

Internal Labor Markets

Evolution of the Theory

Doeringer and Piore - Manpower Program

- how to address skill specificity
- how to address cost of training (once presumed to be a function of the ELM, functional design within the firm)
- how to address on-the-job training
- how to address impact of custom and rigidity of internal structures
- motivated by human resource & systems thinking

Analytical Perspectives

- rational bureaucratic, goal-driven, neoclassical (job-based, ELM to ILM influence)
- natural social system (organizational sociology and OB influence; human needs and motivation model; person, not job based)
- open systems theory (adaptation to environment; organization as an open living system; contingency theory dictates responsiveness to uncertainty; purpose is to regulate and limit negative oscillation; functional relation is in service of stability and viability)

Insufficiency of neoclassical model, ELM supply and demand, and the marginal product of labor, rational bureaucratic model of internal labor structure, compensation, and job mobility. Did not address mandate of manpower program to address *fundamental need for mechanisms which can adjust to labor market imbalances*

What were these? What are these today?

- structural unemployment
- technological change and labor displacement
- automation effects
- inflation effects
- discrimination effects
- employment and training of disadvantaged
- subcontracting
- outsourcing
- virtual employees
- contingent labor
- transient professional class
- decrease in union influence
- export of jobs and skills
- re-structuring of industrial sector
- re-structuring of industry composition
- downsizing strategies
- relocation strategies
- displacement and re-training

Neoclassical economic theory does not address demand, allocation, pricing, and job flow within individual firms. *Could not address the interdependence of internal labor market components.*

Internal Labor Market Theory

- allows for variation in personnel practices by industry, occupation, and companies
- promotes utilitarian understanding of hiring, recruiting, training, compensation, promotion, and development activities that parallel actual human resource experience.
- explains variation in union structures, military structures, trades, professional, and seniority based structures
- explains variation between enterprise and craft, managerial and blue collar internal labor markets

Neoclassical economic theory does explain ELM entry positions --governed by unemployment, competitive wage rates, local labor supply, degree of globalization, and competitive environment of the firm.

From entry forward, core determinants of internal corporate adjustments to labor market imbalances are determined by

- compensation patterns
- job structure intransigence
- allocative structure
- staffing actions
- internal custom

Add to these variation in

- corporate strategy
- skill specificity and KSAOs
- training costs and patterns
- employment tenure and longevity
- customs and traditions within the firm
- managerial discretion
- investment in human capital
- nature of labor as either fixed or quasi-fixed factor of production
- degree of OTJ training
- degree of subcontracting
- recruitment, hiring, and screening procedures
- motivational mechanisms

Conceptualizing an internal labor market creates *causal* relationships between ELM imbalances and internal practice.

Employment becomes an open system embedded in the external labor market, and embedding internal practices which determine need, pricing, resource allocation, organizational adjustment, radical change, re-alignment, and job movement.

Definition

Internal labor market is an administrative unit, within which the pricing and allocation of labor is governed by sets of administrative rules and procedures.

Interconnected with the External Labor Market

- permeable boundaries
- ports of entry - limited
- ports of exit - voluntary, involuntary

Vacancy Chains and Mobility Clusters

Empirical methodology for tracking:

- job creation, re-design, elimination
- hiring, promotion, separation
- compensation adjustments
- job flows
- changing job stock
- organizational demographics
- career trajectories
- adaptive staffing actions
 - job creation, downgrading, transfer, reorganization,
 - job combining, re-design, outsourcing, lay offs

Vacancy Chain = series of staffing actions

Mobility Clusters = cluster of jobs related by skill + capabilities required for performance

- within cluster is hierarchy of KSAOs
- jobs within clusters tend to be ranked by worth
- patterns of vertical mobility indicate career ladder
- patterns of horizontal mobility indicate employee development
- stability of clusters indicates employee tenure

Clusters = occupation to class series to class to job family to job to tasks (incorporated into job analysis, job evaluation)

Vacancy Chain Factors

- origin of vacancy
- length of chain
- organizational results
- degree of rigidity in ILM practices
- institutionalization of training
- criteria for promotion and cutback
- frequency and placement of ELM contact

Objective of Vacancy Chain + ILM Research

- identify mobility patterns
- identify criteria for job movement
- identify criteria for staffing actions
- analysis of compensation structures
- analysis of allocative structures
- analysis of interdependence of job stocks, job flows, ELM, industry context, relevant labor market, internal parameters of ILM, and significance of managerial discretion

Operationalizing Vacancy Chain Research

- research embedded, entrenched customs & patterns
- active real time tracking of linking staffing actions (interview)
- data from organizational records of staffing actions (archival)

Research Design - Analyze

- 1) origin of vacancies
- 2) # subsequent vacancies before ELM hire
- 3) directionality of subsequent vacancies (vertical vs. horizontal transfer)
- 4) job stock characteristics (shifts, training, ELM)
- 5) distribution of employees (departments, plants, shifts, labor type)
- 6) status of employees (tenure, age, gender, exempt, nonexempt)
- 7) dynamism of the chain (results in realignment, reorganization, re-design, downsizing)
- 8) age-based signals (deep retirement cycles)
- 9) technology displacement (industrial restructuring)
- 10) readjustment of compensation structure

Determine Staffing Actions

- path dependent
- degree of complexity
- degree of variety
- dilemmas, trade-offs, situations, politics
- relation to "employment systems" and competitive advantage