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**Andrea Hense  
Susanne Edler  
Stefan Liebig**

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SFB 882 "From Heterogeneities to Inequalities"  
University of Bielefeld  
Faculty of Sociology  
PO Box 100131  
D-33501 Bielefeld  
Germany  
Phone: +49-(0)521-106-4942 or +49-(0)521-106-4613  
Email: [office.sfb882@uni-bielefeld.de](mailto:office.sfb882@uni-bielefeld.de)  
Web: <http://www.sfb882.uni-bielefeld.de/>

## **DFG Research Center (SFB) “From Heterogeneities to Inequalities”**

Whether fat or thin, male or female, young or old – people are different. Alongside their physical features, they also differ in terms of nationality and ethnicity; in their cultural preferences, lifestyles, attitudes, orientations, and philosophies; in their competencies, qualifications, and traits; and in their professions. But how do such heterogeneities lead to social inequalities? What are the social mechanisms that underlie this process? These are the questions pursued by the DFG Research Center (Sonderforschungsbereich (SFB)) “From Heterogeneities to Inequalities” at Bielefeld University, which was approved by the German Research Foundation (DFG) as “SFB 882” on May 25, 2011.

In the social sciences, research on inequality is dispersed across different research fields such as education, the labor market, equality, migration, health, or gender. One goal of the SFB is to integrate these fields, searching for common mechanisms in the emergence of inequality that can be compiled into a typology. More than fifty senior and junior researchers and the Bielefeld University Library are involved in the SFB. Along with sociologists, it brings together scholars from the Bielefeld University faculties of Business Administration and Economics, Educational Science, Health Science, and Law, as well as from the German Institute for Economic Research (DIW) in Berlin and the University of Erlangen-Nuremberg. In addition to carrying out research, the SFB is concerned to nurture new academic talent, and therefore provides doctoral training in its own integrated Research Training Group. A data infrastructure project has also been launched to archive, prepare, and disseminate the data gathered.

## **Research Project B4 “Companies and Inequality: The Synchronic and Diachronic Inequality Effects of Temporary Layoffs (Recalls)”**

Project B4 studies discontinuous employment in the context of employing organizations and households. First, it analyzes how and why flexible employment relationships arise from heterogeneous individual and organizational characteristics and preferences. Second, it examines the impact of interrupted membership in employing organizations upon inequality over time. Thus, different mechanisms that give rise to inequality (exclusion/inclusion, hierarchization, exploitation, and opportunity hoarding) are analyzed in more detail using a mixed-method design.

During the initial funding period, the project concentrates on “recalls” that can be characterized as discontinuous employment relationships with an interrupted membership in the same employing organization, i.e., when employees leave a company and are re-contracted after some time. Research on labor market flexibility and organizational boundaries mainly ignores this longitudinal form of atypical work. Our secondary analysis of the Linked Employer-Employee Data from the IAB shows that about 20% of new hires in a firm are recalls. Analyzing the German Socio-Economic Panel we additionally find that 10% of all people who changed a job during the last year are recalled. The analysis provides new insights into flexible work and discontinuous employment, the blurring of organizational boundaries, and mechanisms that generate inequality within organizations.

The mixed-method design combines qualitative and quantitative approaches as well as secondary analysis and field research. First, secondary analyses of the German Socio-Economic Panel Study (SOEP) and data from the German Institute for Employment Research (SIAB, BHP, and LIAB) aim to deliver results on individual and operational determinants of recalls and their consequences. Second, expert interviews within companies and a combination of narrative and semi-structured interviews with recalled employees are conducted to gain further insights into their rationale, appraisals, and practices. Information about recalls, individuals, and households included in the SOEP is used to obtain access to recalled employees within different contrast groups. A similar strategy is used for the expert interviews as sampling is based on information about the firm-specific use of recalls that is provided by the IAB’s Establishment History Panel (BHP). The third component is a standardized telephone survey of employees that will be linked with information about employers in the IAB’s Linked Employer-Employee Dataset (LIAB). This is used to analyze the statistical effect of different determinants and outcomes of recalls which have been discovered during the qualitative research.

## The Authors

*Andrea Hense* is research associate at the Faculty of Sociology, Bielefeld University. She is member of the SFB 882 research project B4 “Companies and Inequality: The Synchronic and Diachronic Inequality Effects of Temporary Layoffs (Recalls)”, and a PhD candidate at the Bielefeld Graduate School in History and Sociology (BGHS). Her research interests focus on social inequalities, atypical employment, life courses, and mixed methods.

Contact: [andrea.hense@uni-bielefeld.de](mailto:andrea.hense@uni-bielefeld.de)

*Susanne Edler* is research associate at the Faculty of Sociology, Bielefeld University. She is member of the SFB 882 research project B4 “Companies and Inequality: The Synchronic and Diachronic Inequality Effects of Temporary Layoffs (Recalls)”, and a PhD candidate at the Bielefeld Graduate School in History and Sociology (BGHS). Her research interests focus on discontinuous employment and career opportunities in different organizations.

Contact: [susanne.edler@uni-bielefeld.de](mailto:susanne.edler@uni-bielefeld.de)

*Stefan Liebig* is Professor of Sociology with a special focus on Social Inequality and Social Stratification at the Faculty of Sociology, Bielefeld University, and Principal Investigator of the Collaborative Research Centre (SFB) 882 research project B4 “Companies and Inequality: The Synchronic and Diachronic Inequality Effects of Temporary Layoffs (Recalls)”. His research interests are empirical justice research, organizations and social inequality, and methods of empirical research. Recent publications are “The justice of earnings in dual-earner households.” In: *Research in Social Stratification and Mobility*. 30 (2012): 219 -232 (with Carsten Sauer and Jürgen Schupp); “Gerechtigkeit” (2013) in: S. Mau & N.M. Schöneck (Eds), *Handwörterbuch zur Gesellschaft Deutschlands*, Springer VS, 286 – 299 (with Carsten Sauer and Peter Valet); “The Application of Factorial Surveys in General Population Samples: The Effects of Respondent Age and Education on Response Times and Response Consistency.” In: *Survey Research Methods* 5 (2011): 89-102 (with Carsten Sauer, Katrin Aispurg and Thomas Hinz).

Contact: [stefan.liebig@uni-bielefeld.de](mailto:stefan.liebig@uni-bielefeld.de)

## **Individual Determinants of Recalls**

*Andrea Hense, Susanne Edler, and Stefan Liebig*

SFB 882 From Heterogeneities to Inequalities  
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## 1. Introduction

In the debate on heterogeneous employment relationships, one particular strategy for handling fluctuations in labor requirements is often ignored: the temporary layoff of employees and their subsequent re-employment by the same employer. This is known as a recall. Thus, a recall can be described as a specific type of discontinuous employment relationship which is characterized by an interrupted membership in the same employing organization. This new conceptual perspective on recalls can provide new insights into flexibilization of labor markets and conditions, longitudinal forms of atypical work, its determinants, and outcomes. The present article focuses on analyzing what individual characteristics determine recalls and explaining the underlying mechanisms. Here, three mechanisms have been identified: “exclusion,” “inclusion,” and “exploitation.” The article will first show how these mechanisms interact to generate recalls. Second, transaction cost theory will be applied to explain why this is the case and so individual determinants of recalls can be derived on the basis of this. In respect to labor market research, this aims to explain recalls as a specific discontinuous employment relationship – and to examine their consequences in further research. With regard to social stratification, this analysis is conducted within the broader framework of a research project at the Collaborative Research Center 882 and paves the way for further research to identify mechanisms for inequality production.

In empirical research to date that addresses recalls, the focus has been on analyzing unemployment duration (see, for example, Katz/Meyer 1990; Nivorozhkin 2008; Böheim 2006; Jensen/Svarer 2003). Articles deal mainly with the question of whether unemployment duration differs for employees who return to their former employer in contrast to those who join a new employing organization – sometimes people who leave the labor market are seen as a third or alternative comparison group. Although this research shows that recalls are important quantitatively, the findings have not encouraged work and labor relations sociologists to analyze recalls as an employment relationship or a specific flexibility strategy used by companies. If recalls are seen in this light, they become more than just a means of exiting unemployment that can be analyzed in a competing risk model. Seeing recalls as a special form of atypical or flexible work initially triggers the research question of why employers and employees enter into such an employment relationship. By accentuating recalls as a form of discontinuous employment, we expect to be able to expand the way in which researchers examine recalls and, therefore, to discover mechanisms that drive discontinuous employment and flexible work or explain the consequences of these for example, on individual lives, living arrangements, employment policies, working conditions, operational profits, and security systems. Neglecting this discontinuous employment relationship could mean that our view of internal labor markets is limited, or that important interactions between the labor market, social security policies, and family social support or between the various mechanisms that give rise to inequality are not investigated. Furthermore, a longitudinal type of flexible work is ignored that potentially results from both an abuse of power on the part of employers and demands for flexibility to combine family and job-related commitments on the part of employees.

Referring to this broader research agenda, the focus of this article is on analyzing what individual characteristics determine recalls and explaining the underlying mechanisms. To model the decision process, recalls are assumed to be driven by decisions on exclusion and re-inclusion taken by employers and employees. Accordingly, it is essential to examine what kind of people are dismissed and recalled by an employer. Furthermore, employees' rationale in specific household situations have to be taken into account. To investigate the occurrence of temporary layoffs, mechanisms that generate recalls have to be identified first. It will then be argued why employers and employees use recalls, with reference to transaction costs theory. Finally, hypotheses about individual determinants of recalls will be derived and tested empirically.

## **2. Transaction Cost Theory and Decisions on Recalls**

The decision process that results in recalls is quite complex. First, the rationale of both employers and employees has to be analyzed. Additionally, employment decisions of wage earners are influenced by resources and commitments in the household. Second, recalls are driven by decisions on exclusion and re-inclusion taken by employers and employees. This second aspect complicates the underlying decision-making process considerably because characteristics determining exclusion and those affecting inclusion may be different or have a contrary effect. For example, a company normally wants to exclude people who are less important to them, but include those who are of interest for them. At the same time, employees who have been laid off or voluntarily left a company might not wish to come back again. In order to analyze this complex decision-making process, first, the mechanisms that generate recalls are characterized as “excluding inclusion” and exploitation. Then employers' and employees' rationale behind these recall-generating mechanisms are derived from transaction cost theory.

### **2.1 Recalls and the Mechanism of “Excluding Inclusion”**

Exclusion divides outsiders from insiders, stands for membership boundaries and closure (see Therborn 2006: 12ff.). This means preventing access to non-members or debarring former members from the in-group. In French and wider European discussions, exclusion is often addressed as a question of participation, for instance, in the labor market, in prosperity, in certain organizations or groups (see Castel 1991; Paugam 1996). Looking at social inequality in terms of “exclusion” implies a dichotomous logic without consideration of graded differences: people are either members or not, i.e., they are either in or out.

While Therborn describes “exclusion” as an inequality mechanism, he sees “inclusion” as an equality mechanism that gives entitlements to former outsiders. In contrast to exclusion, in the view of the authors, the level of inclusion could be seen to be gradually differentiated if the in-group is structured hierarchically. In this case, members have different positions, rights, and rewards. By including staff, an employer does not only decide on membership in general, but also decides on different kinds of membership that do not provide equal access to oppor-

tunity structures. In our view, inclusion in such an organizational context can be characterized as a mechanism that provides equality with respect to membership but may generate inequality relating to different membership entitlements or characteristics.

In the context of recalls, exclusion and inclusion occur successively. In the first instance, staff members are excluded from an employing organization as a result of layoffs or termination of contractual entitlements in connection with continuing employment. Subsequently, excluded members are included again and thus regain their membership rights and benefits. On the basis of this interaction of exclusion and further inclusion, the authors call this process “excluding inclusion.” This means that people are finally included, but former exclusion indicates that they are not as irreplaceable as employees who have been continuous members. Whether this has an inequality-generating effect on rewards will be a subject of further research.

The focus of the present article is on determinants that drive excluding inclusion and thus generate recalls. The companies’ need to reduce their personnel temporarily or the employees’ willingness and financial means to quit their job for a certain time and to wait for re-employment are assumed to determine recalls. Before a more detailed analysis of which employees enter into this discontinuous employment relationship, the rationale of employers and employees that is behind this recall-generating mechanism are derived from transaction cost theory (see Williamson 1981, 1985, 1991; Picot/Dietl 1990; Nicita/Rizzolli 2012: 162).

### **Transaction Costs and Their Effect on “Excluding Inclusion”**

From an employer’s perspective, it is clear that layoffs or terminations of temporary employment relationships immediately reduce labor costs. This is not specific to recalls. The great benefit of recalls becomes apparent when re-employment and transaction costs are considered. While excluding employees means cost reduction, the opposite applies when new people are hired. Compared to matching processes for recruiting people who are not personally known to the employer, re-employing former employees reduces ex-ante and ex-post transaction costs. From an employee’s perspective, exclusion increases his or her financial costs while further re-inclusion is not guaranteed. Therefore, it is less likely that exclusion is the employee’s own choice. Although exclusion might be beneficial for other purposes such as child care, a sabbatical, further education, or leisure activities, it is assumed that the employee would prefer other options not resulting in the loss of any binding rights laid down in employment contracts, e.g., part-time work, unpaid leave, leave financed through working time accounts and adjusted wages. Nevertheless, being re-employed by the same company is advantageous as it also reduces employees’ transaction costs.

To begin with, placement of employees is less risky and less costly since employers already have reliable information about employees’ abilities, performance, and personality. Thus, the problem of job applicants’ hidden characteristics, which is discussed in principal-agent approaches (see Spremann 1987), does not occur or is diminished in the case of recalls because the employer (principal) is informed about the former employee (agent) before contracting him/her again. Consequently, screening costs fall to zero and the problem of adverse selection

is nevertheless alleviated. From the employees' perspective, the arguments are similar: they are familiar with the work processes, social context, and implicit requirements regarding their job performance. Therefore, entering into a recall employment relationship is less risky and less costly as they have reliable information about working conditions, employers' demands, and their reciprocal rewards. Uncertainty in respect to (dis)advantageous aspects is limited and employees know how to behave in the work context in order to avoid or manage disadvantageous aspects and to profit from other aspects. Accordingly, there is no need for them to screen working conditions and employers' hidden characteristics if they return to their former employing organization.

Furthermore, searching for suitable staff or jobs and contacting the appropriate people is considerably easier if the relevant contact information is immediately available. In addition, negotiations on contractual relations are facilitated because both contracting partners are well informed and resume cooperation on the basis of their past experiences with one another. In a sense, their willingness to return to their former employment relationship can also be interpreted as cooperation rather than opportunism – especially if neither party has detected opportunistic behavior in the other when previously working together. Indeed, the employer (principal) could assume that the job applicant's (agent's) decision to return indicates his/her hidden interests are in support of cooperation. Consequently, further agency costs for monitoring can be lowered.

In summary, both ex-ante transaction costs (search and information costs, bargaining costs) and ex-post transaction costs (enforcement costs, cost of re-negotiation) are reduced considerably in comparison to vacancies that are filled with completely new and therefore unknown individuals or, for the job applicant, employment contracts with an unknown employer. It is assumed that re-employment limits asymmetric information concerning hidden characteristics and hidden actions, opportunism, and thus uncertainty. Hence, both employers and employees decide on re-contracting in less complex and less uncertain situations.

In conclusion, the rationale of employers and employees can be summarized as follows: companies save wage expenditures due to layoffs and terminations of employment contracts; re-employment lowers follow-up costs of dismissals that arise when labor demands increase and new appointments become necessary. In the employers' perspective, the specific benefit of recalls can be seen in reducing wage-related expenditure in cases of decreasing *and* increasing labor requirements. It can be assumed that these aspects facilitate companies' decisions in favor of both exclusion and re-inclusion. For employees, the situation is different: exclusion increases their financial costs, and further re-inclusion is not guaranteed, although family social support or welfare subsidies may compensate the loss for a short period of time. In contrast, re-inclusion has a cost-reducing effect as it minimizes transaction costs that would be higher if the employee entered into an employment relationship with a previously unknown employer. Therefore, it is expected to be in an employee's interest to stay included or consider re-inclusion. Nevertheless, it is important to note that the financial risks are not redistributed equally.

### **Human Asset Specificity and its Effect on “Excluding Inclusion”**

Transaction cost theory refers to human capital in general and also in particular. The concept of “human asset specificity,” which derives from transaction cost theory (see Williamson 1975, 1981: 555, 1985), deals with the specificity or transferability of all types of human capital (e.g., cognitive and practical skills, knowledge, social and personality attributes, and experience) that enables a person to perform a job. If human asset specificity is high, dependency between contractual partners increases. This means that investments that have been made in favor of a particular transaction lose value if they are used in another transaction. Therefore, employment relationships that are characterized by high human asset specificity benefit from a continuing relationship that at least reduces sunk costs for employers and employees.

From an employer’s perspective, benefits that derive from re-employment can be seen in various ways: former employees possess general human capital that is needed in the company and have also gained company-specific knowledge through prior on-the-job training or other vocational education. Uncertainty with respect to their abilities and performance is lessened. However, it must be taken into account that this cost-reducing effect may decrease if the time between the two employment relationships increases and deskilling arises (see Mohr 2001). Moreover, employers save time and the financial costs of new investment that would be necessary if people they do not know are contracted instead of former personnel. Finally, in the case of re-employment, transaction-specific investments made previously remain in the company and cannot benefit competing companies.

From an employee’s perspective, benefits are similar: he or she possesses the type of human capital that is needed and is therefore adequately rewarded in their former employing organization. If they are looking for alternative employment that is comparable to their former work, this means finding another employer who has similar needs for human capital and is willing to honor employees’ former investments in their human capital. Depending on their type of human capital and in particular its asset specificity, this can be more or less difficult. If the asset specificity of their human capital is high, it is less likely to find adequate alternatives, and the job search becomes more complicated. Thus, contracting with another employer often causes loss of former investments in human capital (see Hamermesh 1987). Furthermore, contracting may involve adjustments of living and working conditions, for example, moving to another region or commuting. Therefore, waiting for re-employment may be the best option as long as the financial situation of the household (including wage subsidies) allows this course of action. Moreover, a new job requires new investments in human capital in order to adapt an employee’s job performance to the new working conditions and job demands. As outlined above, uncertainty is higher when a person starts working for a new company, and this implies that future investments probably will not pay off. Consequently, if quasi rents are high, sunk costs can be minimized by waiting for re-employment. Nevertheless, the crucial factor may be the unemployment duration: if employees wait too long to find alternative employment, they reduce their chances of finding an appropriate position. For example, it becomes more likely they have to accept some loss in their future income (see Gangl 2004, 2006; Aranz et al. 2005). Thus, employees’ decisions on recalls refer to whether they are willing and able to wait for re-employment and, additionally, how long this is expected to be beneficial in

terms of financial aspects, investments in human capital, deskilling, and inclusion in the labor market.

In summary, if human asset specificity is high, both employers and employees will try to continue their employment relationship: either they do not separate and employees stay included in the employing organization or both try to draw up a contract again. In the former case, human asset specificity prevents exclusion, and in the latter, it drives re-inclusion. From an employer's perspective, recalls help to maintain some human capital via re-inclusion despite former exclusion. This reduces follow-up costs that result from excluding human capital which is needed in the company – independent of its asset specificity. Although saving general human capital is of interest to employers, human asset specificity can increase a company's and an employee's interest in re-inclusion to a larger degree. The cost-reducing effects of recalls on future investments in human capital and on amortization of former investments on both sides are assumed to affect the mechanism of excluding inclusion that generates recalls. However, it is important to note that these aspects drive inclusion: they increase the interest in re-inclusion. Additionally, they protect people to a certain extent against exclusion – an effect that will be explored in more detail below when changing conditions of asymmetric dependence are discussed.

## **2.2 Recalls and the Mechanism of “Exploitation”**

Tilly defines exploitation as an inequality-generating mechanism when “... persons who control a resource a) enlist the effort of others in production of value by means of that resource, but b) exclude others from the full value added by their effort.” (Tilly 2000: 782; see also Tilly 1998). Similarly, this mechanism is characterized by Therborn (2006: 12): “... A derives his inequality over B because of the valuable items that B provides him with. (...) Exploitation involves a categorical division between some superior and some inferior people, whereby the former unilaterally or asymmetrically extract values from the latter.” Additionally, Therborn (2006: 14) states that exploitation is based on polarized power relations and asymmetric dependence and assumes that the corresponding equality mechanism is “redistribution.”

With respect to employment relationships, employers and employees may not be equally powerful regarding contract negotiations. Transaction cost theory deals with these power relations in terms of bargaining power and hold-up strategies (see Klein 1980). The hold-up problem means that one person may gain bargaining power using other people's investments and decide to demand more profit than the other. Therefore, the party with the greater bargaining power asymmetrically divides the costs and benefits of transactions. Furthermore, it is assumed that increased asymmetric dependence improves the incentive to secure quasi rents through opportunistic behavior. Although it is formulated differently, this is exactly how exploitation can be defined. In order to analyze companies' bargaining power in more detail, it is first necessary to characterize this and describe its effect on exploitation as a mechanism to generate recalls. Then, further determinants will be considered that may alter companies' bargaining power and so change asymmetric dependence and its effect on exploitation and recalls.

### **Employer's Bargaining Power and Its Effect on Exploitation with Regard to Recalls**

Companies' bargaining power is based on their potential to offer jobs and the related rewards that are needed by a dependent working population. Companies' decisions determine whether dismissals or placements are necessary and how people will be rewarded. The fact that a workforce depends on companies' providing employment means firms may be in a position to convince or "oblige" employees to wait for re-employment. In other words, employers may use their bargaining power for their own interests and encourage people to make investments that might never pay off. For instance, employees and their families invest time and money waiting for re-employment; unemployment benefits, if received, are less than wages previously earned so in real terms people have less money than when they were employed. Furthermore, they bear the financial risk of not being re-employed and of having waited too long to find another job. In the case of recalls, exploitation means that employers use peoples' dependency and investments during unemployment to reduce labor-related costs without offering them adequate compensation. To reformulate it using Therborn's equality mechanism: if the risks the employee bears and the advantages the company has as a result of reduction of labor costs are not redistributed equally, the latter is understood to exploit the former.

The special characteristic of recalls that makes this type of exploitation easy is established by means of incomplete contracts – or to be precise, the lack of a contract that gives legal rights to former employees during unemployment. As former personnel are no longer able to make legally binding claims against a company upon termination of an employment contract, they may only rely on the employer's prestige, cooperative interests, or good will as well as changing labor market conditions. If one of these presumptions does not apply, people who are encouraged to or have to wait for re-employment for other reasons are essentially being exploited. The same applies if employees are included in the organizational context again, but compensation is below the level of costs they invested during unemployment or lost in respect to future opportunity structures. In view of all these arguments, it is very likely that employees are exploited in some way and that recalls are generated by exploitation.

### **Determinants of Changing Asymmetric Dependence and its Effect on Recalls**

While an employer may often be the superior partner who decides on exclusion, inclusion, and distribution of rewards, employees also have bargaining power. Companies rely on workers' cooperation and their human capital and, in addition, labor regulations also protect the workforce. Thus, asymmetric dependence in an employer's favor may be reduced by these factors.

First, exploitation is limited due to a lack of total control of employees' behavior. If companies increasingly abuse asymmetric dependence and behave too opportunistically, this improves the employee's incentive to also behave opportunistically. If he/she is re-included, he/she may adjust performance to what he/she assumes to be fair. People who remain excluded may also ruin the prestige of their former employer. Hence, overly opportunistic behavior can be risky for a company – even if asymmetric dependence makes it possible in principle.

Second, employees' bargaining power is increased by their value as human capital. Referring to the preceding theoretical considerations on human capital, it may be too costly for the company to dismiss people with high human asset specificity as former investments may not pay off. Furthermore, those with high human capital that is asset unspecific can often easily find alternative jobs with another company. Consequently, it is riskier to lay them off than others with lower human capital as it is less likely that they will wait for re-employment. Thus, it becomes more likely that employers cannot profit from these workers' cost-efficient return to their organization. Overall, increasing human capital – whether asset specific or not – gives bargaining power to employees as long as its company-specific relevance grows. On the basis of these considerations, people with the necessary human capital are less likely to be laid off, which consequently implies lower recall rates as the excluding precondition of recalls is eliminated. In contrast, people with low human capital may be more likely to be dismissed and, equally, to be completely dispensable. Accordingly, an inverted U-shaped effect of human capital on recalls can be expected. This leads to the assumption that recalls are mostly offered to people with medium human capital. The underlying reason can be seen in employees' bargaining power that protects people with highly valued human capital to a degree against exclusion and increases the opportunities of being included for people with medium human capital. Accordingly, the risk of being exploited by a company is reduced by increasing company-specific relevance of human capital. This is because asymmetric dependence changes in the favor of employees so that companies have less reason to act opportunistically.

Third, labor regulations restrict the ability to fire people, thus reducing employers' power. Nevertheless, German labor legislation has changed since the 1980s and one of its effects has been an increase in fixed-term contracts (see Hagen 2004: 23; Keller/Seifert 2004: 242f). As these facilitate termination of employment relationships, they give bargaining power to employers and increase asymmetric dependence in their favor. Accordingly, companies that use fixed-term contracts, legally, have more opportunity to use recalls and to exploit workers' investments during periods of unemployment.

### **Reduced Exploitation via Beneficial Aspects of Recalls**

As argued above, recalls are beneficial with respect to transaction costs and investments in human capital provided that re-employment takes place. Additionally, waiting for a recall can be advantageous if employees are less flexible in changing their jobs and employing organization and have a higher need for geographical stability. When a new employment relationship is entered into, flexibility is needed to adjust to new working and living contexts. If employees do not want to move or commute, they avoid investments in geographical mobility (see Mertens/Haas 2006) that can be measured in monetary and non-monetary costs, for instance, a (temporary) separation from their partner and children, their friends and relatives, their former living conditions, and property. If this flexibility is restricted, a recall can be seen as an advantage and may not (or to a lesser extent) be seen as an abuse of bargaining power by employers.

Empirical studies have shown that German employees tend to avoid the aforementioned mobility costs for as long as possible (see Windzio 2004; Mertens and Haas 2006), even if this may prolong their unemployment duration. Moreover, it has been established that unemployment benefit recipients who expect to be recalled spend less time searching for alternative employment and those who are not in fact recalled remain unemployed for a longer period than those who did not expect to be recalled (see Katz et al 1990). This leads us to two conclusions: on the one hand, employees believe that waiting is beneficial for them and, on the other hand, waiting can prove to be risky if they are not subsequently re-employed. As always, employees can only benefit from being excluded if they are actually re-employed and not laid off permanently. In general, waiting depends on employees' and their families' decision to do so, which in turn may be related to a lack of suitable alternative job opportunities on the labor market but is to some extent also a matter of their own personal choice. As employees decide whether and how long they will wait for re-employment, a recall is never only generated by exploitation.

Moreover, exploitation and opportunistic behavior by companies are reduced to zero if the former staff are rewarded adequately. Empirical research shows that people who are recalled gain income advantages (see Anderson 1992; Groot 1990; Mavromaras 2003; Rodriguez-Planas 2004; Burda/Mertens 2001). In this case, waiting is rewarded and proves to be better than accepting an alternative job offer with a lower income or reduced occupational benefits where seniority rights are lost and have to be worked up to (see Burda/Mertens 2001). Companies use these financial incentives to motivate former staff to wait for re-employment. Nevertheless, they do not support those who are laid off while they are unemployed and do not guarantee future re-inclusion. Therefore, the risks are not equally distributed and offering potential income advantages can be seen as an integral part of a hold-up strategy. Although empirical research shows that people are rewarded for having waited through positive discrimination regarding placement and income benefits, it has yet not been examined whether this fully compensates their costs and risk. Only if this is the case is exploitation set to zero – at least for those employees who are actually recalled.

### **3. Hypotheses**

On the basis of the preceding theoretical considerations, hypotheses regarding individual determinants of recalls have been derived and tested empirically.

From an employer's perspective, transaction costs theory suggests that recalls will only be offered to temporary dispensable staff. Hence, first, the employee needs to be more dispensable than others. Therefore, the first hypothesis to be tested empirically states that a recall is more likely if a part-time or a fixed-term contract indicates greater dispensability than a full-time or permanent one. Moreover, fixed-term contracts facilitate exclusion and therefore recalls. Additionally, employees with these employment contracts may have a lesser need for job stability and full inclusion in employing organizations. Therefore, their willingness or ability to leave the company temporarily may be higher.

Second, a company will only recall a person if the employee's skills and job performance are needed. Following the argument of temporary dispensability, the second hypothesis assumes an inverted u-shaped effect of human capital and hourly gross wages on the likelihood of recalls: It is too risky for a company to dismiss highly efficient employees who are less likely to wait for potential re-employment due to better job opportunities elsewhere. In contrast, employees with a low efficiency level may be completely dispensable. Overall, this leads to the assumption that recalls are offered to people of medium efficiency.

From an employee's perspective, employment decisions are strongly influenced by resources and commitments in the household. Whether temporary exclusion from the employing organization is predominantly an advantage or a disadvantage depends on the household context. Thus, the individual's willingness and ability to wait for potential re-employment is assumed to vary with this. Consequently, a third hypothesis expects that a recall is less likely, the more the household depends on the income of the interviewee. In this case, income instabilities are associated with disadvantages and time without earnings has to be restricted, so waiting for a recall might be less feasible. Additionally, people who are married may feel more responsibility to stabilize employment conditions and may not be willing to enter into a discontinuous employment relationship. If this proves to be true, recalls are less likely for married employees. Nevertheless, a contrary effect is also possible: married people can rely on the support of their husband or wife and this may increase their willingness and ability to wait for future re-employment and increase the likelihood of a recall.

When entering into a new employment relationship, flexibility is needed to adjust working and living contexts and particularly to rearrange child care. If this flexibility is restricted due to younger children or home ownership, a recall could be seen as an advantage. As child care – especially of younger children – is still predominantly done by women, this effect should be stronger for women. Therefore, a fourth hypothesis states that an individual's limited flexibility in rearranging working and living conditions is likely to increase willingness to wait for a recall.

In summary, the following hypotheses are tested empirically:

It is more likely that recalls are offered to or chosen by employees

- (1) who are more dispensable than others and have a reduced need for full inclusion in an employing organization. Therefore, employees with part-time and fixed-term contracts are more likely to be recalled.
- (2) who have a medium efficiency level because people with higher efficiency will not be excluded or will not wait for further re-inclusion and a lower efficiency level may complicate re-employment – even if employees are willing to wait for a recall. Consequently, an inverted u-shaped effect of human capital and hourly gross wages on the likelihood of recalls is expected.
- (3) who can afford to wait for re-employment and are willing to do so. Thus, a recall is less likely, the more the household depends on the income of the interviewee. Additionally, the commitments of married couples may prevent or facilitate recalls and empirical analysis should show which of these two effects is predominant.

- (4) who are less flexible in rearranging working and living conditions. The higher an employee's commitment to child care, the more likely recalls are. The same applies to people who own a house or an apartment.

#### **4. Data, Methods, and Variables**

The hypotheses are tested empirically using the German Socio-Economic Panel Study (SOEP). This study is conducted by the German Institute for Economic Research (DIW Berlin) which supports social sciences by collecting annual representative microdata on individuals, households, and families. Data is collected in western Germany since 1984 and in eastern Germany since 1990. The aim of this study is to measure stability and change in living conditions by following a micro-economic and sociological approach, using both objective indicators (e.g., income and employment status) and subjective perceptions of objective living conditions (e.g., satisfaction and preferences). In principle, face-to-face personal interviews with all household members aged 16 and over are conducted. General household information is gained by interviewing the person who knows best about the general conditions that prevail in the household. This person remains the same over time in order to reduce longitudinal inconsistencies. Once a household is part of the sample, its members are to be surveyed every year until they die, move abroad, or finally refuse to be interviewed. If households or some of their members move within Germany, people are followed up, and those moving into an existing SOEP household are to be surveyed, too. Due to this sampling strategy, households and their members are the focus of the research, and information about employers is limited. Nevertheless, information about working conditions, employment contracts, and transitions in the labor market are provided. The sample is restricted to the dependent working population aged between 18 and 65 in private households. Moreover, only employees who have changed their employment are analyzed since a recall implies this change. The dataset covers the period from 1989 to 2010 as information about recalls is available from 1989 onwards.

In contrast to other employment relationships that can be identified by a certain employment contract (e.g., part-time), recalls are not contractually laid down. Instead, they can be identified if an employee leaves a job and returns to his/her former employer after a certain period of time. There are studies that differentiate between seasonal and cyclical recalls (see Mavromaras/Rudolph 1995). In the case of seasonal recalls, employees have to be re-employed after three months, while for cyclical recalls, employees are recalled later. This distinction is purely made by definition in an attempt to examine seasonal and cyclical fluctuations of labor requirements. Other studies distinguish between people receiving unemployment benefit and those receiving unemployment assistance (see Alba et al. 2012.). In the present study, recalls are not classified in more detail because of the sample size. Here, a recall only implies that employees return to their former employer – regardless of what happened during the time between these two employment contracts and the timing of re-employment. In the SOEP, employees who changed jobs are asked how they found out about this vacancy. One answer is “return to former employer.” This information is used to construct the dependent variable

which is a 0/1-coded variable that equals 1 if people are recalled. Thus, a binary logit regression model is used to analyze the data. It examines how the independent variables affect the probability of recalls. Due to the sample size, pooled data are analyzed.

To test the first hypothesis, employee's relative dispensability is measured by 0/1-coded variables indicating part-time and fixed-term contracts. It is assumed that both increase the likelihood of recalls.

The second hypothesis refers to employees' efficiency level, which is operationalized by their human capital and hourly gross wages. Two indicators are used to measure human capital: first, an ordinal variable informs whether employees do not have any vocational certificate, obtained some type of vocational qualification, or possess an academic degree. Second, the time they worked for their former employer is used as an indicator for their company-specific human capital and human asset specificity: these are supposed to increase according to the time an employee has worked in a company. To calculate the hourly gross wages, the monthly gross income is divided by the product of the weekly working hours multiplied by 4.3. It is expected that all these variables have an inverted u-shaped effect on the likelihood of recalls. To test this empirically, tenure and hourly gross wages are also squared. If the assumed non-linear effect is confirmed, the effect of the unsquared variables should be positive while the squared ones are negative. Moreover, compared to the middle category of the ordinal indicator of vocational human capital, the lowest and highest category should decrease the likelihood of recalls.

The third hypothesis relies on variables that measure an employee's ability to wait for re-employment. Therefore, the net income of the interviewee is divided by the net income of his/her household. The closer this variable is to one, the more the household depends on the income of the interviewee, which in turn is assumed to reduce the likelihood of recalls. Information about the marriage status of employees is 0/1-coded, but theoretically its effect is unclear.

The last hypothesis refers to an employee's flexibility in rearranging working and living conditions. To measure an employee's commitment to child care, a variable is constructed that combines information on whether an employee has children with information about the age of the youngest child. Here, it is assumed that flexibility in rearranging working and living conditions increases when children get older and consequently become increasingly independent. Lower numbers of this variable indicate that children are younger and highly dependent on their parents, while higher numbers signify growing independence of the children and increasing flexibility of their parents. Thus, employees whose youngest child is 18 or older are in the same category as employees who do not have any children. The reason for this is that the flexibility level of both is assumed to be similar. As the hypothesis states that less flexibility increases the likelihood of recalls, the effect of the constructed variable should be negative. Moreover, an interaction term of this variable with gender is added to the model in order to test if the effect is higher for women, whose commitment to child care is predominantly higher. Additionally, home ownership functions as a second indicator for reduced flexibility. This variable is 0/1-coded and equals 1 if the employee possesses a house or an apartment. It is assumed that this increases the likelihood of recalls.

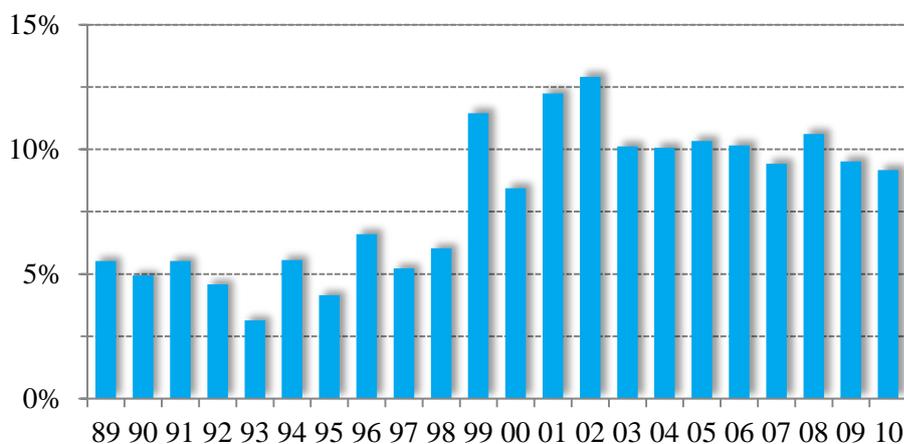
To control for different conditions in various sectors, the following variables are included in the model. They are 0/1-coded and indicate the following sectors: agriculture, energy, mining, manufacturing, construction, trade, transport, bank/insurance, and services. Manufacturing is used as reference category as the highest number of people is in this sector.

## 5. Results

### 5.1 Descriptive Results

The descriptive results in Figure 1 show that about 10% of all job changers return to a former employer each year. The lower amount in the period 1989 through 1998 is driven by a different coding and cannot be interpreted as a substantial change in recall decisions: before 1999, each answer to the question how people found out about their job was recorded using a separate variable that codes “yes” as 1 and everything else as a missing value. During the following years, all answers to the same question have been stored in one variable and are coded as different values of the same variable.

**Figure 1: Percentage of Recalled Job Changers per Year**

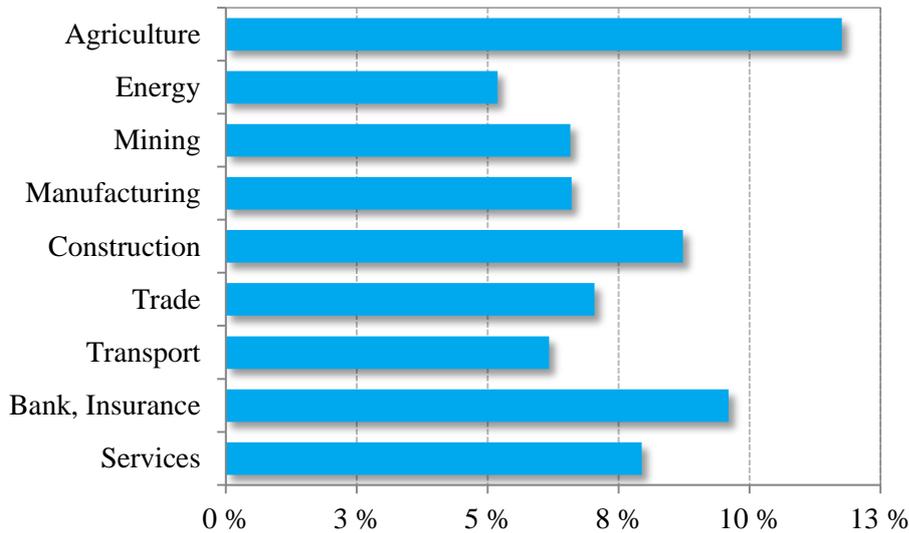


Source: SOEP 1989-2010, Note: Coding changed in 1999.

Recall-decisions differ according to diverse employment situations. Industries characterized by seasonal labor demand traditionally use more recalls than others. As Figure 2 shows, this is particularly true for agriculture and construction. If the entire dataset is used to calculate the descriptive results, 12% and 9% of all job changers in agriculture and construction, respectively, return to their former employer. If the descriptive analysis is restricted to the period 1999 through 2010 and the new coding, the amount rises to 15% and 12%. Additionally, in the finance and service sector, job changers are more often recalled than in other industries: for the entire dataset, the figures are 10% and 8%, respectively, and for the reduced dataset, 12% and 9%. This indicates that further operational determinants and cyclical labor demands

also affect recall decisions (for empirical evidence and an empirical test of operational determinants, see Liebig/Hense 2007; Hense 2012).

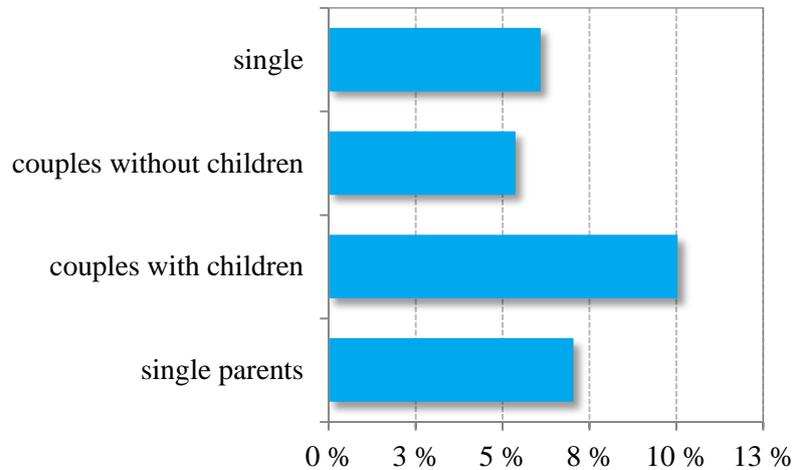
**Figure 2: Percentage of Recalled Job Changers by Sector**



Source: SOEP 1989-2010

Moreover, recall decisions are assumed to be influenced by different household situations and individual characteristics of employees. Referring to the multivariate results of our analysis, this will be discussed in more detail in the following section. The descriptive results in Figure 3 briefly show that household contexts matter. First, it can be seen that children who live in a household influence their parents' recall decisions: 10% of job changers who live together with their partner and child(ren), and 7% of job changers who are single parents decide to return to their former employer. If only the new coding is used to calculate the results, the figures rise to 13% and 9%. In contrast, people who live alone (6% or, according to the new coding, 7%) or couples without children (5% or, according to the new coding, 6%) seem to be more flexible in rearranging living and working conditions and therefore have lower recall rates: either because they do not want or need to wait for a re-employment or because employers prefer to recall former employees who have a family. Second, living together with a spouse/partner does not have a clear effect on recall decisions because couples without children have the lowest and those with children the highest recall rates. Thus, we cannot assume that cohabitating couples/spouses may pool their resources and are – in general – more able and willing to wait for re-employment than others. Instead, it is necessary to differentiate on the basis of available resources (e.g., economic situation) and demands (e.g., commitment to child care and spouse) in more detail as is done in the following multivariate analysis. This will show that recall decisions are driven by these underlying factors and that research on employment decisions may profit from considering resources and demands in the household contexts of employees.

**Figure 3: Percentage of Recalled Job Changers by Household Type**



Source: SOEP 1989-2010

## 5.2 Multivariate Results

Table 1 shows the results for the multivariate analysis. They support the first hypothesis that recalls are offered to temporary dispensable staff: employees with part-time or fixed-term contracts are more likely to be recalled than people with full-time or permanent contracts. Additionally, these people may have a reduced need for full inclusion in an employing organization, and are more willing or able to leave the company temporarily.

The second hypothesis refers to employees' skills and job performance that are measured in terms of human capital and hourly gross wages. It can be seen that employees who do not have a vocational qualification or those who have an academic degree are less likely to be recalled than those who completed an apprenticeship and obtained a vocational qualification. Thus, people with medium human capital are more likely to be recalled. If tenure is used as an indicator for company-specific human capital, the conclusion is the same: with increasing tenure, being recalled becomes more likely, and the negative effect of squared tenure indicates an inverted u-shaped effect of human capital. Therefore, recalls are more likely for employees with a medium efficiency level because employees with higher efficiency will not be excluded or will not wait for re-inclusion and a lower efficiency level may complicate re-employment. Moreover, the likelihood of a recall increases with higher hourly gross wages, but the squared variable does not have a significant effect. Consequently, the result of this last indicator does not support the second hypothesis as the expected u-shaped effect does not appear. Instead, hourly gross wages have a linear effect on recalls so that recalls are more likely to be offered to or accepted by employees with higher wages. On the one hand, this may be influenced by an employer's need for flexibility in wage expenditure (see Hense 2012), and, on the other hand, employees who receive higher wages may benefit more from re-employment than others – an assumption that has to be tested in future research.

**Table 1: Individual Determinants of Recalls (Logit Regression)**

	<b>Recalled Job Changer</b>	
<b>Dispensable Staff</b>		
Part-time (ref: full-time)	.2904***	(.0741)
fixed-term contract (ref: permanent)	.1431***	(.0317)
<b>Efficiency Level</b>		
vocational qualification (ref. apprenticeship)		
no certificate	-.2980***	(.0810)
academic degree	-.2965***	(.0711)
tenure	.2818***	(.0231)
tenure (squared)	-.0099***	(.0013)
hourly gross wage	.0179**	(.0057)
hourly gross wage (squared)	-.0001	(.0001)
<b>Ability/Willingness to Wait</b>		
household dependence on income	-.3837**	(.1391)
married (ref: unmarried)	-.2447***	(.0628)
<b>Flexibility in Rearranging Living Conditions</b>		
commitment to child care	.0321	(.0187)
commitment to child care*female	-.3108***	(.0240)
female (ref: male)	1.7242***	(.1374)
home ownership	.2080***	(.0585)
<b>Control Variables</b>		
sectors (ref: manufacturing)		
agriculture	.7425***	(.2063)
energy	-.3885	(.3162)
mining	.1104	(.4697)
construction	.4712***	(.0971)
trade	.0065	(.0934)
transport	-.1367	(.1416)
bank, insurance	-.1707	(.1583)
services	-.0708	(.0794)
constant	-3.3635***	(.1717)
Pseudo R <sup>2</sup>	0.1133	
Log pseudolikelihood/ Wald chi2 (df)	-6070.671/ 1213.74 (22)	

Notes: German Socio-Economic Panel Study (SOEP) 1989-2010; pooled data; number of observations: 25,120 (employees who changed their job); logit regression with non-standardized coefficients; robust standard error in brackets; significance level: \*  $p_t < .05$ ; \*\*  $p_t < .01$ ; \*\*\*  $p_t < .001$

The third hypothesis assumes that an employee's ability and willingness to wait for re-employment affects his/her recall decision. Recalls become less likely, the more the household depends on the employee's income. In this case, temporary exclusion from employment and related rewards has essential effects on the economic situation of the whole household.

Thus, a recall decision is influenced by the economic resources in the household: if the household is not able to counteract the losses in income, employees are not able to wait for re-employment and exclusion is seen as a disadvantage. Moreover, married employees seem to be less willing to wait for re-employment because it is less likely for them to be recalled. This supports the assumption that married people feel more responsibility to stabilize employment conditions.

The fourth hypothesis states that people who are less flexible regarding re-arranging working and living conditions are more likely to be recalled. Interestingly, the commitment to child care only has an effect for women: if their commitment to child care decreases, recalls become less likely. Thus, recalls are more likely if women are less flexible in rearranging child care due to the young age of their children. In this case, recalls may be seen as an advantage and employees are more willing to wait for re-employment or use their exclusion from an employing organization to invest more time in child care. Moreover, it can be seen that in general women are more likely to be recalled than men: if this is driven by different preferences, their different position in the labor market or other factors have to be analyzed in more detail in future research. A second test for an employee's flexibility is his/her home ownership. The analysis shows that people who own an apartment or house are more likely to be recalled. This supports the assumption that these employees are less flexible and more willing to wait for a re-employment than employees who rent.

Although branches are only added to the model to control for different employment conditions, employees who work in a sector with seasonal labor demands such as agriculture and construction are more likely to be recalled than others if compared to the manufacturing sector.

## **6. Discussion**

Analyzing recalls as a specific discontinuous employment relationship has proven to be beneficial as it could be shown that recalls are driven by decisions on exclusion and re-inclusion both taken by employers and employees. A recall is generated by exclusion from an employing organization and later re-inclusion, which is called "excluding inclusion". This article has focused on individual determinants of recalls and tested hypotheses derived from transaction cost theory: the specific characteristic of recalls is a reduction in employers' and employees' ex-ante and ex-post transaction costs in comparison to vacancies that are filled with completely unknown individuals. Additionally, recalls help to maintain or optimize human capital through re-inclusion and reduce follow-up costs for employers and employees that result from exclusion. Exclusion is assumed to be enforced by a company's need to reduce their personnel temporarily or the employees' willingness and financial means to quit their job for a certain time and to wait for re-employment. Therefore, employees who – from the employer's perspective – are more dispensable than others are more likely to be excluded. In contrast, exclusion is averted and re-inclusion is intensified by employees' skills or bargaining power since highly efficient employees are less likely to be dismissed in the first place and more likely to

be recalled. Employees' human capital increases an employer's interest in re-inclusion and prevents exclusion and exploitation to a certain extent. From an employee's perspective, exclusion increases his or her financial costs while further re-inclusion is not guaranteed. Therefore, it is less likely that exclusion is the employee's own choice.

With recalls, hold-up (exploitation) means that employers use people's dependency and investments during unemployment to reduce labor-related costs without offering them adequate compensation. The special characteristic of recalls that makes this kind of exploitation possible is established through the lack of a contract during unemployment. Whether this exploitation does in fact take place will be analyzed in future research. Nevertheless, the beneficial aspects of recalls may reduce exploitation provided that re-employment occurs. Waiting for a recall can be advantageous if employees are less flexible in re-arranging working and living conditions due to child care and home ownership. In this case, a recall may not (or to a lesser amount) be driven by exploitation and may not result from an abuse of bargaining power by employers. However, waiting for re-employment is only possible if the financial situation of the household allows this course of action. It could be shown that recall decisions depend on resources and commitments in the household, and these factors determine whether recalls are advantageous or disadvantageous. In general, waiting is driven by employees' and their families' decisions to do so: it is to some extent a free choice, so recalls are never only generated by exploitation.

Employees who are more likely to enter into a recall that can be seen as a specific discontinuous employment relationship are those who work part-time, have a fixed-term contract and medium human capital, are able to afford to wait for re-employment due to financial resources in their household and are less flexible in re-arranging living and working conditions. Further research could compare these results with research on other types of discontinuous employment so that general determinants of discontinuous employment relationships can be derived. Furthermore, it can be assumed that these people form the flexible part of a company's internal labor market. Therefore, research about internal labor markets may profit from these results. Finally, further research about exploitation and different effects of recalls is needed. The consequences of recalls on rewards, individual lives, and living arrangements will be examined in the next few years using a mixed-method design. Furthermore, the rationale of employers and employees are currently being analyzed in more detail using a qualitative approach. This will subsequently be used to conduct our own survey on this subject.

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