The Social Construction of Market Relationships in the British Temporary Work Industry

ABSTRACT

Inter-firm relationships between temporary work agencies and clients have recently been under academic scrutiny due to the problems associated with their construction and governance. The problems centre on imbalances of power within the supply chain. Clients are now imposing new forms of contracting on agencies that appear on the surface to advantage agencies but in reality advantage clients. Using a socio-constructionist lens, the article theorises that small to medium sized agencies can alter market forces using outcome, cultural and normative controls and competence trust. The aim of the control attempt is to improve agency performance. The article theorises that market forces are malleable to the actions of weak small to medium sized firms. These conceptual findings are encapsulated in a testable model for future researchers.

INTRODUCTION

The aim of this paper is to investigate ways of increasing supplier power without creating an uncompetitive market. The context of the investigation is the British recruitment industry. Scholars have long characterized this industry as a low power industry due to the high level of agency dependence (Theodore & Peck 2002; Ward 2004). Within the context of this paper, power is defined as one-sided dependence (Blau 1964). Power use refers to a firm's ability to extract a higher share of the gains made in the exchange (Pfeffer & Leong 1977). Power use refers to actual control over another's behavior (Emerson 1962).

To illustrate the points above, a practical example is put forth. This example examines inter-relationships between temporary work agencies (known hereafter as TWAs) and their clients. These relationships have recently been under academic scrutiny due to the problems associated with their construction and governance. More specifically, the paper discusses and analyses the argument made by several scholars (Xiang 2001; Kosnik, Wong-MingJi & Hoover 2006; Hoque et al. 2008; Kirkpatrick et al. 2009) that, while some TWAs enjoyed a brief period of control over clients, most never enjoyed any sustained control and the agencies that did manage to control clients and extract above normal rents now find themselves facing a reversal in fortune. As Kosnik et al. (2006) put it, "over time, we have observed a significant shift in the relationship between the client firms and staffing vendors. The dynamics involved shifts in power and control from the staffing vendor to the client" (2006, p.675). The result for TWAs can only be described as a performance problem, with agency profits now being squeezed.

The paper is timely because it addresses a fundamental labour market problem facing the United Kingdom (UK) and Europe: employment and Employment Agencies. The research focuses on the UK. At the time of writing, September 2013, the unemployment rate in the UK numbered 7.7 percent of the working population (high but still lower than the European average), with 2.49 million people registered as unemployed. There are close to 9 million economically inactive people in the country between the ages of 16 and 64 (http://www.ons.gov.uk). It is in these difficult times that the relationship between TWA and client becomes important. These intermediaries provide businesses with several advantages. First, TWAs provide labour flexibility resulting in production flexibility (Soltani, Lai, Phillips & Liao 2009), allowing business to eliminate excess capacity by having a core of permanent workers and a periphery of temporary workers, hired according to market demand (Atkinson 1984; Hirschhorn 1988). However, this now widely known model has been criticised by scholars for being too simplistic in its depiction of employment practices (Cappelli & Neumark 2004; Håkansson & Isidorsson 2012). Second, TWAs allow businesses to save on costs. These intermediaries allow the final employer to try out potential new recruits, without the need to incur recruitment costs for a direct employment contract or pay

the costs associated with dismissals, e.g. severance pay. Also, temporary workers come equipped with basic training, allowing the hiring firm to save on training costs (Booth, Francesconi & Frank 2002). Third, TWAs help businesses with recruitment and selection processes. These intermediaries help to unburden the HR department of the recruitment and selection process (Davidov 2004), allowing that department to concentrate its efforts on more strategic matters. Fourth, TWAs give businesses access to staff with specialist skills. This is particularly important when specialist agencies have a comparative advantage in accessing those skills (Purcell, Purcell & Tailby 2004). Without TWAs, the administrative burdens facing employers would increase and hiring flexibility would decrease.

We argue that TWAs can use power through certain forms of formal and informal control to moderate client behaviour and improve performance. These agencies can use outcome, cultural and normative controls and competence trust to improve performance. However, TWAs cannot use behaviour controls, contracts or goodwill trust for the same purposes. The aim of moderating client behaviour is to rebalance the relationship between TWA and client, thus preventing anti competitive forces from entering into the labour market. Such forces allow one firm to appropriate above normal rents from others within their supply chain (Porter 1980). The end result of unbalanced relationships is a market characterized by bankruptcies and emerging oligopolies, with corresponding bottlenecks in the labour supply.

The paper contributes to the literature in three ways. First, few studies analyse low power suppliers. Second, few look at the underlying causes and effects of client power and control in the temporary work industry or propose solutions. Third, few analyse the control mechanisms used by TWAs. This lack of evidence may be a result of an inherent belief that TWAs cannot control clients, or it may simply be an oversight.

The paper is organized into seven sections. The first presents the theoretical framework of the paper – a constructionist perspective. The second reviews the literature on TWAs. The third reviews the conditions or contexts of agency power. The fourth reviews the factors that led to client imposition of control on the recruitment industry. The fifth reviews the HR, TWA and management literature on control and performance. The sixth presents propositions based on an analysis of the literature. The final section concludes with a discussion of the conceptual findings and their implications for theory and practice.

LITERATURE REVIEW

The Construction of Markets

This paper is embedded in the foundations of social-constructionist theory (Berger & Luckmann 1966). In their famous book 'The Social Construction of Reality' Peter Berger and Thomas Luckmann (1966) explain that the institutions which comprise the social world have coercive power "both in themselves, by the sheer power of their facticity, and through the control mechanisms that are usually attached to the most important of them" (1966, p. 60). Berger and Luckmann (1966) do not specifically discuss markets. However, subsequent theoretical developments have shown that markets are socially constructed and are subject to the aforementioned mechanisms (Storr 2010).

The works of socio-economic scholars is of particular interest here. Socio-economic scholars have used social theory to explain the existence of: (*a*) networks (Burt 1992; Granovetter 1974, 2005), (*b*) institutions (Fligstein 1990, 2001; Powell & DiMaggio 1991), and (*c*) performativity (Callon & Muniesa 2005; MacKenzie 2005). Scholars in the network tradition focused on relational ties between actors as the material of social structure. They invoke theoretical constructs like power, resource dependence, cooptation, information, and

trust to explain the structures that emerge from their analyses. Interestingly, all three approaches rely on viewing markets as arenas where firms, their suppliers, customers, workers, and government interact. All three approaches emphasize the connectedness of actors (Fligstein & Dauter 2007).

Granovetter (1992) found that the capitalist systems in Asia and parts of Europe, particularly Germany and France, were different to the capitalist systems in North America. Markets in Japan were characterised by the dominance of the old zaibatsu network and their modem successors; markets in South Korea were characterised by the Chaebol network; and markets in Latin America were characterised by the Grupos Economicos. Granovetter's (1992) shows that markets and market entities are constructs created and influenced by social actors. Equally, they can be deconstructed and reconstructed by social actors.

Santos and Eisenhardt (2009) support Granovetter's (2009) findings by illustrating that nascent markets are constructed by economic actors. Nascent markets are business environments in an early stage of formation (Aldrich & Fiol 1994). Santos and Eisenhardt (2009) show us that small new resource-weak firms can co-opt large powerful firms (often market leaders in neighbouring industries) using inter-firm relationships. They can co-opt these large firms by providing them with viable industry roles, e.g. distributor or buyer, thus disincentivising the large firm from entering into the market. They may also engage in inter-firm relationships with established firms other than the market leader. Once the relationship has been established, the small resource-weak firm uses revenue-sharing agreements, equity investments and anti-leader positions to deter market entry. Revenue sharing agreements are relational mechanisms that provide the partner with an industry role and revenues from the nascent market without their direct participation in that market. Equity investment allows the partner firm to purchase a financial stake in the venture thus making the established firm a minority owner of the new venture. Anti-leader positioning involves the new venture seeking other established firms, often in neighbouring industries, to join an alliance designed to oppose a market leader. These small resource weak firms use the power at their disposal to dominate their market. Narrowly interpreted, Santos and Eisenhardt's (2009) findings show us that small firms can use inter-firm relationships to alter market structure and the underlying competitive forces in an industry. Broadly interpreted, their findings show us that market structure and competitive forces are malleable. That is, they can be influenced by the strategic action of determined social actors. The question for the current research is: are there any other ways for weak market players to alter these forces? This question is investigated within the context of the British temporary work industry.

Defining TWAs

We define a TWA as "an intermediary in the selling of labour" (Davidov 2004, p. 728). These intermediaries provide various services to their client firms, including recruitment, payroll and advertising, interviewing, screening and testing of potential employees. However, their main concern is with the provision of labour to various client organizations (Brennan, Valos & Hindle 2003). A number of studies have been conducted on TWAs and their clients (Ward 2004; Hoque et al. 2008; Kirkpatrick et al. 2009). These studies paint a dim picture of the industry. The studies conclude that the recruitment industry, as a whole, has persistently failed to break into less commoditized, more secure and less cyclical markets. Although some TWAs achieved a measure of success during the 1990s by taking the high road to value-added services, the majority still appear to be consigned to the low road of trimming wages and margins to obtain high-volume orders (Hoque et al. 2008). In the 1990's, some TWAs pursued strategies of market extension, beginning with the traditional pink-collar clerical sector and moving into white and then blue colour occupational niches, in search of higher

margins and higher volume. However, most still derive the bulk of their revenue from the commodity segments of clerical and light industrial staffing (Ward 2004).

TWAs at the millennium

The late 1990's to the early 2000's were a period when some TWAs enjoyed a relatively high level of power over clients. The literature details cases showing that some TWAs, in that time, were able to get away with some horrendous behaviour, including overbilling clients (Hoque et al. 2008; Kirkpatrick et al. 2009), and that some were able to lower the quality of services without fear of penalty from the client (Hoque et al. 2008). This situation has been retrospectively described by clients as 'nothing short of institutional extortion' and 'Machiavellian' in nature (Kirkpatrick et al. 2009).

TWAs were able to engage in such behaviour because one or both of the following situations dominated the market. First, agencies were operating in a 'sellers market.' A sellers market in this industry occurs in periods of economic boom when unemployment is low and clients have difficultly accessing labour, and/or when the agency has access to skilled staff that the client has problems recruiting and retaining. The latter situation creates a lucrative spot market for TWAs, allowing them to simultaneously offer high wages and increase commission rates (Grimshaw & Caroll 2007; Hoque et al. 2008). Second, for some time the HR/recruitment policies of some clients were disorganized. Disorganization was a result of the client failing to standardize the recruitment process across their own organization and failing to develop supply alternatives, as happened when the National Health Service (NHS) of the UK failed to developed internal nurse banks as an alternative to agency nurses (Tailby 2005). Disorganization was worsened by a lack of communication between client managers and the purchasing team within the client firm. This lack of communication between departments resulted in a high degree of asymmetric information and coordination failure (De Ruyter 2007). Disorganized purchasing policies, lack of central control and asymmetric information across departments allowed client managers to purchase agency services from their favourite agencies, regardless of the price/cost (Hoque et al. 2008); a situation that favoured TWAs.

Consequences and client reaction

The consequences of this extortionate behaviour were severe and punitive. Clients responded by implementing several arrangements that appeared to benefit TWAs, but in reality favoured clients. Clients implemented preferred supplier agreements, master/managed vendor agreements, service level agreements, framework agreements (in the public service) and IT based HR procurement systems, known as Vendor Management Services and/or e-auction systems, where TWAs electronically bid for HR procurement, all of which were aimed at cutting agency fees/costs and improving service quality (Hoque et al. 2008; Kirkpatrick et al. 2009). It is frequently argued that TWAs favoured such arrangements (particularly the volume based master/managed vendor agreements) because they allowed them to engage in sole supplier relationships and move up the value chain into higher value added services such as HR consulting and/or HR management services (Forde 2001; Peck & Theodore 1998). Such arrangements are perceived to have provided TWAs with cost related advantages through economies of scale and scope, while at the same time, giving these agencies a guaranteed revenue stream. After all, this was a protected business: even if margins were lower, as they almost always were, revenue was guaranteed, and safeguarded from competitors (Ward 2004). This paper does not dismiss this argument. However, the evidence shows us that these advantages became 'somewhat' prevalent for large agencies such as Adecco and Manpower but not for small to medium sized agencies – comprising the bulk of

the industry - with these small agencies becoming second, third and even fourth tier suppliers to the larger agencies (Kosnik et al. 2006). The argument put here is that these agreements were detrimental to the majority of agencies. They created dependent-like (power imbalanced) tiered relationships within the industry, with one large agency tying together many second, third and fourth tier agencies. They strip TWAs of their ability to use the spot market to determine prices (Hoque & Kirkpatrick 2008; Kirkpatrick et al. 2009). There is also evidence showing that these arrangements are increasingly being imposed by clients onto agencies (Hoque et al. 2008). In effect, these arrangements represent an attempt by clients to manage the market. By shifting the governance mechanism of the industry away from open competition based on lucrative spot market prices to a more managed market agreement based on pre-arranged prices and volume discounts. By setting up inter-firm relationships with TWAs, clients have managed to shift risk away from them, towards the agency. This finding is in line with Grimshaw, Wilmott and Rubery (2004) who conclude that, "alliances, partnerships and subcontracting relations may be established and maintained primarily as a means of consolidating power and displacing risk — either to the network partner organisation or to its workforce" (2004, p.51).

Effect on TWAs

Evidence shows that the contracts imposed by clients onto TWAs have had a negative effect on agency margins (Xiang 2001; Kosnik et al. 2006; Hoque et al. 2008). One study analysing the effect of these contracts on agencies servicing the National Health Service (NHS) of the UK, reports that the issue of commission rates and the cost of agency staff is no longer a problem for the NHS. Using qualitative data gathered from semi structured questionnaires, Hoque et al. (2008) investigate the nature and consequences of new contractual relationships, i.e. preferred supplier agreements, framework agreements and master vendor agreements, in the agency worker market, first, in terms of both their impact on direct costs and second, how far they have added value by improving the quality of placement matching. Data was gathered from 49 respondents in 24 NHS trusts and 23 temporary work agencies in the UK. From this, the scholars constructed a qualitative study. The paper reports that the NHS has made a concerted effort to manage the market via various forms of inter-firm relationship. This effort appears to have delivered the desired result, especially in terms of reduced agency fees and higher quality. However, these new contracts "appear to have rendered more customized forms of placement matching or person–organization fit harder to achieve than before" (2008, p. 406).The study reports that these new contracts put downward pressure onto TWA margins, leading to a decrease in the wages of agency workers. This is reflected in the declining cost of agency workers, with agency workers now becoming the cheap option for the NHS – a complete reversal from the situation that had existed in the late 1990's and early 2000's (Hoque et al. 2008). Due to market consolidation on industry competition, there is also now concern about the effect of these contracts on small to medium sized agencies, many of whom are now being driven out of business or being sold to larger agencies or alternatively, becoming part of the network of agencies servicing a large master/managed vendor. The full effect of this evolving oligopoly is yet to be seen. However, an earlier American study shows us that when a member of the supply chain has a high level of power, its ability to shift cost pressures onto other members of the supply chain increases (Kosnik et al. 2006). Using qualitative data gathered from semi structured questionnaires and related documents, Kosnik et al. (2006) investigate the information technology function and/or related function of fortune 1000 companies, specifically looking at that function's use of supply chain management techniques and tools to outsource the procurement of human resources. Data was gathered from 12 chief information officers and 20 managers from

computer consulting firms. This resulted in 32 case studies, 5 of which are presented in their paper. The findings show that "a critical issue between client firms, vendor management firms, staffing firms, and contract employees is the balance of power and control along the supply chain" (2006, p. 681). In their study, Kosnik et al. (2006) detail the case of BCI Financial (a pseudonym), a company that hired a non staffing vendor to take charge of all its recruitment. The non-staffing vendor had the ability to extract monopoly like power in the supply chain. This vendor had the potential and possibly the incentive to put all other agencies out of business. Once the agencies exit the industry, the client firm has little choice but to accept the non-staffing vendor management firm as a single source. The effect of such market consolidation is an increased level of risk for the client. Even if the non-staffing vendor does not put other agencies out of business, "the ability to do so resulted in increasing adversarial relationships with implications for retributions, declining staffing quality, degenerating cooperation, and hidden costs" (Kosnik et al. 2006, p. 681).

Current conditions

There is now sufficient evidence to support the idea that the brief period of sunshine or 'good old days' for TWAs are now over. Demand and supply conditions no longer favour these agencies (Hoque et al. 2008). Clients concerned about agency overcharging and quality problems have already imposed tight controls on TWAs, with procurement managers and finance managers taking the front seat in the negotiations of contracts with agencies and HR managers taking the back seat (Hansen 2007; Stanworth & Druker 2006). The findings of one study described the recruitment system now implemented by clients as a procurement contract involving very tight contracting with financial controls (Kirkpatrick et al. 2009.). Agency workers are now treated as undifferentiated commodities that are traded and quality assured (Bovaird 2006). Based on this evidence we can conclude that the TWAs that did manage to hold some power over clients have now lost that power. If this statement is correct then the question now becomes: Can TWAs reverse this situation? If yes, then how can TWAs achieve such a reversal?

CONCEPTUAL ANALYSIS

Reconstructing market relationships

It is true that some TWAs have at least attempted to put measures in place to arrest or moderate client behaviour (Kosnik et al. 2006). However, no studies identify the actual measures taken. This lack of scholarly attention leaves a gap open for investigation. The measures that TWAs have put in place or can put in place to moderate client behaviour are investigated in the following section.

Governance and control

Governance mechanisms are the main devices used by firms to govern exchanges (Williamson 1991). There are three types of governance mechanism: market, hierarchy and hybrid. A market is a place of exchange; hierarchy is a non-market arrangement that internalises transactions; and hybrid is a mode of organization between market and hierarchy (Williamson 1985). This paper focuses on the hybrid form of governance which is found in inter-firm relationships. The extent to which hybrid governance resembles market or hierarchy depends on the risk associated with partner motives (Pisano, Pisano & Teece 1988; Pisano 1989; Balakrishnan & Koza 1993; Williamson 1985).

Control is the essence of governance. It is a method of enacting governance (De Man & Roijakkers 2009). Much of what is seen in the literature today, in terms of control, has its

foundations in the works of William Ouchi (1979) and Kathleen Eisenhardt (1985). Ouchi (1979) was the first to suggest that there were two basic approaches to control – bureaucratic control (also known as formal control) and clan control (also known as social control). Formal control is based on rules, procedures and policies, while social control is based on values, beliefs and internalization of goals. Formal control can be divided into behaviour controls and outcome controls, while social control can be divided into cultures and norms (Ouchi 1979).

Subsequent scholars have expanded Ouchi's (1979) model by including trust as a part of control. The underlying assumption is that trust is part of every control system. As Merchant (1985) noted, "almost every control system involves some degree of trust that the individuals of concern will do what is best for the organization without any, or with only incomplete monitoring of actions" (1985, p. 39).

Many scholars have used Ouchi's (1979) and Eisenhardt's (1985) conceptual models to explicate their own research on control. One topic of interest has been the use of various forms of control to increase performance in inter-firm relationships (Langfield-Smith & Smith 2003; Zhang et al. 2003). The empirical evidence in this line of research supports a link between relational capital and inter-firm performance (Sakar et al. 2001; Lee & Cavusgil 2006). There is also supporting evidence linking formal controls, social controls and performance (Cannon, Achrol & Gundlach 2000; Fryxell, Dooley & Vryza 2002; Poppo & Zenger 2002) and direct empirical evidence that certain forms of control are optimal (Hernandez-Espallardo & Arcas-Lario 2008; Langfield-Smith & Smith 2003). The debate is ongoing but the evidence is strong.

Control and performance

There is evidence of a link between control and performance (Sarkar, Cavusgil, Echambadi & Aulakh 2001; Lee & Cavusgil 2006; Cannon et al. 2000; Fryxell et al. 2002; Poppo & Zenger 2002). However, there are many ways one can measure performance. For example, in a buyer-supplier relationship, performance can be measured in terms of continuity of relationship (Noordeweir, John & Nevin 1990), completion time (Woolthuis, Hillebrand & Nooteboom 2005), financial outcomes (Lusch & Brown 1996; Fryxell et al. 2002), and performance satisfaction (Mohr & Spekman 1994; Krishnan, Martin & Noorderhaven 2006). Each type of performance measurement has advantages and disadvantages. However, we show that performance satisfaction is the most appropriate measurement method for research on power and control. The advantages and disadvantages of each are discussed in the following paragraphs.

One indicator of relationship performance is continuity. Simply put, continuity is the willingness of partners to continue doing business together in the future. It represents their intention to extend the relationship into the future. However, the problem with using continuity to measure performance is that it assumes that terminated relationships are less successful that ongoing relationships (Geringer & Herbert 1991; Park & Russo 1996). This approach has been criticized because it does not measure performance directly and also because it co-mingles relationship performance and relationship instability (Inkpen & Beamish 1997).

Another indicator is completion time. The desirable outcome using this performance measurement is completion on schedule or before schedule. In a study of architect-contractor relationships, Lui and Ngo (2004) found that delays resulted in labour and material cost overruns. This caused revenue losses for property developers. Such delays are an indication of lack of performance. However, the problem with using completion time to assess performance is that it is only considered to be an appropriate indicator of performance in

relationships with set periods of exchange. Completion time loses its relevance when the inter-firm relationship is based on an indefinite exchange horizon (Lui & Ngo 2004).

Financial outcomes are among the most compelling indicators of relationship performance. Financial outcomes such as revenues and costs or profitability and sales growth, e.g. increase sales per asset, return on investment, pre-tax return on assets and suppliers' growth in sales are all measures of performance (Mohr & Spekman 1994; Luo 1997; Contractor & Lorange 1988). In fact, financial measures are said to be one of the most objective measures of performance. However, financial measures cannot adequately measure subjective aspects of relationship performance, such as power, dependence or dominance. More subjective measures, on the other hand, can incorporate a variety of measurements.

In line with Mohr and Spekman (1994) and Krishnan et al. (2006), this conceptual investigation uses performance satisfaction to assess the performance of suppliers (suppliers in this article are TWAs supplying temporary labour). Satisfaction is here defined as "a positive affective state resulting from the appraisal of all aspects of a firm's working relationship with another firm" (Anderson & Narus 1984, p. 66). Satisfaction was chosen because it is closely related to power in inter-firm relationships. Often, firms that believe they are calling the shots in the relationship will report higher levels of satisfaction. Conversely, firms that are forced to comply with their partner's requests will experience lower levels of satisfaction (Anderson & Narus 1990). It was also chosen because it is an affective judgment not an objective calculation (Anderson & Narus 1990). Satisfaction is a close proxy for many performance outcomes, including perceived effectiveness and lack of conflict/disagreement (Anderson & Narus 1990). Disagreements between partners tend to block the achievement of relationship goals, eliciting frustration and thereby causing feelings of unpleasantness or lack of satisfaction among partners (Anderson & Narus 1990).

Control mechanisms

This conceptual investigation considers all aspects of formal and social control (Ouchi 1979; Eisenhardt 1985) including trust (Merchant 1985).

Outcome control

Outcome control mechanisms specify the outcomes to be realized by the inter-firm relationship, setting performance targets, goals, objectives and monitoring progress (Dekker 2004).

There are no studies in the English language detailing the outcome controls used by TWAs. However, one provides industry specific anecdotal evidence supporting a link between reciprocal goals/targets and agency performance (Kosnik et al. 2006). This study states that TWAs have the ability to place some specific reciprocal clauses, involving targets and goals, into the inter-firm relationship contract. These agreements have a positive effect on the operations of the agency and also on the inter-firm relationship (Kosnik et al. 2006).

The general business literature also contains a few empirical studies on suppliers, outcome controls and performance. These studies show that outcome controls are positively linked to supplier performance when applied by the buyer or supplier. Outcome controls when applied by the buyer impact positively on farmer/supplier performance, under conditions of perceived procedural fairness from the view of the supplier (Hernandez-Espallardo & Arcas-Lario 2003). Outcome controls when applied by the supplier are also positively linked to manufacturer/supplier performance (Bello & Gilland 1997). Additionally, outcome controls when applied by the supplier are either positively linked to supplier performance, under conditions of high trust, or non-significantly linked to supplier performance, under conditions of high dependence (Hernandez-Espallardo & Arcas-Lario

2008). The latter point is more applicable to this study as the literature equates high dependence with low power (Pfeffer & Salancik 1978). Based on the evidence, we propose that:

P1: Outcome controls when applied by TWAs in inter-firm relationships are positively linked to agency performance.

Behaviour control

Behaviour control mechanisms specify how inter-firm partners should act and monitor whether actual behaviours comply with this pre-specified behaviour (Dekker 2004). Typical behaviour controls used in inter-firm relationships are plans, rules, standard operating procedures and dispute resolution procedures (Gulati & Singh 1998). Behaviour controls also include reporting and checking devices, written notice of departure from the agreement, accounting examination, cost control, quality control, arbitration clauses, and lawsuit provisions (Das & Teng 1998, p. 507).

There are no studies in the English language detailing the behaviour controls used by TWAs and no industry specific anecdotal evidence in the English language linking behaviour controls and agency performance. Therefore, this study will rely on the general business literature.

There are a few empirical studies on suppliers, behaviour controls and performance. These studies show that behaviour controls are positively linked to supplier performance when applied by the buyer (Hernandez-Espallardo & Arcas-Lario 2003) but negatively linked to supplier performance when applied by the supplier, under conditions of high supplier dependence (Hernandez-Espallardo & Arcas-Lario 2008). Alternatively, they show that behaviour controls are non-significant linked to supplier performance when applied by the supplier (Bello & Gilland 1997).The circumstances revealed by the existing literature are in most specifics identical to those described in the section above (Hernandez-Espallardo & Arcas-Lario 2008, Pfeffer & Salancik 1978). Based on the evidence, we propose that:

P2: Behaviour controls when applied by TWAs in inter-firm relationships are negatively linked to agency performance.

Contracts

Contracts represent obligations to perform particular actions in the future. They specify the rights and responsibilities of all parties in an exchange, how those rights and responsibilities will change as the exchange evolves, and how violations of the terms of the contract will be managed (Macneil 1978).

The relationship between client firm, TWA and worker usually commences with a commercial contract between the agency and the client organization. This contract is signed by the procurement and/or HR department in the client firm and the agency (Purcell & Purcell 1998; Druker & Stanworth 2001). Commercial contracts can be signed on a sole supplier or multi-supplier basis. The duration of these contracts varies significantly with some client contracts operating on an open-ended basis, whilst others may be substitution contracts with workers provided for a day or for a few days (Druker & Stanworth 2001).

The HR and general business literatures contain a few empirical studies on agencies, suppliers, contracts and performance. These studies show that contracts are positively linked to supplier (Cannon et al., 2000), buyer (Lusch & Brown 1996) and inter-firm performance (Woolthuis et al. 2005). However, the literature also shows that labour suppliers are unlikely to resolve disputes over breaches of contract in a legalistic manner (Conklin 2005). Many

contracts are not even enforceable. Enforceability depends on the institutional or societal context. Different types of contracts might be more or less binding for various reasons, such as legal statutes (Malhotra & Murnighan 2002). In most cases, it is unwise to pursue legal action as the costs and/or undesirable consequences of legal action are usually high (Macauley 1963). Additionally, the enforcement of contracts can create irreconcilable conflicts between partners and other forms of dysfunctional behaviour that will ultimately harm the performance of both partners (Lusch & Brown 1996). Based on the evidence, we propose that:

P3: Contractual controls when enforced by TWAs in inter-firm relationships are negatively linked to agency performance.

Culture

Organizational culture is “a system of shared values…that define appropriate attitudes and behaviours for organizational members" (O'Reilly & Chatman 1996, p. 160). Organization culture is a form of control because it unifies the way organizational members process information and behave. People who share a common culture share the same understandings and assumptions, making them voluntarily behave in a manner desired by other members (Das & Teng 1998).

In any inter-firm relationship, the management of organizational culture presents a particularly difficult challenge. The challenge centres on making cultural blending work, while largely preserving a separate identity (Das & Teng 1998). Culture is likely to be particularly important for the recruitment industry, since many TWAs are based on the client’s premises (Druker & Stanworth 2001; Lanza, Maryn & Elders 2003; Kosnik et al. 2006). TWA staffs thus have daily interactions with client firm staff. These agency staffs influence the client firm’s culture, while simultaneously being influenced by the client firm’s culture. Cultural blending results from this process of interaction (Das & Teng 1998).

The relevant empirical studies show that cultural similarity is positively linked to project performance (Sakar et al. 2001) and that cultural dissimilarity is negatively linked to relationship performance (Pothukuchi et al. 2002). According to Das and Teng (1998), the challenge with culture and inter-firm relationships is to make cultural blending work, while largely preserving a separate identity. Blending requires the partnering firms to freely adopt aspects of one another’s culture. Based on the evidence, we propose that:

P4: Cultural controls when applied by TWAs in inter-firm relationships are positively linked to agency performance.

Norms

Norms are principles of “right action binding upon the members of a group and serving to guide, control, or regulate proper and acceptable behaviour’’ (Macneil 1980, p. 38). Some common norms for relational exchange are those of flexibility, solidarity, mutuality, restraint in the use of power, information exchange and long-term orientation (Macneil 1980).

Norms are likely to be particularly important for the recruitment industry. Inhouse TWAs, in particular, interact daily with client member staff. In this context, agency staffs are likely to have some measure of influence on the client’s expectations and standards. TWAs can affect or guide client firm staff by setting expectations related to proper or acceptable behaviour. This effect may be reciprocal, as client member staffs will undoubtedly influence agency staffs. The key in this process seems to be in the socialization of inter-firm managers.

Socialization enables managers to develop common norms for the relationship (Das & Teng 1998).

Studies on suppliers, norms and performance show that normative controls are positively linked to supplier (Cannon et al. 2000), buyer (Lusch & Brown 1996) and inter-firm performance (Mohr & Spekman 1994). And, normative controls are positively linked to supplier competitiveness (Zhang, Cavusgil & Roath 2003). The benefits of these norms for suppliers are clear. Flexibility helps partners adapt to unforeseen events. Solidarity promotes bilateral problem solving, creating a commitment to joint action via mutual adjustment. Information sharing also aids problem solving and adaptation, since partners are willing to share private information with one another, including short and long-term plans (Poppo & Zenger 2002). Based on the evidence, we propose that:

P5: Normative controls when applied by TWAs in inter-firm relationships are positively linked to agency performance.

Trust

Trust is "an expectation held by an agent that its trading partner will behave in a mutually acceptable manner (including an expectation that neither party will exploit the other's vulnerabilities)" (Sako & Helper 1998, p.388).

Academics from several disciplines have identified several types of trust. For example, psychologists distinguish between affective, cognitive and behavioural dimensions of trust (Lewicki & Bunker 1996), while organizational theorists distinguish between competence, goodwill and contractual trust (Sako 1997; Sako & Helper 1998). This article is based on a study of organizations and inter-organizational relationships. As such, our focus will be on the work of organizational theorist. For the purposes of this article, competence trust is a belief by the trustor that the trustee has the necessary skills and abilities to carry out certain actions and achieve desired results (Gabarro 1978); goodwill trust relates to one's good faith, good intentions, and integrity (Barber 1983, p. 14). Contractual trust is not discussed here as all aspects of the contract are covered under the section titled contracts.

The HR literature does discuss trust between TWAs and clients; however, the discussion is focussed on the client's perspective on trust (Gardner 2005; Conklin 2005). The literature from the TWAs perspective is limited (See Druker & Stanworth 2001). Gardner (2005) concludes that trust is a factor that affects the firm's propensity to use inter-organizational relationships to manage their human resources. Firms are more likely to partner with other firms when there is trust between the two organizations (Gardner 2005). Additionally, Conklin (2005) concluded that a contract is only a piece of paper, not worth anything without an underlying trust. It is not the contract that makes something happen between the partners; it is their alignment in the relationship. A successful HR outsourcing relationship rests on inter-firm processes and structures that foster collaboration and trust to deal with issues beyond those specified in the contract (Conklin 2005).

There are a few studies directly dealing with TWAs and their clients. One study finds that the relationship between TWA and client is not one requiring high levels of trust, since there is no long term commitment by the client and little evidence of shared investment in work processes or systems. However, TWAs are quite keen to portray the relationship between themselves and the client as one requiring high trust and quality of service. They often work hard to develop effective relationship between themselves and the client. Branch representatives will often visit client firms at their premises in order to develop personal contacts and to ensure they understand client needs (Druker & Stanworth 2001). In addition to the above, the general business literature contains many empirical studies on suppliers,

trust and performance. These studies show that trust is positively linked to supplier performance (Ganesan 1994; Brock-Smith & Barclay 1997). There is supportive evidence positively linking competence trust to supplier performance (Ganesan 1994; Brock-Smith & Barclay 1997; Sako 1997) but weak supportive evidence positively linking goodwill trust to supplier performance (Brock-Smith & Barclay 1997). In fact, a lot of the empirical evidence negatively links goodwill trust to supplier performance (Ganesan 1994; Sako 1997). Based on the evidence, I propose that:

P6: Competence trust when engendered by TWAs in inter-firm relationships is positively linked to agency performance.

P7: Goodwill trust when engendered by TWAs in inter-firm relationships is negatively linked to agency performance.

Theorised model of control mechanisms

To summarize, this conceptual investigation posits that behaviour controls, legal action and goodwill trust are negatively linked to TWA performance satisfaction, while outcome controls, cultural controls, normative controls and competence trust are positively linked to the same variable. Figure 1 provides a visual representation of these predictions.

Figure 1 here

DISCUSSIONS AND CONCLUSIONS

To begin, the literature review showed that the underlying structure of an industry and its market segments can be altered by the strategic actions of social actors (entrepreneurs and the like). Markets and market entities, like most other social phenomena, are constructed. As such, they can be constructed and reconstructed in many different ways. Then, the paper's conceptual findings showed that these mechanisms were not the only ones that could be used to affect competitive forces in an industry. Post nascence, market forces can be managed using various control mechanisms, such as outcome controls, cultural controls, normative controls and competence trust. Low power suppliers and in particular TWAs can use these control mechanisms to improve their performance in the recruitment industry. It has long been argued that TWAs prefer to engage in long-term contractual relationships, such as partnerships or preferred supplier agreements, in order to enhance their reputation and move into less commoditized, more secure and less cyclical markets. However, empirical evidence shows that it is not TWAs that are driving the growth nor do they benefit from it. Rather, it is clients that are driving and in many cases imposing these changes. Clients are imposing this change in order to receive the benefits associated with large scale supply. TWAs on the other hand appear to be receiving the raw end of the deal. Many large TWAs have found that the emergence of large scale contracts has led to a corresponding decrease in agency fees, while many small TWAs have found they can no longer access clients as their access to market is now constrained or blocked by a master/managed vendor. Evidence appears to show that clients are now managing the market, using their clout to force TWAs to lower their fees and increase quality beyond the levels that were evident prior to the implementation of a formal inter-firm relationship. This client imposed change has forced TWAs to alter practice. Many large TWAs have now substituted personal contact with call centres and they have

implemented electronically based vendor management systems (VMS). Large TWAs also pass on some operational costs to second and third tier suppliers in the supply chain causing these small agencies financial strain. In effect, the passing of costs increases the likelihood of bankruptcy leading to a possible monopolistic or oligopolistic situation whereby the only TWAs left in the market are those large TWAs that already dominate supply. These client imposed measures may inadvertently be creating the very conditions for TWA power. I suggest that there are ways to increase TWA power without creating an uncompetitive market. One way to achieve this is to shift the power balance away from clients using control mechanisms. But first one has to keep an eye on the conditions for power and control. TWAs can control clients when they dominate supply, where industry rationalization causes the emergence of large TWAs, or when clients need specialist help that is hard to find, e.g. specialist nurses. As long as one of these conditions is satisfied the TWA should have the power to control clients. We can conclude that inter-firm relationships have not been successful for many TWAs. Inter-firm relationships provide TWAs with ongoing work but engagement in such structures comes at a high price. An alternative argument here is that consolidation will be good for the industry and that the paper's proposed solution to the problem will actually lead to a proliferation of weak TWAs leading to fewer sales, lower income and less power for all. I cannot subscribe to this view. Fragmentation is not negative for an industry. As Porter (1980, 1985) states, competition is not a zero sum game. It is not a win-lose scenario. Each company can be competitive and profitable provided that it can position itself uniquely.

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Figure 1. Combined control mechanisms