INTERNAL LABOR MARKETS

DEFINITION OF INTERNAL LABOR MARKET

Market where pricing & allocation of labor is determined by a set of administrative rules & procedures

ADMINISTRATIVE RULES & PROCEDURES

- Determined by set of economic, political, sociological & historic forces plus custom
- Can be explicit or implicit
- Rules substitute for individual/firm preferences in determining who works, at what price, and doing what job
- Best describe within org. markets
**COMPETITION IN ILM**

→ Workers in internal labor markets: sets of non-competing groups  
→ Workers may or may not compete with each other within ILM but never between ILMs  
→ ILM as “short-term” constructs

**WAGE DETERMINATION IN ILM (Pricing)**

→ Rates vs. Structures:  
  → Neoclassical market determines single wage rate for labor market  
  → ILM determines wage structure: Individual pay depends on place in structure

**REFERENCE POINTS FOR WAGE STRUCTURE**

→ Internal Ref. Points  
  → Job Clusters  
  → Def: Stable groups of job classifications  
  → Linked through technology, administrative structure, custom  
  → Multiple clusters in same organization  
  → Oriented around Key Rate  
→ External Ref. Points  
  → Wage Contours  
  → Def: Stable group of firms or other units  
  → Linked by product market, sources, custom  
  → Dimensions: Occupation, Industry, Geography  
  → Oriented around Key Rate
AN EXAMPLE: MSU

<table>
<thead>
<tr>
<th>Academic</th>
<th>Administrative</th>
<th>Clerical</th>
</tr>
</thead>
<tbody>
<tr>
<td>Job cluster</td>
<td>Faculty in same dept.</td>
<td>Provosts, Directors, Staff/Specialist, Admin Assts.</td>
</tr>
<tr>
<td>By rank</td>
<td></td>
<td>Exec. Sectr., Office Asst., Secretary</td>
</tr>
<tr>
<td>Wage Contour</td>
<td>Faculty in Same college</td>
<td>Priv. Sector, Foundations, Govt.</td>
</tr>
<tr>
<td></td>
<td>Faculty in Sim. Dept. other Univ.</td>
<td>- Other Univ. - MSU Clerical</td>
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MOVEMENT IN THE ILM (Allocation)

- **Access to ILM:** Ports of Entry
  - Usually entry level
  - Lowest skill in job cluster
- **Movement within ILM:** Job Ladder
  - Relatively clear, pre-defined steps
  - Based on: skill acquisition & seniority
  - Variability: in length, permeability, organizational setting

Important differences b/n ILM and Neoclassical

- **How decisions made:** ILM is rule-based; neoclassical is market based.
- **Motivations:** Neoclassical is response to prices; ILM is response to mix of factors ($$, equity, custom, etc.)
- **Pricing & allocation:** Neoclassical is constrained individual choice; ILM determined by place in structure.
- Neoclassical assumes 0 transaction costs; ILM built because of transaction costs.
WHY ILMS ARISE: MARKET EXPLANATION

→ ILMs Efficient Solution to Allocation and Supervisory Problems in Complex Economy:
  → Training
  → Monitoring
  → Recruitment
  → Mobility & Job Assignment

Problem: Firms complain about constraints of ILM - Are ILMs really efficient?

WHY ILMS ARISE: INSTITUTIONALIST VIEW

→ Firm’s Perspective
  → Idiosyncratic requirements of the firm

→ Workers' Perspective
  → Shelter from competitive Pressures
  → Equity concerns:
    → Relative Wage Equity
    → Mastery over market forces

WHERE DO ILMS ARISE?

→ In Industries/organizations that have sufficiently stable and high-volume product demand to sustain stable employment.
→ Important: ILM as relatively short-term construct; inevitability of market forces.
Sequence from Market Conditions to Career Paths

- Stability in Product Market
- Stability in Production Process
- Stability in Level & Composition of Demand for Labor
- Stable Career Paths

ILM increasingly less descriptive of reality

CURRENT MISMATCHES

→ Between existing firm structures and increasing competitiveness in the product markets
→ Between production and consumption of goods
  → Overcapacity for mass produced goods
  → Need for niche production
→ Leads to uncertainty
KEY POINTS ABOUT MASS PRODUCTION

- Predicated on ability to gain cost efficiencies
- Compete on basis of *PRICE*
- Hierarchical management structure
- Centralized power structure
- **PROBLEM**: Firms best able to gain cost efficiency least able to innovate

BASIS FOR SOLUTION

- Challenge logic of mass production
- Competition on quality and service
- Decentralized power structure
- Distinguish between 2 types of:
  - Numerical flexibility
  - Functional flexibility

Conclusion

- Traditional ILM work arrangements incompatible with product market reality
- Central question: How to handle resulting uncertainty