents has a contact person, who represents Staff Co in a particular geographical region or to specific customers. Operations Manager B of LET Co is one of the boundary spanners identified. She herself states that only 'through very personal and personified relations can this business partnership can be continued successfully.'

The configuration of relationships between LET Co, Staff Co and Staff CO tour guides bears the characteristics of triangular employment relationships. While Staff Co is the formal employer, LET Co has a significant influence on the tour guides' employment relationships as non-employing party to the triangular employment relationship. Table 2 summarizes duties and responsibilities of Staff Co and LET Co in the triangular relationship.

The following section specifies issues related to the management of human resources from the perspective of the different parties involved in the triangular relationship.

From the perspective of the formal employer (Staff Co), the employment contract between Staff Co and tour guides constitutes the legal basis for the employment relationship. It defines the type of employment. Staff Co uses freelance as well as permanent employment contracts. All issues related to compensation are managed by Staff Co, for which it received specified sum per labor volume unit for its services from LET Co. All interviewees state that work is performed entirely on behalf of LET Co. This leads to the conclusion that Staff Co has virtually almost nothing to do with job design and job content. The train director, who can be seen as the line manager or head of department on board of the train, communicates the tasks demanded by LET Co. The train director is also employed by Staff Co. On board this leads to the perception among employees that the train director is the representative of LET Co and Staff Co.

While LET Co recruits and selects the tour guides, the employees employment contract is signed by Staff Co. For the tour guide this leads to the problem of split loyalties and split identification. For the individual tour guide, the train director represents both 'employer' and 'non-employer' parties. Nevertheless, the employees' affiliation is channeled via the train director back to LET Co, which strengthens the power of LET Co in the triangular relationship. At the same time LET Co addresses employee needs. The identification with LET Co manifests itself when the tour guide is interacting with the customer and the resulting positive customer satisfaction is adding value to LET Co's value chain. All tour guides allocated to one train receive similar pay. This eliminates frustration, dissatisfaction and inter-group conflict that could be caused by differential pay rates for people occupying similar job positions.

The fact that some tour guides might not even be aware that Staff Inc is the formal employer raises the issues of transparency and communication within the organizational network. Another question is whether this is intentional. The fact that the LET Co hesitated to allow access for interviewing tour guides might be interpreted as evidence for this position.

In the majority of cases the process of recruiting and selection, which by nature anticipates the conclusion of the employment contract, is conducted by LET Co. Although LET Co is not a formal party to any contract, it has the power to approve and to influence the termination of a particular contract between Staff Co and a tour guide. Hence, LET Co has the freedom to decide which applicant might fit the culture of LET Co and the respective train. While LET Co needs to have recruitment and selection expertise to start the process of employment, the formal authority to conclude and terminate contracts is with Staff Co.

<i>Elements of an employment relationship</i>	<i>Staff Co duties as being the formal employer</i>	<i>LET Co impact on the employment relationship</i>
Recruitment and selection		Recruits and selects applicants
Employment contract	Signs and terminates employment contract	Requests additional personnel, dismissals, terminations, monitors terms and conditions of the employment contract
Task assignment		LET Co demands the operating requirements from employees
Direction and supervision	Train director executes on behalf of LET Co	Managerial prerogative is on the part of LET Co
Training		Provides training
Development		Tour guides may join LET Co headquarter as employees
Control of work	Train director executes authority	Customer feedback is regularly monitored by LET Co
Compensation	Managed by Staff Co	Monitors compensation system
Discipline and grievance	Formally executed by Staff Co	May be initiated by LET Co
Health and safety		Workplace issues are LET Co's responsibility

Table 2: Allocation of employment relationship elements LET Co – Staff Co

While compensation policies are the domain of Staff Co, overall labor costs are an important consideration for LET Co to choose a particular staffing company. In particular social security and tax issues are mentioned by interviewees as the main reasons why financial aspects rank in first place when the LET Co chooses Staff Co as a partner to contract the tour guides. This issue was very sensitive in the interviews, and some of the interviewees tried to avoid going into detail when asked for the rationale of choosing that particular LET Co – Staff Co structure. This procedure of labor outsourcing bears some risks for the potential employee: It is assumed that the majority of tour guides have a country of residence that is different to the state in which Staff Co is based, i.e. where they are employed. One potential long-term effect will be that the employee misses out on his social security status, since he or

she does not contribute to the social system from which he or she may claim benefits and/or services.

Task assignment and performance management guidelines in the operational network are defined and issued by LET Co. During the shifts, the train director communicates the tasks demanded by LET Co. At the same time he or she represents the control authority on behalf of Staff Co. The performance standards and the code of conduct, i.e. how particular jobs have to be performed, are mutually agreed by Staff Co and LET Co.

Effective performance management is intended to lead to customer satisfaction and to help to obtain a developing and learning organization. Consequently, the constellation of two parties influencing the employment relationship and thus being involved in shaping employee (or better: people) performance demands even alignment and consistency of HR policies and process organization, since the triangular employment relation is exposed to different risks and influences than a traditional employment relationship. Apart from the train director, who mainly communicates and executes LET Co policies, Staff Co is not involved at all in any of the activities related to performance management.

To assess the performance of the tour guides, LET Co uses customer surveys that include the appraisal of employees' behavior whereby the survey distinguishes between the different groups of employees. The train director is not involved in this performance evaluation exercise. When asking the customers about the tour guides, the surveys relate to them as 'LET Co employees'. This again shows that relations between LET Co and the tour guide are quite close in the triangular relationship.

When the level of performance is key to remain satisfy customers, and performance is assessed across organizational boundaries, then the value adding potential needs to be aligned across organizational boundaries to reach a certain standard of service. Since compensation policies are in the domain of Staff Co, Let Co has to find other (non-monetary) tools that motivate the tour guides to perform best on behalf of the LET Co. The tour guides commitment to and identification with LET Co as their 'employer' is fostered through the use of corporate uniforms. At the same time LET Co uniforms (worn by Staff Inc employees) show the customer which people to contact in case of queries during the trip. In addition, LET Co organizes an annual workshop for its employees and the tour guides. This offers the tour guides the opportunity to undertake training sessions, to keep in touch with their

administrative colleagues and to gives them the feeling of being part of LET Co. As this workshop takes a few days on one of the trains, it is also some kind of incentive in itself.

Another aspect contributing to achieving the desired performance standards is communication. Here the boundary spanning agents are the crucial intermediaries that are indicating that the employment relationship is and has to be managed across the boundaries of the one single organization. When trying to identify the boundary-spanning agents in the organizational network, it turned out that LET Co does not have any formal job titles. While conducting the interviews, one woman pondered on what might be her title. She concluded that her job 'would be defined as something referring to HRM', although she has nothing to do with the de facto employees of LET Co. She is the one who contains the function of a boundary-spanning agent and her department at LET Co operates the triangular relationships. As well as determining manpower requirements and itinerary scheduling, the boundary-spanning agent calls meetings and designs the job requirements. Furthermore she has the power to promote career developments – e.g., if a tour guide join's LET Co's administration. All interactions between LET Co and Staff Co, mediated though the boundary-spanning agent, are based on a high trust relationship, which mutually reinforces the interaction between the LET Co and Staff Co.

To sum up, it can be said that LET Co's management practices include and have to include the management of 'non-employees', human resources used by LET Co, but not formally part of LET Co's workforce. All management decisions appear to be 'capital-capital' decisions, decisions between independent companies, although both parties are highly interdependent in providing customer services meeting the required standards. Industrial relations issues such as collective employee representation and collective bargaining are left with the formal employer, i.e. the staff agency, which in the absence of any international or supranational regulation is determined by the national legal and industrial relations systems. And the staff companies as well as the crewing companies are located in countries which by and large have less favorable labor standards than home countries of the SPs and LET Co.

6 Conclusion

The fictitious case of Lummerland Express Tours (LET Co) is based on a real case study. Despite its methodological limitations with respect to reliability, validity and generalizability, the case study highlights a number of interesting implications and challenges related to the management of human resources. The case is characterized by employment

structures, in which none of the personnel involved in providing the service and having face-to-face customer contact is employed by the organization selling and organizing the tour. To put it differently: Lummerland Express Tours sells a travel package without actually employing any of the people involved in the service delivery. The customer, however, thinks that all or at least most of the people involved in delivering the service are actually employed by LET Co. Most stunningly, even some of the tour guides involved in the service delivery process are actually thinking that they would be employees of LET Co.

The configuration of LET Co's organizational network is clearly defined, but, however, the operational practices are rather boundaryless, blurred and informal. Figure 2 sketches out existing contractual relationships between companies and workforces, as well as chains of command (task assignment) and the organizations involved in quality control (SPs and LET Co). All elements are interdependent and supposed to have an influence on the quality of the service experience and ultimately customer satisfaction. Thus LET Co needs to manage the service delivery process in the organizational network with its different types of triangular relationships. And among others this also requires the management of the human resources involved, without actually formally 'employing' any of the people involved.

The management of human resources in this organizational network is far more complex than managing the standard employment relationship. First, all parties involved in the network have to be coordinated, and this to varying degrees. Second, in order to yield high levels of customer satisfaction, all human resources directly involved in the service delivery process have to be motivated. Both requires the involvement of HRM beyond the organizational boundaries of LET Co, and when crewing companies are involved, even across the boundaries of LET Co's contract partners. When managing human resources across the boundaries of a single organization, aspects like job design, employee motivation, security, payment and performance management are all interlinked and demand a special alignment within the business network. At LET Co, this task is performed by boundary spanning agents, responsible for specific product lines or trains, respectively.

For LET Co, there are two different employment systems that need to be managed, train crew (with the SP as the formal employer) and tour guides (with Staff Co as the formal employer). With respect to crew members, the performance standards are laid down in the business contract with the SP, and there is no channel of influence LET Co can exercise, apart from claiming that the business contract provisions had been violated. Specific issues of

concern to LET Co are subcontractors, union links of SP crew members, and the challenge of having multicultural workforces on board.

As far as the tour guides are concerned, LET Co wishes their identification with and commitment to LET Co. Issues to be addresses are transparency of decision-making, communication, participation and voice. For the tour guides, mostly Lummerland nationals, there are challenges of having employment contracts legally based in countries where they don't reside, which may be associated with legal problems and social security implications.

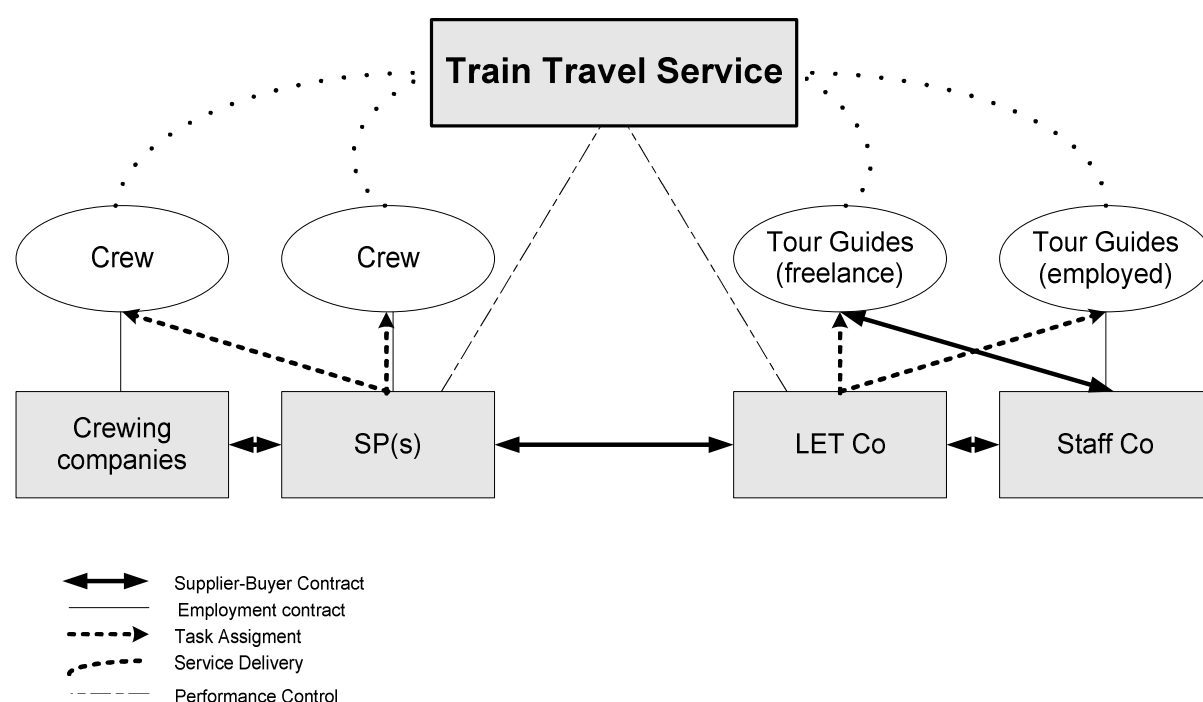


Figure 2: Types of contract, task assignment and performance control in the value network

LET Co emphasizes that no single part of the business is outsourced. LET Co management themselves put great importance on the fact that their business structures are grown naturally. LET Co staff has never executed any of the services generated by partner companies. This comment points to the argument that the business network is one where the different parts specialize in different elements of the service delivery process, the ones they are most competent in. Yet the discussions in the interviews showed that financial and cost considerations are also of importance.

From the company perspective, advantages of such complex network configurations are that all companies involved are specialized, make use of their core competencies, and can

take advantage of different legal environments in which they operate, which may be cost-efficient. In particular for LET Co, this network configuration yields cost advantages as well as a high degree of flexibility. Related to that, it allows to shift risk to subcontractors, and ultimately to the employees involved in the service delivery process. Yet LET Co faces the challenges of aligning employment policies and practices across organizational boundaries, which involves performance management, the efficient organization of responsibilities and liabilities, management of agency problems, achieving and maintaining employee loyalty and commitment to LET Co and/or the service, as well as managing workforces with different contractual arrangements and cultural backgrounds – just to mention a few important issues.

From the perspective of the people providing labor services, there are several implications for the terms and conditions of employment, which depend on the position within the value network and the contractual arrangement. Other conditions equal, the relative power of the people involved in LET Co's service will decline the more distant the person is from LET Co's service and the more the person's contract resembles a (freelance) short-term market contract rather than a (permanent) employment contract. At the same time, trade unions, collective employee representation and collective bargaining seem to become less relevant. A first inquiry with the respective service sector trade unions in the different countries involved as well as at international and supranational level gives the impression that unions are not active in the respective area. The reasons for this may be that national unions usually don't organize employees and regulate the respective employment relationships when labor services are provided in other countries. Cross-country union cooperation does not exist with respect to these countries involved. Furthermore, unions usually do not deal with people involved in market relationships, such as the freelance tour guides. Also, the services offered by the tour guides, and especially by the freelance ones, are highly idiosyncratic, dispersed, and individualistic, so that the tour guides have little propensity to demand union services. At the international level, there is no information available on how many people are covered by the different contractual arrangements. Also, there is hardly any international or supranational regulation, apart from an ILO convention concerning working hours and manning. Regulation of the terms and conditions seems to be largely a rather national affair.

In the case study, neither dissatisfaction of employees, nor lacking motivation of employees, nor overall performance (product) problems could be identified. However, this may result from the fact that data was collected primarily from management. Unfortunately, the case study was not able to analyze and compare contractual terms and working conditions

of the people providing labor services in the different layers of the value network. Future research could and should focus more on the people providing labor services involved in fragmented work organizations as well on the implications for employment relations and public policy.

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