

**Changing Work Structures within Firms/
Internal Labor Markets, Networks and Structure**

We will address first internal labor markets (ILM), then deal with restructuring since the latter is a variation of how ILM's change. We will deal with how High Performance Work systems (HPWs) impact middle managers and contingent workers. Then we will discuss the impact of these changes on low wage workers.

Internal Labor Markets

1. What is an internal labor market according to the Introduction section of Internal Labor Markets? How is work structured within an organization?

ILMs are sets of rules and procedures for hiring, promotion and the like.

2. Why do we use the term "market"?

Because we are not just limiting the discussion to a firm, but also ILM within an industry, like craft workers or computer programmers or highly skilled graphic arts designers who work within rules and procedures that govern hiring and wages, but not just from a firm perspective.

3. What is the difference between a labor market and an internal labor market?

Points to other influences on market than supply and demand. ILM sets up procedures, rules, guideposts for pay, promotion, e.g., seniority, performance targeting, training. Typically set up by Human Resources Dept.

Standard economists acknowledge that rules exist but they argue that rules just reflect or act as a transmission belt for supply and demand factors which determine the rules.

4. But why should we care about the rules? How is the firm a social system, with formal and informal rules?

Rules have inertia, are slow to respond to market forces. Example: If MIT, a large employer, wants to change employment rules, it takes time. Even more to the point, what if rules have a stronger impact than just lag time, but that they reflect some sort of norms independent of the power of the market? For example, the pay structure norms at MIT have to be "aware" of the market, but are independent of the market.

What other rules are made? Government regulations such as overtime, recruitment may be state or federal-wide but they are interpreted differently within industries or firms. Other rules are made by employer power, i.e., through collective bargaining or through the threat effect.

What are the advantages of ILM rules? Are rigidities helpful?

- a. They free up supervising time;

- b. Lower transaction costs from individual to collective bargaining?
 - c. Offer efficiencies for training---if there were no job ladder why would an employee risk training a subordinate who could take one's job?
 - d. Advantages for employers and for workers (job security, predictability, last hired-first fired).
5. How does the notion of elasticity apply here to workers? If a worker is producing an inelastic product, it's beneficial to the worker because the prices can be passed on, i.e., in a regulated industry. But in a deregulated industry, wage increases cannot be so easily passed on to consumers. Wage norms became more established in industries that were more inelastic.
 6. Does ILM's apply to all jobs? No, self employment is one example.
 7. ILMs may be barriers against minorities, since hiring was done through established portals, but other rules, such as affirmative action, tried to redress this. But norms create rigidity; employers can't hire the best because pay scales don't reflect needs.
 8. One interpretation of restructuring---from an employer's perspective---is that norms and rigidities outweighed their benefit and so employers busted them up... Chief issue here is if market forces push in one direction and ILM norms resist, then the restructuring process is the re-writing of that push and resistance. Central question: if norms and rigidities are done away with by restructuring, will new norms and rigidities crop up?

Restructuring

The rhetoric in the labor market is that the market rules, i.e., you get what you're worth. Yes, it is true that market forces operate more freely than they used to in part due to restructuring, but over time new sets of institutional norms will emerge with new rigidities. Labor market is determined not just by supply and demand shaped by technology, but also social and political dimensions.

1. What is restructuring?
 - a. Redefinition of jobs and new boundaries of tasks;
 - b. Loss of job security [but is there any real job security in the US. Generally practices are employment-at-will contracts which means that both sides can terminate at will. But there are norms: unions defend against terminations; discrimination claims can be made; fired workers can sue for slander; whistleblowers are protected by law; bad faith actions can be claimed. But still employment-at-will was the basis of employment.]
 - c. Changes of ideas of the boundary of the firm, i.e., what's inside the firm and what's not. Example: increased outsourcing diminish what is the "core competency" of the firm. Today, suppliers can even exist within the physical properties of the firm.
 - d. Clear evidence of flattening of organizations; for example, CEO's have many more direct reports than before.
 - e. Middle-aged men job tenure is declining, but not so for women. Story is more nuanced than one might think (there may be more layoffs but this is offset by reluctance of people to quit jobs).

- f. Re-structuring, for our purposes here, is not strictly about re-organizing the production process (example, supply chain management or new inventory controls).
2. What then are high performance work systems?
 - a. It involves more teams, devolved responsibility and greater participation of work force in different aspects.
 - b. First developed in the U.S. but then ignored; picked up by Japanese and then adopted here in mid 1980s after it was proven successful;
 - c. Rules of ILM are changed: broader job descriptions, more team-based and less individual-based pay; greater job rotation;
 3. Huge debate exists over HPWs: do they really lead to productivity and quality gains or is it more due that high productive firms and sectors adopt them (causality question)? Are employees better off? Or is this a clever form of speed-up and a better form of monitoring and control? The literature reflects that debate
 - a. Studies show that HPWs do lead to productivity and quality gains;
 - b. But studies are mixed as to whether employees benefit.
 - c. Studies do show improvements in the quality of workplace for workers. In manufacturing, wages have gone up but not so in other industries. Studies show very mixed results in terms of benefits or not for workers.
 - d. Are self-managed teams more prone to lay-offs? On one hand, loss of norms makes workers more vulnerable and team-based work means that others can do one's job; but on the other hand, losing a worker tends to hurt the whole team.
 - e. HPWs are more productive which raises the paradox: since employers are less committed to workers, why should employees show greater commitment to the firm (but they do)?
 1. Productivity is incentivized; rhetoric today emphasizes incentives rather than commitment;
 2. fear replaces loyalty and gratitude as a motivation to work harder;
 3. employees gain general skills which are more applicable in the market (compared to firm-specific skills);
 4. studies show that expectations have more to do with job satisfaction rather than absolute level of benefits; employers have managed to lower expectations of workers;
 4. How does restructuring affect middle managers? Not the top tier, but still covers a variety of jobs: sales, legal work, planning. Old view is that these workers were the gray organizational bureaucrats. Restructuring has brought two stories:
 - a. Intrapreneurship: there are new opportunities for mobility, so pack your own parachute.
 - b. Middle managers are killed off by restructuring: goal is to fire bureaucrats who hire bureaucrats.
 5. Results of Osterman study with 50-60 interviews with middle managers in two sectors: banking and high tech.
 - a. Overriding theme was that middle managers took great pride in their work, a kind of craft appreciation. These were good jobs.

- b. Restructuring led to more narrow, less autonomous jobs (contrary to HPWs).
- c. Middle managers under more pressure to perform.
- d. Few feel loyalty to the company but most feel high loyalty to their work group.
- e. Nobody expressed a political view on the restructuring or expressed alternative ways of working: Everyone says it's the market and can't be changed. Brought up to believe in the company and now feel squeezed but can't envision other options.
- f. All middle managers had fear of lay off---even though most weren't vulnerable, they still felt fear.

Internal Labor Markets and Low Wage Workers

Here we discuss Piore and Newman's writings about the institutional structure which sets the norms for low wage labor markets (not just the firm's structure).

1. What is the structure of labor markets according to Piore?
 - a. Primary and secondary labor markets with not much structure at the high end and the low end;
 - b. Classic case of mobility is youth who don't stay trapped in low wage jobs generally;
 - c. Secondary jobs are undifferentiated and people don't generally get stuck; notion of random mobility chain.
 - d. Implicit is the industrial production theory of labor markets: primary market is dominant labor market with secondary labor market as volatile and adaptive.
2. For Newman, more structure---social networks, for example, in job referrals-- - exists in low wage market than Piore admits, even though there are not rules between firms.
3. How is Burger Barn a good job, according to Newman?
 - a. Sought after; better than alternatives;
 - b. but generally boring and offers little job promotion.
4. Should job training programs source trainees to jobs like Burger Barn?
 - a. Burger Barn does offer limited mobility to other jobs;
 - b. Empowering aspects of having of job at BB decays over time and social stigma attached to fast food retail possibly.
 - c. Are there better alternatives than BB? Why train people for jobs that don't exist.
 - d. Another approach is to help get people into jobs and then train people for mobility. Here a criteria would be for training programs: is there a mobility track associated with a trained-for job?

Restructuring and Contingent Workers

Contingent work is not uniformly a bad deal. Many people like the flexibility and remember that some contingent workers are on the up side of the pay scale (consultants) not always on the down side. Some contingent workers are hurt--- while others may like it. Key concept here is that contingent work is a way to overcome internal labor markets.