Organisations and the Transformation of the Internal Labour Market
Damian Grimshaw, Kevin G. Ward, Jill Rubery and Huw Beynon
*Work Employment Society* 2001 15: 25
DOI: 10.1177/09500170122118760

The online version of this article can be found at:
http://wes.sagepub.com/content/15/1/25

Published by:
http://www.sagepublications.com

On behalf of:

British Sociological Association

Additional services and information for *Work, Employment & Society* can be found at:

Email Alerts: http://wes.sagepub.com/cgi/alerts

Subscriptions: http://wes.sagepub.com/subscriptions

Reprints: http://www.sagepub.com/journalsReprints.nav

Permissions: http://www.sagepub.com/journalsPermissions.nav

Citations: http://wes.sagepub.com/content/15/1/25.refs.html

>> Version of Record - Mar 1, 2001

What is This?
Organisations and the Transformation of the Internal Labour Market

Damian Grimshaw, Kevin G. Ward, Jill Rubery and Huw Beynon
Manchester School of Management Cardiff University

Abstract This paper explores changes in employment policies and practices that are typically associated with the classical ‘model’ of the internal labour market. Drawing on documentary information and interviews with managers in four large organisations in the UK, the evidence suggests that many of the ‘traditional’ pillars of the internal labour market have been dismantled. New policies around training, recruitment, pay, job security and career progression have been introduced in response to pressures and opportunities for change, both internal and external to the organisation. Changes in the external labour market involve a shift in the balance of power between labour and capital, coupled with a weakening of the mechanisms which coordinate and regulate labour market exchange. Within the organisation, there are a range of pressures to transform production, or service delivery, including the restructuring of traditional forms of work organisation, the extension of working-time and changes in organisational structure. This paper analyses evidence of new employer-led ‘market solutions’ to this range of conflicting pressures. The aim is to highlight the tendency for contradictory outcomes as new policies capitalise on changing external conditions, but at the expense of meeting organisational demands. Also, new policies implemented by individual employers may be unsustainable where, on aggregate, they fail to develop workforce skills or to fulfil career expectations.

There is growing evidence of an erosion of principles associated with the traditional internal labour market (ILM) within the UK employment system (Casey et al. 1992; Coyle 1995; Rubery 1996; Walsh 1993). Examples of organisations that offer a combination of permanent employment contracts, a steady career progression from low skilled to high skilled posts, transparent and integrated pay structures and internal training are difficult to find. Instead, there appears to be a growing use of temporary employment agencies, external recruitment of specialist staff, a gradual

Damian Grimshaw is a Lecturer in Employment Studies at Manchester School of Management, UMIST. Kevin Ward is a Lecturer in Human Geography at Manchester University. Jill Rubery is Professor of Comparative Employment Systems and Director of the European Work and Employment Research Centre (EWERC) at Manchester School of Management, UMIST. Huw Beynon is Professor of Sociology and Director of the School of Social Sciences at Cardiff University.
dismantling of occupational skills and a fragmentation of the career and pay promotion path through de-layering, outsourcing, pay structure fragmentation and privatisation of public services.

Where these changes have been observed in the US, recent studies point to changing technologies and the globalisation of capital and product markets as the central influences. The claim of much of this literature is that the collapse of labour market institutions has led to an increase in the role of the market in disciplining organisations. The current transformations in ILM systems are taken as reflections of the growing dominance of the market as a form of economic and social organisation despite the potentially strengthened hand of the employer in designing and implementing employment policy. However, this argument creates an artificial dichotomy between the traditional ILM structure designed to meet the internal logic of the organisation (on technical and efficiency grounds) and a set of market-determined employment contracts that fit the economistic logic of the labour market external to the organisation (Grimshaw and Rubery 1998). A more helpful approach is found in an emerging literature that treats the current transformations of ILM structures as arising out of changing conditions internal and external to the organisation (Benson 1995; Cappelli et al. 1997; Grimshaw and Rubery 1998; Kerr and Staudohar 1994; Morishima 1995; Osterman 1994; Rubery 1994). These authors recognise that the job and pay hierarchies, permanent contracts and training provision associated with ILMs in the past were not only introduced to meet the internal productive requirements of the organisation (such as worker commitment, or a certain level of job stability to recoup the firm’s costs of training) but also reflected particular external conditions: strong trade unions, low unemployment and steady national economic growth (see also Elbaum 1984; Jacoby 1984; Rubery 1978).

Similarly, analysis of current transformations requires recognition of changes internal and external to the organisation that shape the observed outcomes. It is not sufficient to argue that with the collapse of national institutions in the labour market, we are witnessing the ‘marketisation’ of employment relations, as if representative of a new post-Fordist or post-industrial ‘logic’ of organising employment (Mulgan 1997). While employers may have greater freedom to react to changes in unemployment rates, wage variation and the supply of skills, there is little empirical evidence to suggest that responsiveness to external changes fits neatly with pressures for change from within the organisation. Moreover, changes implemented within the organisation also shape the external labour market and the broader economy, generating ‘feedback effects’ from one organisation to another. There is a need, therefore, to investigate the impact of changing internal employment policies and practices on the external labour market and how the deregulation – or ‘re-regulation’ (Standing 1997) – of the external labour market shapes these new policies and practices. Such an approach moves away from earlier segmentation
literature that theorises the ILM as distinct and somehow sheltered from the dynamics of the external labour market.

Drawing on detailed case studies of four large organisations, this paper presents evidence of a variety of employment policies and practices that do not conform to the traditional principles of the internal labour market, as presented by Doeringer and Piore (1971). Furthermore, there is little evidence of a universal set of policies and practices being introduced by management across each of these organisations. Rather it seems that a range of different policy ‘solutions’ have been implemented around training, recruitment, pay, job security and career progression, each representing responses to a variety of different pressures and conditions internal and external to the organisation. However, unintended consequences have accompanied these policies. For example, it is quite common for policies that capitalise on changing external conditions to do so at the expense of meeting internal organisational demands. Also, new policies driven by changing organisational requirements may lead to unsustainable demands on the workforce, with adverse implications for the reproduction of skills and the fulfilment of career expectations.

**The Erosion of the ILM and the Strengthening of Employer Autonomy**

The classical model of an ILM refers to the pricing and allocation of employees within the organisation rather than through the labour market (Doeringer and Piore 1971). This ideal type is characterised by limited ports of entry for recruitment, regulated job and pay ladders for each group of workers, internal training and rules regarding job security. Ironically at a time when some mainstream economists have caught up with the idea that the organisation matters in understanding the interaction of supply and demand for labour (Solow 1990), the last two decades have seen a dismantling of traditional ILMs and with it the apparent reduction in the role of the organisation in providing sheltered employment conditions (Cappelli et al. 1997; Crouch 1997). This trend applies to the traditional working-class career found, for example, in public transport, the steel industry and the post office, as well as to white-collar occupations in banking, health, education and the computer software industry (Rubery 1999). A number of changes can be identified that run counter to past expectations around ILMs: ‘downsizing’ practices have buried expectations of a job-for-life; the rationale for a ‘flatter’ organisation has proved more attractive than the carefully designed bureaucratic job hierarchies; individualised reward systems and fragmented pay structures have replaced integrated seniority pay scales; and the use of temporary employment contracts is viewed as more flexible than direct recruitment into a permanent job.¹

Recent US literature has highlighted the role of changing forms of competition and organisation in leading to new market-driven forms of employment policies and
practices, and has identified the collective impact of these organisational policies in structuring future employment opportunities and in shaping national economic performance (for example, Arthur and Rousseau 1996; Cappelli et al. 1997; Kalleberg et al. 1996; Osterman 1993). This analysis has pointed to the high probability of ‘negative feedback effects’. For example, where employers increased investment in training in order to pursue a strategy of high performance, the result may be a higher rate of poaching of skilled labour. Yet these problems are presented as an inevitable and universal consequence of organisational adaptation to changing global, macro-economic and technological circumstances. In these accounts the influence on employment developments of the strength or absence of particular institutional arrangements in the US labour market is largely ignored.

The UK has to a large degree followed the pattern of the US in deregulating markets, the impact of which has been to change the balance of power between capital and labour and to weaken the mechanisms which co-ordinate and regulate the conditions and terms of exchange in the wider labour market. However, even between these two ‘market-driven’ employment systems, there are significant differences in the institutional environment which affect the design and deployment of organisational employment policies. For example, access to health care insurance is a major force for segmentation in the US economy but is largely irrelevant in the UK context. Differences such as these affect the form and content of atypical work contracts between the two societies. The impact of institutional arrangements and constraints is even clearer if we include in the analysis countries such as Germany where industry-wide associations of employers and employees still agree a set of rules around which external labour markets properly function — what Streeck refers to as ‘associational governance of internal and external labour markets’ (Streeck 1987: 301).

There is also a deeper analytical problem (see Gazier 1998). Cappelli, for example, argues that:

there has been a trend or shift towards employment practices based on criteria associated with markets outside the firm, and away from arrangements based on other criteria that typically reflect the internal interests of the firm (1995: 573).

Processes internal and external to the organisation are, in this analysis, theorised separately. This rests on an assumption of major economic and social transformation involving a move from a time when organisations were able to design and implement employment policies to meet the productive demands of the organisation, to an era where organisations respond primarily to external conditions. The emphasis is thus on a transformation in employer strategy. However, the issue may not be that employers have suddenly become more sensitive to external pressures, but that there has always been adaptation of employment policies and practices to external conditions (Gazier 1998; Rubery 1994). The effectiveness of ILMs in insulating employees from external conditions in the past was, arguably, contingent
upon a particular juncture of relations between capital and labour, as well as on a particular set of economic conditions in the wider labour market. As these external conditions have changed, organisations have faced growing pressure, and new opportunities, to dispense with, or adapt, long-standing employment policies. By incorporating the external labour market, this approach avoids the mistakes of traditional studies of ILMs. There studies were so concerned to open up the ‘black box’ of the organisation that they neglected the influence of the broader labour market. More generally, the approach responds to Hyman’s warning that:

An exaggerated emphasis on the labour process as the exclusive terrain of capital-labour relations can encourage an oversimplified conception of employer strategy (1987: 35).

The study of the changing form of ILMs as a result of internal and external conditions can also contribute to a more complete analysis of employment problems, such as low employment participation, rising wage inequality and skills shortages (Osterman 1984). For example, a shortage of skilled labour may reflect a failure of training institutions, or problems in the design of ILMs where limited promotion opportunities discourage employees from undertaking training. The next section lays out an analytical framework that seeks to respond to this broad research question.

A Framework for Understanding Change in ILM Structures

In the context of an increasingly uncertain economic environment the task of designing and implementing managerial policy is becoming more and more complex. This is exacerbated by a weakening of national regulatory and collective bodies in the UK and the accompanying widening of scope for managerial prerogative. Today the ability of managers to choose from a range of potential ‘solutions’3 to questions of workforce planning seems to have increased enormously. Moreover, fragmentation and deregulation have allowed managers, even within a single organisation, to consider and adopt different employment policies and practices as ‘solutions’ for different groups of workers and in different areas of work.

In the approach adopted here managerial choice is seen to be more contained. For example, following Grimshaw and Rubery (1998), we argue that internal and external labour market pressures mutually interact to shape employer strategy, generating a wide range of possible ‘solutions’ for different workforce groups. The particular policies of training provision, pay fragmentation, team-working or flexi-working-time arrangements will often be contingent on the changing dynamics of both the internal and external employment structures. Changes in the external labour market, relating to such factors as the social security system or the rate of unemployment and industrial relations legislation can play a strong role in the determination of new employment policies and practices. Conversely,
organisational employment and pay policies shape employee expectations in the wider labour market. Past internal labour market structures also help to explain both the particular form of changing employment policies adopted within an organisation and the distinctive response from the workforce. Thus customary norms around task demarcation, employer–employee relations, and pay differentials influence the design and implementation of changing employment policies and practices.

Recognition that employers face a variety of pressures and constraints as they attempt to transform ILM structures leads to an emphasis on the potential for conflict and contradiction within organisations. Furthermore, no one set of policies may provide a coherent ‘solution’. Despite greater freedom to exercise managerial prerogative, there is no assumption that employers operating individually are equipped to design new policy ‘solutions’, nor that these ‘solutions’ meet their intended goals. Indeed, in contrast to those studies which seek to identify the ‘one best way’ of workforce planning, we conceive of the different policies and practices as ‘different routes to partial failure’ (Hyman 1987: 30). As we show below, a focus on contradiction, and the subsequent potential for unintended outcomes, or ‘negative feedback effects’ (Cappelli et al. 1997) is well justified given the fragmentation of decision-making between central and local level managers, conflicting economic and political pressures and, at the core, the complex range of internal and external labour market conditions. This gives us a far better explanation of the uncertainty and often tentative ways in which managers talked with us about their jobs and the issues they face at work.

In the following section, we assess the research evidence from four case-study organisations. The discussion is structured around five selected characteristics of a traditional ILM: (i) recruitment into a permanent job; (ii) steady career progression from a low skilled to a high skilled position; (iii) internally integrated and transparent pay structures; (iv) protection against layoff; and (v) on-the-job training. In each case, particular attention is paid to the transformation of ILMs as traditionally experienced by workforce groups entering organisations in low level positions. The aim is to highlight examples from the different organisations where a particular internal labour market ‘principle’ (as characterised by Doering and Piore 1971) has been abandoned in order to illustrate both the role of internal and external pressures in the adoption of new employment policies and evidence of new areas of conflict and contradiction. Importantly, therefore, the intention is not to identify a transformation away from some notion of a coherent ILM structure within each of the four organisations. Instead, analysis of the case-study evidence attempts to demonstrate the implications of the declining use of one or more selected ‘principles’ of the traditional ILM model, in a context of growing use of policies such as delayering of job ladders, increased use of agency workers and ‘downsizing’ practices. The heterogeneous nature of change across the four organisations is
Box 1

The four case-study organisations

- 'Bankco' is a major clearing bank in the UK, although not one of the 'big four'. While constrained by a relatively high ratio of infrastructural costs to income, it has a reputation for introducing new financial products in the sector and has been quick to exploit the new technologies in information and telecommunications systems;
- 'Councilico' is a large urban city council. Operations stretch across a range of activities, including school and civic catering, community care, environmental health and indoor and outdoor leisure services;
- 'Retailico' is one of the leading food retail chains in the UK, supplying a range of around 40,000 products across more than 600 stores.
- 'Telecomico' is one of the largest providers of telecommunications services in the UK, providing a number of business and customer services in addition to maintenance of the telephone network. Recent development of mobile telephone services and the internet has contributed to high profit margins.

At each organisation, interviews were carried out with a number of managers representing different levels of the organisation and different areas of responsibility. In total, 36 managers were interviewed (seven at Retailico and Telecomico, eight at Bankco and fourteen at Councilico), with the main areas of expertise covering personnel/HR management and departmental (or divisional) management.

emphasised through additional attention to those organisations which have maintained particular principles of a traditional ILM, such as protection against layoff, albeit in a context of changed internal and external conditions.

**The Erosion of the Internal Labour Market: Research Evidence**

The empirical material is generated from a series of interviews with managers in four large organisations in the UK (Box 1). The organisations reflect a range of sectors (banking, local government, food retail and telecommunications), different compositions of skills, activity in a variety of product markets, and particular industrial relations histories. For ease of presentation, and to preserve confidentiality, we refer to the organisations as Bankco, Councilico, Retailico and Telecomico. Each organisation has been affected over the last decade by external and internal pressures to restructure the organisation of production and the management of their workforce. All four organisations are similar in that they have maintained trade union recognition and collective bargaining. Telecomico is a slight exception here, having withdrawn union recognition for its managers. Similarly, management in the three private sector organisations has each been active in dismantling many of the institutional arrangements associated with ILMs.
Councilco represents an exception here. In the local authority there is both political and managerial commitment to maintaining many of the institutions of the ILM, such as job security. Nevertheless, budgetary and other pressures on public services have made this difficult, creating problems for maintaining and developing a coherent internal labour market system. In spite of such differences we find managers in all four organisations seeking to find ‘solutions’ which match changing internal and external requirements. The relative strength of these two sets of pressures varies according to the nature of the sector and organisation.

(i) Recruitment into a permanent job

In the ideal-type model of the internal labour market, a stable employment relationship between employer and employee is a necessary partner to conditions of skill specificity, on-the-job training and custom in the workplace (Doering and Piore 1971). For the employee, permanency of employment provides a basis for accepting relatively low wages in the initial period of employment in return for prospects of career and pay promotion in the future. For the employer, hiring staff on permanent rather than temporary contracts is regarded as an efficient strategy which ensures they benefit from the increased productivity of the fully trained employee (Doering and Piore 1971).

An alternative set of economic principles or rationales has been proposed over the last two decades to explain the evidence of a rise in the use of temporary employment since the early 1980s in the UK (Gregg and Wadsworth 1995; Sly and Stillwell 1997). For example, it is argued that employers recruit ‘periphery’ workers (temporary or agency workers) in order to adapt to changes in product demand, while restricting traditional practices of training and promotion to a limited ‘core’ workforce (Atkinson 1984; Hakim 1987; Heather et al. 1996; Watson 1994). Similarly, the OECD argues that past conditions of employment stability ‘could no longer function under the new economic conditions’ and that greater use of agency work, in particular, allows the organisation ‘to systematically transfer the risks of production outside the enterprise’ (1989: 14).

A shift away from the policy of recruiting individuals into permanent employment is strongly evident in two of the four case studies – Bankco and Telecomco (Table 1). In these two companies job expansion during the mid-1990s was generated through the opening of new call centres, with recruitment being organised almost entirely through employment agencies. By 1998, agency work had come to represent a new port of entry into the organisation. Such workers constituted 8.5 per cent of the total Bankco workforce, with 94 per cent of them employed in the lowest positions (clerical grades 2–4). Across the four Telecomco workplaces visited the use of temporary staff was even greater, although the ratio of operators on temporary contracts to those on permanent contracts varied widely, from a high of 9 to 1 to a low of 0.8 to 1. However we found that Retailco had moved away from the use of
temporary contract staff, preferring to use flexibility of hours of work to flexible contracts as a means of matching staff to demand. Councilco provides an intermediate example. While in principle still committed to the notion of an internal labour market, budget pressures and new forms of performance indicators for council services had effectively often prevented it making offers of open ended contracts. As a consequence it had an ad hoc policy of either keeping vacancies open and requiring existing staff to provide cover or filling vacancies on a temporary basis so as to retain flexibility over its budgets. Here again however there was variation. At Councilco, and in contrast to the other two organisations, temporary staff were recruited directly by the local authority and not through an employment agency.

Bankco managers identified two major pressures driving the reluctance to recruit staff on to permanent contracts. First, the rapid pace of technical change in information and telecommunication systems had made future workforce planning highly uncertain (see, also, Marshall and Richardson 1996). Secondly, Bankco and the union had negotiated a ‘no compulsory redundancy’ policy that had the unintended consequence of increasing the risk of hiring staff on to permanent contracts. Managers thus had a further incentive to recruit agency staff. This reluctance to fill vacancies and hire permanent staff also extended to Councilco, because of a commitment, this time political, to no compulsory redundancies.

For Telecomco managers the use of agency staff was a key component in the flexible management of the volume of work; with the introduction of digital technology, computer systems calculated the expected volume of calls for each fifteen-minute period, and were programmed to use agency staff and overtime hours as variable inputs to meet fluctuations in the volume of calls. This policy was reinforced by corporate strategy to reduce ‘headcount’ figures of Telecomco staff to meet City expectations of company performance (measured as, profit per employee) which ruled out the recruitment of new staff on to Telecomco contracts.

Managers at the local ‘business unit’ level often questioned the ‘logic’ of corporate strategy. At Bankco, managers argued that over-reliance on agency staff had heightened the perception of job insecurity among both agency and permanent staff. Moreover, high turnover of agency staff represented a significant cost to the organisation through wasted expenditure on training. At Telecomco, the corporate ‘headcount’ policy generated considerable frustration at the local level. At one workplace, where the telecommunications system in place was the most advanced, the high ratio of nine agency workers to one permanent member of staff was accompanied by extremely high staff turnover. This rate for the most recent quarter at the date of interview was 32 per cent, representing an annual rate of 128 per cent. With a workforce of around 1,700 full and part-time staff, the figures involved are enormous. The manager responsible for modelling inflows and outflows of staff, argued that the company’s determination to meet external ‘headcount’ targets was impinging upon performance. This manager would have favoured a higher
proportion of permanent staff but internal conditions, particularly the unrewarding and intensive nature of the work involved, would still, in his view place a limit on this policy. An 'optimum' annual turnover rate would, according to the manager, still be at around the 60 per cent level:

Some turnover is good since it injects freshness – otherwise the place becomes stagnant because of the type of work being done.

According to managers at both Bankco and Telecomco, a significant number of agency staff enter the organisation with the aim of acquiring training and experience and then leave to seek better terms and conditions elsewhere. To these managers this represents a wasted investment to the organisation. As a consequence several of them had attempted to introduce policies to affect the situation. One manager, frustrated with the corporate policy which prevents the issuing of Telecomco employment contracts, implemented a loyalty bonus scheme 'as the next best alternative', designed to address turnover and attendance problems. At another Telecomco workplace, managers contracted with an agency that imposes a training levy, whereby if staff quit within a certain period they have to pay £300. At a third workplace, Telecomco managers were negotiating with the agency for it to provide staff with 'customer-focus' training prior to working at Telecomco. While this new arrangement might reduce expenditure on training, and thus reduce the need to recoup the investment through extended tenure of trained staff, it also raised problems of relying upon an external organisation to provide the particular 'brand' of customer service training that was a key feature of the company's competitive position.

Hence, the shift from a stable employment relationship to use of agency staff had raised new areas of conflict. On the one hand, the flexible use of agency staff had enabled managers to cut labour costs, match workforce planning with fluctuations in consumer demand and, in some cases, to devolve the 'management of hassle' to external job agencies (Peck and Theodore 1998). On the other hand, however, evidence from Bankco and Telecomco reveals a number of costs associated with the loosening of relations between employer and employee, bringing into question the effectiveness of 'solutions' which attempt to adapt neatly the form of employment contract with changing internal and external conditions.

Three areas of potential conflict can be identified. Firstly, managers voiced concern over the lack of loyalty among agency staff, as this was seen to aggravate turnover and sickness problems and thus to lead to wasted expenditures. In contrast to the assumptions underpinning the well-known core-periphery model the evidence here, as elsewhere, suggests that organisations may demand a certain level of loyalty from all staff (see, also, Rubery 1994). Secondly, despite changes in telecommunications technologies, high turnover, even among so-called periphery staff, still had cost implications which managers had taken steps to reduce. This suggests that any process of deskilling has not been complete and that low skilled jobs
at Bankco and Telecomco workplaces still retained elements of firm-specific skills that develop through employment continuity. Thirdly, the organisation risked incurring further long-term costs if the high use of temporary workers were to damage their reputations as attractive employers. Indeed, for Doeringer and Piore the potential costs of a change in recruitment policy are, in fact, seen as a sufficient deterrent to change:

The worker accepts employment with the expectation that the rules (which govern employment security and advancement) will operate in the future to improve his income. Such expectations assume a certain stability in the rules. … A violation of expectations through a change in rules affects the incumbent workforce and may induce sanctions against management. It also affects recruitment by calling into question the credibility of any offer of security which management might wish to make in the future. This acts as a deterrent to changes which reduce the security of the workforce. (1971: 33, italics original)

Clearly, these potential costs have not in practice prevented greater use of temporary workers at Bankco and Telecomco, but wider problems arising from the ‘violation of expectations’ around employment stability do exist. For example, a business centre manager at Bankco claimed that permanent staff involved in training agency staff had become demoralised since they were unable to benefit from following the development of ex-trainees within the workplace. High staff turnover may thus have adverse spillover effects on permanent staff; indeed, managers claimed that there was a direct link between use of agency workers and retention problems among more senior permanent staff. Designing policy to address these problems is not straightforward. The change in rules may have already re-shaped expectations of employment among both incumbent workers and potential entrants to the organisation and, even with a reversal in recruitment policy, Bankco and Telecomco may experience difficulties in rebuilding their reputation in providing job security and good employment prospects.

The situation at Councilco was somewhat different. The use of temporary workers had not reached the high levels of the other two organisations and therefore the reputation of Councilco as a provider of secure employment opportunities has remained intact. In fact, it may have been enhanced rather than diminished by these policies, largely because it enabled it to maintain its public policy of non-compulsory redundancies. However, its reputation as providing a good working environment was being called into question by its reliance on existing staff to cover for vacancies and to accept additional responsibilities without a permanent promotion. There was clear evidence that these policies were leading to loss of morale even though managers could and did rely on the workforce’s commitment to the provision of public services to enable them to manage on a below adequate staffing level. Whether this commitment can be relied upon in the longer term is open to question.

Once again the evidence reinforces the potential for new areas of conflict and the possible unsustainability of a transformed internal labour market structure. While
<table>
<thead>
<tr>
<th>Traditional ILM principles</th>
<th>Bankco</th>
<th>Councilco</th>
<th>Retailco</th>
<th>Telecomco</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Recruitment into a permanent job</td>
<td>High use of agency workers in a context of rapidly changing technologies and a no compulsory redundancy policy</td>
<td>Permanent contracts are the norm, but use of temporary contracts, unfilled vacancies and temporary promotions to adjust to budget pressures</td>
<td>No use of temporary contracts or agency workers</td>
<td>High use of agency workers in a context of fluctuations in consumer demand and corporate strategy to reduce ‘headcount’</td>
</tr>
<tr>
<td>(ii) Steady career progression from low skilled to high skilled positions</td>
<td>Delayering of job ladders with the shift from branch to call centre banking; training policy of horizontal multi-skilling; deskilling of entry level jobs</td>
<td>Job levels removed in several departments (e.g. school catering and community care); limited vertical progression of low skilled staff; high inter-divisional mobility of managerial staff</td>
<td>Delayering of job ladders; competitive selection for internal training required for promotion</td>
<td>Delayering of job ladders; deskilling and separation of job functions by skill reinforced by new technologies</td>
</tr>
<tr>
<td>(iii) Internally integrated and transparent pay structures</td>
<td>Separate pay systems at different workplaces; recent harmonisation has reduced traditional levels of working time premiums</td>
<td>Integrated pay systems maintained and reinforced; pay cost reductions linked to working time and contractual arrangements</td>
<td>Integrated pay system maintained; low pay rates and limited career progression offset by loyalty bonuses (share scheme, etc.)</td>
<td>Pay system fragmented by type of contract with agency workers paid lower, local rates</td>
</tr>
</tbody>
</table>

Table 1
Changing characteristics of ILMs in the case study organisations
| Organisation | Traditional ILM principles | Induction training
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Telecom</td>
<td>(iv) Protection against layoffs</td>
<td>High use of agency staff to protect permanent staff; recruitment freeze</td>
</tr>
<tr>
<td>Retailco</td>
<td>No compulsory redundancy policy requires staff redeployment</td>
<td>Induction training reduced by one week with new technology</td>
</tr>
<tr>
<td>Councilco</td>
<td>No compulsory redundancy policy requires staff redeployment</td>
<td>Responsibility for training devolved to individual staff through formalised on-the-job training</td>
</tr>
<tr>
<td>Bankco</td>
<td>No compulsory redundancy policy requires staff redeployment; recruitment freeze; outsourcing of bulk processing and IT functions</td>
<td>Mix of training provision across departments (e.g. NVQs in catering, 12 day induction for home helps)</td>
</tr>
<tr>
<td>(v) On-the-job training</td>
<td>6-week induction and NVQ training for call centre staff; proposal to individualise further training</td>
<td></td>
</tr>
</tbody>
</table>

Downloaded from wes.sagepub.com at Cardiff University on June 28, 2012
use of temporary workers may appear to meet the external pressures of fluctuating consumer demand, greater accountability for public budgets and service provision, or City expectations of headcount levels, it does not fit neatly with various conditions and practices within the organisation. Moreover, if, in the long term, the organisation needs to adapt recruitment policy in response to further external changes, it may be hindered by the adverse impact on expectations of employment among labour market participants.

(ii) Steady career progression from low skilled to high skilled positions

Within the classical ILM model, job ladders are highly regulated for particular ‘families’ – or ‘clusters’ (Dunlop 1957) – of jobs, typically establishing different patterns of internal mobility for different occupational groups. A vertical line of career progression is established where work within one job provides the required experience and level of skill for the job at the next level. This structure generates ‘natural skill progressions’ among jobs in a cluster and ensures that workers are fully trained by the time they are promoted (Doeringer and Piore 1971: 57–9). For the employer, this system is an effective means of capturing the benefits of on-the-job training, as acquired skills are applied to higher-level tasks. For workers, regulated and transparent paths of internal mobility not only facilitate career advancement based on acquisition of skills and experience, but also introduce a degree of certainty in the design of long-term plans and underpin realistic expectations around improvements in living standards.

Evidence from a number of studies suggests employers have transformed traditional career structures. Firstly, job ladders have been ‘delayered’ in an apparent effort to improve communications among staff (Collinson and Collinson 1997; McGovern et al. 1998; Purcell and Hutchinson 1996; Redman et al. 1997). However, the ‘delayered’ organisation may offer few opportunities for employees to carry forward the skills learned on one job to the next without substantial training and a lengthy period of adjustment. Secondly, the focus of training policy has switched from investment in technical skills to ‘generic competencies’ (Cappelli et al. 1997; Senker 1996). However, the emphasis on ‘generic’ competencies may reduce the ‘natural’ linkages between vertical levels of jobs.

All four case-study organisations have delayed job ladders by ‘dis-establishing’ management and supervisory functions or by outsourcing job tasks (Table 1). While managers are keen to highlight improvements in communication between layers of staff, the most direct effect of the flattened jobs hierarchy has been to remove the architecture necessary for career progression. The weakening of the regulated job ladder, which allowed for steady career advancement through incremental promotional steps, means that employees at the lower level of the jobs hierarchy now face, what one manager described as, a ‘quantum leap’ to the next level.
At the workplaces visited, delayering practices have led to the presence of just two or three broad levels of employee. At Bankco, expansion of employment in call centres and the closure of high street branches has completely transformed traditional job ladders, from a system based on steady acquisition of banking skills to a relatively flat structure of clerical, team leader and managerial grades. At the personal customer services centres, 87 per cent of all staff are employed on clerical grades as ‘customer service operators’, 12 per cent work as team supervisors and the remaining 2 per cent as managers. At Councilco, a broad range of job grades have been ‘dis-established’ across a number of departments, including community care and school catering. At Retailco, categories such as ‘general assistant supervisor’, ‘assistant department manager’ and ‘department manager’ were abandoned a number of years ago, removing an important set of intermediary levels. At two stores where data were collected, 94 per cent and 95 per cent of all staff were employed across five grades as general assistants, and the few remaining staff occupied managerial positions. Finally, at Telecomco, restructuring of operator grades in 1988 removed positions of ‘senior operator’, ‘assistant supervisor’ and ‘chief supervisor’ as intermediate ranks between operator and team manager (see, also, Batt 1996). At two call centres where workforce data were collected, the proportion employed as advisors was 85 per cent and 92 per cent with the remaining staff employed as team managers, support officers or centre managers.

The adverse impact on promotion opportunities was acknowledged by a number of managers interviewed. One Retailco store manager argued that delayering was a mistake:

The promotional leap is too harsh for many general assistants. A lot of staff get frustrated with this leap. Few staff feel they can do it. [The training programme] is a big investment. We don’t just throw anyone in it.

In the same vein, a manager at Bankco argued that:

[Bankco] now seeks to overcome retention problems by putting in place a clear career ladder through the centres. This should overcome the boredom problems of today, as well as keep hold of the managers of tomorrow ... [However], one problem that persists is the gap between ‘team leaders’ and ‘team members’.

At Retailco and Bankco, the limited opportunities for career progression were recognised as a central factor underpinning retention problems and each organisation has responded by attempting to adapt employment practices around the transformed job structures. Retailco introduced a variety of training initiatives in an attempt to fill the skills gap between the level of general assistant and section manager. Each of the three stores visited had attempted to implement NVQ training for general assistants but, once national funding and the external provision of NVQ assessors were withdrawn, the strategy failed due to problems of assigning section managers the role of trainers. As one store manager put it:
These managers are either not willing, competent or available to act as mentors, and if section managers don’t want to do it, it’s not going to happen.

The abandonment of NVQ training means that many general assistants, who were recruited on the verbal promise of training opportunities, were still waiting for their training. Retailco has since developed its own career advancement scheme that runs over a two year period. Internal competition is intense, as the scheme is the only means of internal progression and there are very few places: at one store just seven general assistants were on the scheme out of a total of 184. Classroom training covers topics such as ‘managing resistance’ and ‘teambuilding’. There is no formal education in retail management. Instead, these skills are learned by acting as ‘buddy’ to a section manager and by providing sickness cover, for example. Once trained the individual is free to apply for vacancies at any of the Retailco stores. However, there is no guarantee of promotion on completion of training, nor is there any associated pay rise – despite the fact that the individual may continue to act as ‘buddy’ and thus take on additional responsibilities. Indeed, managers acknowledged this discrepancy, but argued that demonstration of commitment to the organisation in the absence of financial incentives was an important factor in successful career advancement. At the time of interviews, the upswing in the UK economy meant that the absence of automatic links between progression and training was unlikely to generate tensions among staff as there was a sufficient number of vacancies. With a slowdown in consumer spending, however, these tensions may come to the surface among staff who have completed training programmes and take on extra tasks, yet still receive the same rate of pay.

At Bankco, managers have attempted to overcome retention problems by encouraging employees to gain experience across the different call centres, stressing the benefits of multiple skills, and establishing a job ladder across call centres. It is not clear, however, that this initiative addresses the skills gap between customer service operators and team supervisors. For managers, the practice of ‘multi-skill’ staff allows the organisation to match the pressures of changing customer demand across the various divisions of the bank. However, problems may arise if employees interpret opportunities for multi-skill as simply an exercise in horizontal career mobility which does not increase opportunities for vertical career progression. This could even raise turnover as employees identify external career paths in different organisations.

Alongside delayering, there is also evidence of a change in skill requirements of entry-level jobs in the case-study organisations, broadly representative of a shift from ‘technical’ to ‘generic’ skills (Table 1). Where job functions at the next level of the job ladder have not been changed, the reduced need for skills or credentials for entry-level jobs widens the gap between levels and, in the absence of appropriate internal training provision, reduces prospects for steady career progression. According to the training and development manager at Bankco:
Junior staff employed in branches have suffered a real diminution in the range of job tasks … The staff will know how to smile, how to sell products – but not how to explain problems with cheque processing.

In both Bankco and Telecomco, however, it is the expansion of call centres and the automation of job functions that explains much of the changing form of the internal labour market and recruitment policy. As the Head of Group HR at Bankco told us:

Now it's almost as if we need anybody but bankers. Competition for personnel are not other banks, but other call centre employers.

These new organisational forms constitute the most obvious example of work that previously required technical knowledge but which now consists of dealing with customers using a predetermined formula (Bain and Taylor 1999)

Despite similar (digital) technologies, however, different employer strategies have influenced the extent to which job functions have been deskilled. At Telecomco, there is evidence of a Taylorist-style separation of job tasks and deskillling. Arguably, with a large proportion of staff on agency contracts (see above), managers face few hard incentives to design variety into the work. However, the dismal nature of the work appears to be taken for granted. With the prospects of a new voice-technology system, Telecomco aims to develop a new four-level grade structure for call centre operators to reflect the difficulty of four identified types of query. Managers are confident that the new system will generate significant cost savings by reducing the need for more experienced (and more expensive) commercial operators.

Telecomco managers also highlighted how the introduction of the new technology is managed around particular strategies of work organisation. IT software contractors were encouraged by ‘user groups’ to cut down training time required for new telecommunications systems and to make the system ‘more exciting’ for the operators. The latest system reduced initial training from two weeks to one week. Evidence of the deskilled nature of the transformed job function came from the reactions of older operators who complained that because of the new prompting system, their knowledge and capacity to remember facts were no longer necessary and therefore would no longer be recognised or valued by the organisation. For Telecomco, the benefits came from faster call handling time, enabling staff to respond to a greater volume of calls.

Managers at Bankco are less optimistic about the efficiencies to be gained from excessive separation of job functions through automation. Their aim is, in contrast to Telecomco, to redesign jobs alongside the introduction of new technology to improve job variety and reduce the risk of generating low morale and, ultimately, higher turnover. One Human Resources manager expected all staff to be able to deal with the full range of calls, from the simple to the most complex query and, with the introduction of voice technology, the aim was to maintain the diverse range of calls
received by staff and to encourage a multi-skilled environment with a minimum handover of calls from one person to another. Crucially, this attempt to minimise the deskill impact of the new technology was also seen to be of benefit to the customer, and thus to the organisation. The aim was to reduce the amount of customer 'waiting time' as calls are switched from one operator to another.

These examples show that the policies of delayering and deskillung may provide opportunities to take labour cost out of the system, but generate their own problems and contradictions. While past job ladders provided lines of ‘natural skill progression’, ‘delayering’ means that employers can no longer expect the training and experience required for one job to have occurred in the job below it. Lines of communication among staff may have improved, but organisations have to face the choice of either investing in further training, or increasing the use of external recruitment to fill high-level positions. Provision of training for all staff in low-level jobs is costly given the skewed distribution in many workplaces, but offering limited training opportunities to only a select few may fuel expectations of career development which can not be met. The use of external recruitment as a substitute for internal training may also represent a high risk strategy as organisations have less control over external labour market conditions so that the ability to meet skill needs is contingent, in part, on whether the organisation is able to keep up with external pay rates. Moreover, the absence of co-ordinated pay-setting creates the possibility of pay spirals for skilled staff if labour markets tighten.

(iii) Internally integrated and transparent pay structures

Internal labour market systems are expected to provide integrated job and pay ladders with clear pay promotion paths to match the upward skill or career progression. Whether or not these structures are negotiated and maintained by collective bargaining or by managerial decision, internal labour markets have been associated with highly codified pay structures which limit the scope for managerial discretion and set internally consistent criteria for the system of internal wage differentials (Doeringer and Piore 1971).

This aspect to internal labour market theory has perhaps been the least directly applicable to the UK context because of the tendency for UK companies to have separate pay systems and structures to cover different groups of workers, thereby contravening the principle of internally consistent pay structures. Paradoxically the impact of equal pay legislation over recent years has been to push organisations towards internally consistent pay structures as a best line of defence against equal pay claims (Grimshaw and Rubery 1995). This pressure has acted alongside pressures towards more fragmentation of pay determination to enable organisations to develop a ‘core-periphery’ pay strategy that exploits external labour market opportunities to reduce pay levels at the bottom or to raise pay at the top end of the job hierarchy.
This fragmentation of pay structures has been in part associated with the decline of collective bargaining and the increasing scope for managerially determined pay, at least for specific groups of staff. However, in the case of the four organisations studied here, there has been no explicit move away from collective bargaining, except for managerial staff in Telecomco. The maintenance of the institutions of collective bargaining across the four organisations has nevertheless been associated with very different management strategies towards the restructuring of pay systems and pay hierarchies which in turn have been related to a range of policies with respect to work reorganisation, change in recruitment policies or changes in working-time systems.

Changes to actual pay levels are always the most difficult policy for an employer to impose on an existing workforce as attachment to current pay levels is always strong. It was for this reason that Bankco adopted two different policies with respect to pay for its two main customer call centres. The first centre was staffed primarily by existing staff redeployed from the branch network under guarantees of wage protection, while a second call centre set up more recently in 1996 was staffed primarily by new recruits, many of them with no experience of banking or of Bankco. It was this second call centre that enabled Bankco to move away from its traditional system of an integrated pay structure for all its staff and to make changes to premiums for additional and unsocial hours working. This strategy falls clearly into a textbook core/periphery strategy, albeit introduced with the compliance of the union. The rationale was that the call centre staff belonged to a different labour market where it was possible to recruit using different reward structures than those for traditional bank staff. However, internal pressures on career structures called into question the possibility of maintaining in the long term separate pay structures for different call centres. The desire to create the opportunities for career structures across call centres required Bankco to move back towards an integrated structure, but it determined to do this at lower terms and conditions than had prevailed in the past for core bank staff. Negotiations were entered into with the union and a major exercise undertaken to solicit staff opinions; finally a new wage structure was established across all call centres which reduced premiums compared to the pre-existing core bank staff agreement but did not follow the external trend across call centres and abolish all additional working-time premiums. Strategies of differentiating pay according to different external conditions or different levels of attachment to internal grading structures can cause internal problems, thereby requiring the reestablishment of harmonised pay scales. However the new system, as in this case, is likely to emerge out of a compromise which takes into account both changing internal requirements and external conditions.

Telecomco has adopted a different approach to fragmentation of pay systems and structures. Instead of introducing new systems in specific locations, Telecomco has differentiated between workers by type of contract. Temporary agency staff are paid lower wages than those on Telecomco contracts and indeed are paid different rates
according to local market conditions. These differences in pay and conditions reinforce problems of morale and motivation for temporary staff and also increase the difficulties of converting staff from agency status to Telecomco status. This fragmentation of the pay structure provides a cost based rationale for the City emphasis on headcount of Telecomco staff, but the hidden costs to the operation of maintaining the dualistic system are not considered. As with Bankco, the cost to employees of moves towards greater harmonisation and integration in the future may be an acceptance of lower terms and conditions for staff on Telecomco contracts.

Retailco has adopted in some senses a much simpler approach to the restructuring of pay and jobs than either Bankco or Telecomco. It has eschewed a policy of fragmentation of staff contracts but has embraced the policy of layering, such that most staff are paid on very similar hourly wage rates. The trade union fully supported and co-operated with this policy. However, this policy brings with it the major danger of high rates of job turnover as there is little in the way of career prospects to bind the staff to the organisation. To counter this problem Retailco has focused on other elements of the reward package, such as share options and profit-related pay (referred to as an ‘individual wealth plan’), which may encourage longer term commitment without requiring the company to offer higher benefits to all staff as would be the consequence of raising basic wage rates. One senior manager described the strategy as generating a ‘golden handcuffs syndrome’. Thus the traditional pay hierarchy based on job differentiation has been replaced by a much simpler wage structure matching the layered job structure but coupled with significant loyalty bonuses and company specific benefits such as share options.

Finally Councilco provides an example of an organisation where the structure of collective bargaining, coupled with the political commitments of the local council, have prevented the organisation, even if it should wish to, from moving away from an integrated and transparent pay structure. Indeed Councilco is in the process of having to develop an even more integrated pay structure as a recent national agreement has required all councils to move towards an integrated pay spine for manual and non manual staff, a development in part fuelled by concerns over equal value cases pursued by a public sector union for local authority staff (IDS 1997). However, at the same time as Councilco remains relatively tightly constrained by national collective bargaining and by local political commitments, it faces much greater ‘market testing’ for its provision of services and of course, major pressures on its overall budget. The main strategies open to Councilco to reduce costs through changes in reward systems have, as a consequence, been concentrated around working-time arrangements and working-time contracts. Such strategies have involved offering short hours contracts to various categories of staff such as school dinner ladies or temporary staff. Many are expected to work much longer than their contracted hours, but Councilco saves on costs of holiday and sick pay which relate
only to contracted hours. Other strategies involve changes to contracts to allow more flexible scheduling, or the use of temporary or part-time staff for hours which would otherwise lead to higher premiums payments for permanent full-time staff. For Councils, changes to pay and rewards systems to meet the new market challenges have therefore become primarily tied to changes in working time and contractual arrangements.

Thus all four organisations have moved away from the notion of integrated and transparent pay and job grading hierarchies and have adjusted, manipulated or even torn up the pay and grading structure in order to adjust both to external labour market opportunities or pressures and to changing internal skill, career or work organisation requirements. Each organisation has taken a very different route, reflecting different pressures and different priorities and, of course, the different policies and strengths of the trade unions. In each case, the policy approach adopted is closely integrated into other employment policy changes and pay considerations are both a reflection of and cause of other employment changes. Thus adjusting pay rates to market conditions does not provide a simple employment policy tool or maxim for two reasons; first pay policy and practice cannot be divorced from other dimensions to employment strategy and second, pay policy needs to take into account both internal and external conditions and requirements. This constant juggling of pay policy to meet these two sets of conditions provides a rich source for conflict and contradiction within any set of managerial employment practices.

(iv) Protection against layoffs

In the Doeringer and Piore ILM model, expectations of a ‘job for life’ are institutionalised within organisations through formal and informal arrangements. Typically, the degree of seniority is the main factor underpinning the relative level of job security; new workers have fewer rights to employment guarantees.

Expectations of job security were transformed during the late 1980s and early 1990s as employers, first in the US and then in the UK, responded to pressures to ‘downsize’ in an attempt to lower costs, improve productivity and increase profits (Harrison 1994; Morgan 1998). Whereas past studies of job loss identified changes in employment as the net result of changes in output and productivity (Massey and Meegan 1982), studies of the recent pattern of job cuts argue that they are often implemented as a proxy for productivity change, as firms attempt to mimic best practice. In part, ‘downsizing’ policies are seen to provide an indicator of an organisation’s short-run performance, in the absence of significant new investment in capital and, in particular, in recognition of difficulties in monitoring work productivity among growing areas of knowledge-based work in the service sector (Frenkel et al. 1995). For example, the twenty-two US businesses that proposed the largest ‘downsizing’ policies in 1995 saw the combined value of their share options ‘upsize’ by $36 million on the day the layoffs were announced (The Economist, 27
April 1996). Importantly, this emphasis on reputation in financial markets runs counter to ILM models of employer strategy which argue that opportunistic behaviour by employers is minimised by its potential negative impact on the reputation of the organisation among future labour market recruits (Thurow 1975; Williamson 1985). Reputation effects are clearly now considered to be more important in financial markets. Also, the long period of sustained relatively high levels of unemployment and a general downward shift in employee expectations of employment security may have made managers less cautious in their labour market behaviour.

In the wake of the ‘downsizing’ exercises of recent years, some organisations in the UK have negotiated single employer job security agreements (IDS 1998). However, such agreements do not represent a return to traditional job security arrangements but instead only provide conditional guarantees for those already in employment or those who comply with a process of organisational change, including downsizing (IRS 1997). Moreover, even where organisations are keen to re-establish a strong sense of staff loyalty through promises of job security following major job cuts, these guarantees may not be sufficient to remove the tarnish on the employer’s reputation.

Among the case studies, the management of staffing levels has taken three forms. First, headcount figures were manipulated through the hiring of agency staff. Second, organisations are increasingly pressured, or are opting, to externalise staff through outsourcing and contracting out. In both cases, not only is there a weakening of expectations of a job-for-life, but also new lines of segmentation among the workforce are introduced, around a temporary-permanent divide and a public-private split. A third form of policy represents an attempt to counteract the adverse impact of ‘dis-establishing’ jobs through managing the redeployment of staff across the organisation (Table 1).

Telecomco and Bankco have reduced staffing levels through a combined policy of ‘natural wastage’, a recruitment freeze and employment of agency staff. However, in common with Councilco, Bankco has attempted to maintain the traditional norm of job security for its core staff through adopting policies of no-compulsory redundancy. Where jobs are ‘dis-established’, instead of issuing layoffs management ask staff to consider early retirement or redeployment within the organisation - what Doering and Piore refer to as ‘posting and bidding’ arrangements (1971: 55). Where there are insufficient volunteers for early retirement, ‘surplus staff’ are redeployed in liaison with the central HR department. Despite the relative success in guaranteeing employment (as opposed to job) security, the new policies have proved difficult to implement at both organisations in the context of radical changes in the set of external constraints and pressures. At Councilco, for example, capping of council rents in 1997, along with the reduction of funds for repairs to housing, led to major job cuts. A target number of 400 reductions was identified and volunteers were
requested to take early retirement or a severance package. There were insufficient volunteers, and Councilco managers found it difficult to redeploy ‘ring-fenced’ staff. Part of the problem is that there is a great diversity of skills and variety of activities within Councilco which, in the context of an under-developed retraining programme, makes it very difficult to redeploy staff into areas requiring new knowledge and skills. As the Director of HR put it:

If you are a senior quantity surveyor, the number of alternative posts is very limited. You cannot simply transfer them to administrative posts.

In fact, the Director of HR argued that the policy of redeployment may even conflict with the central objective of Councilco, to provide quality services.

Members keep saying mutually exclusive things like wishing to maintain high quality services and to maintain jobs, which involves redeploying staff to other jobs not necessarily suited to them.

Also, while there is often resentment among the staff involved, there is also resistance from some departments to accept so-called ‘surplus’ staff since it overrides their own control over the recruitment and selection process, and may upset internal promotion paths for other members of staff.

At Bankco, large numbers of staff have recently been made ‘surplus’ through branch closures and many were redeployed across the organisation. Again, in common with Councilco, Bankco faces a number of difficulties in implementing the redeployment policy. In order to maintain a degree of spare capacity for staff redeployment, Bankco increased its use of agency staff (see above). The organisation faced ‘a difficult balance’ between offering security to incumbent staff and diminishing the scope of sheltered terms and conditions by hiring increasing numbers of temporary staff. At the workplace level, managers were asked to fill vacancies by prioritising ‘surplus staff’ rather than external applicants. However, where ‘surplus’ staff have high levels of technical expertise, there was often dissatisfaction with the next best alternative job position since it generally involved administrative work.

The longer-term consequences of ‘down-sizing’ policies are perhaps yet to be realised. Organisations may experience difficulties in the recruitment and retention of committed workers, not to mention productive investment in firm-specific skills. Even where organisations have renegotiated job guarantees in the form of redeployment policies, new conflicting tendencies are emerging. As Doeringer and Piore noted, arrangements for redeployment are likely to require provisions for retraining which, in the case of Bankco and Councilco, appear to be relatively underdeveloped. Moreover, redeployment across different departments of the organisation may upset internal departmental lines of career progression, and generate resentment among redeployed workers where there are limited opportunities to upgrade the job to the appropriate level of skills.
(v) On-the-job training

In the classical ILM model, career progression from low skilled to high skilled posts is contingent not only on the presence of a transparent job ladder providing for incremental advancement, but also on opportunities to learn through formal or informal practices of on-the-job training (Doeringer and Piore 1971). For blue-collar work, informal training largely involves learning through trial and error, instruction from more experienced colleagues or temporary assignments to more senior jobs. More ‘formal’ types of training typically involve ‘little more than a systemization of informal procedures, which leave the underlying nature of the training process unchanged’, such as apprenticeship programmes that involve the rotation of trainees through a range of different tasks (pp. 17–20). Managers are able to exploit these learning processes by arranging jobs in lines of promotion or increasing the physical proximity of workers. For employees, on-the-job training may have advantages over classroom training, since it can be tailored to individual learning abilities and has immediate relevance to the work (pp. 20–2).

On-the-job training is closely related to skill specificity and therefore raises a number of questions around the mobility of the workforce. In the absence of some form of sector or national level accreditation, narrow, firm-specific training makes the worker strongly dependent upon the organisation. With the erosion of traditional job ladders, which provided steady progression through the organisation, and the pressure on organisations to ‘downsize’, over-dependence on the opportunities provided within a single organisation may place the employee in a vulnerable position. Such observations have generated growing interest in ‘innovative’ training policies which attempt to ‘individualise’ career development. Recent studies in the human resource management and career management literature, for example, identify the rise of the so-called ‘opportunist learner’, the ‘boundaryless career’ and the ‘career resilient’ workforce (Arthur and Rousseau 1996; Ghazi and Jones 1997; Waterman et al. 1994). The argument put forward is that an individual employee is more capable of shaping their own career than the employer and, therefore, the withdrawal of the organisation from its traditional role of defining the contours of career development through programmes of training and lines of promotion is of benefit to the individual.

At Bankco and Retailco, there are attempts to substitute individualised training for traditional employer-led provision of internal training (Table 1). However, the case-study evidence suggests that such policies have been implemented as a knee-jerk reaction to an over-zealous flattening of the occupational structure and not as a coherent response to changing labour market conditions. At both organisations, the apparent aim is to put the responsibility for generating promotional opportunities in the hands of the employee. However, at Retailco, although most employees are invited to complete various take-home packages and self-development programmes, very few are ultimately selected to attend workshops on managerial skills.
One store manager commented that the take-home worksheets assist in weeding out those staff whose level of general education is poor, particularly in literacy and numerical skills – areas which are seen as outside of the up-skilling responsibility of the organisation. Hence, staff advancement largely relies on adequate general education, a policy which may generate problems if in a tighter labour market Retailco is less able to draw on recruits with relatively high standards of education.

At Bankco, managers aim to shift the focus of policy from organisation-led training to individual-led training and thus both to widen the range of skills acquired and to broaden the variety of learning methods. Provision of bursaries for individual training and skills development has not been used to constrain training choices to those schemes that provide skills specific to the organisation. In the context of a broader ‘partnership’ approach between the organisation and the workforce, managers are also keen to provide staff with transferable skills. The training and development manager explained that due to uncertainties of future technical change, such as the introduction of internet banking which may reduce call centre jobs dramatically: ‘we owe staff a duty to make them employable outside the organisation’. In this case, then, new training initiatives aim to arm staff with an individually designed bundle of transferable customer service skills in case of future job cuts.

In practice, the potential benefits of the ‘boundaryless career’ are unclear. Efforts by organisations to replace formal and informal training provision with the nebulous term, employability, are tied-up with attempts to reorient the content and responsibility for training. As an employer-led initiative, the individualisation of training appears to be driven by three factors: first, a recognition of the limited number of internal career opportunities for low-skilled staff due to past practices of delaying and outsourcing of ‘core’ functions; second, a desire to shift the risk and responsibility of constructing a career path away from the organisation to the employee; and third, by encouraging employees to carry out individually-tailored ‘exams’, individual learning initiatives provide employers with a cost-efficient means of screening candidates for promotion.

For the employer, therefore, these new strategies of training may provide a more cost-effective ‘solution’. The pursuit of training policies associated with a traditional ILM model may, in the context of relatively high levels of unemployment in the external labour market, an erosion of job ladders and a weakening of job security, be seen to impose excessive costs. The employer may be able to enjoy relatively good retention rates, despite the withdrawal from areas of training provision, if there is high unemployment or high levels of job insecurity in the labour market. Also, the delayed job structures reduce incentives to training first because of the absence of ‘natural skills progressions’ among jobs and secondly because the flattening of job structures provides an incentive to employees to quit which would in turn be strengthened rather than weakened by training if there were still limited opportunities for promotion. Changes in conditions internal and external to the
organisation may thus, from the employer’s perspective, conspire against the continuation of past policies of training associated with the traditional ILM model. The new ‘model’ may be unsustainable, however, given the reliance on relatively slack labour market conditions for employees at the bottom of the job ladder and the need to poach trained personnel from other organisations. For the employee, although the traditional ILM model may have been flawed, particularly in a UK context where skills acquired within the firm are unlikely to enjoy sector-wide recognition and thus provide limited mobility prospects, the combination of limited career opportunities and ‘individualised’ career development is likely to constrain mobility further by failing to provide a transparent path of advancement internal or external to the organisation.

**Conclusion**

In response to complex configurations of changing conditions in the internal and external labour markets, the four case-study organisations have implemented a variety of new or revised employment policies and practices. As a result, long-standing principles associated with a ‘classical’ model of an internal labour market structure have either been overturned, or, where maintained, raise new areas of conflict and contradiction in the context of a transformed set of external conditions.

For low skilled workers entering today’s ILM structures, the transformation in career path and opportunities for skills development is dramatic. Entry into the contemporary large organisation may require intermittent periods of employment as a temporary agency worker, rather than direct recruitment on to a permanent contract subject to a pre-defined period of probation. Internal job ladders may be horizontal rather than vertical, with greater emphasis on external opportunities for promotion (either in other organisations or, in the case of call centres, other sectors). Practices of ‘delayering’ mean that entry and exit through the organisation is more likely to occur at the same point of the job ladder, as there are limited opportunities for internal career progression. Finally, the volume of inflows and outflows through some organisations has risen with the use of temporary employment contracts, and job security has been weakened by policies of outsourcing and ‘downsizing’.

The turbulence and lack of transparency in internal and external labour market systems is reinforced by the uncertainties and inequalities passed on to labour market participants. As employers experiment with new ‘market-led solutions’, it is becoming increasingly difficult for labour market participants to predict with certainty their position within a segmented labour market of ‘core’ and ‘periphery’ workers. The boundaries between different groups of employees are being continuously redrawn, as the changing contours of the external labour market are embedded in the internal labour market and changes in the internal labour market shape the terrain of the external labour market. This uncertainty around employ-
ment prospects, both internal and external to the organisation, generates a cycle of conflicting pressures. Where employers are quick to capitalise on changing external ‘market’ conditions, new policies may conflict with internal pressures within the organisation. For example, excessive use of temporary workers in response to external conditions may violate the implicit contract around employment stability and firm-specific training, and thus impede the long term capacity of the organisation to adapt to technical change. Also, withdrawal of training provision in response to the excess supply of relatively high skilled labour is unlikely to be sustainable, given the increasingly costly reliance on poaching as a strategy of filling senior posts and prospects of a tighter labour market delivering fewer job applicants with readily obtained skills. Similarly, pay policies to take advantage of different external labour market conditions may compromise internal consistency and fuel internal rigidities.

Overall, while there is no assumption here of harmony or coherence associated with past ILM structures, the dismantling of key principles of the traditional internal labour market and the development of ‘market-led solutions’ raises new areas of tension and conflict within the organisation and reinforces the tendency for unintended consequences. Moreover, on aggregate the transformation of employment policies and practices may prove to be unsustainable in light of the adverse implications for the reproduction of skills and the fulfilment of career expectations. Managers showed a degree of self-awareness. Their new found freedoms to manage their employment policies and practices presented them with new dilemmas, often with no obvious or sustainable long-term solutions.

ACKNOWLEDGEMENTS
The authors acknowledge the financial support of the Leverhulme Trust and would like to thank the managers interviewed as part of this project. Revisions to an earlier draft benefited from comments from participants at the Work, Employment & Society conference (September 1998), the Editor of this journal and three anonymous referees. The usual disclaimers apply.

NOTES
1. We do not suggest that these practices are entirely new, or that they have replaced entirely policies associated with traditional ILMs. Rather, the intention here is to highlight these changes in order to draw out the potential consequences of a shift from one relatively regulated system to another with no clear ‘logic’ or set of principles.
2. This particular quote is also used as a key reference in the argument presented by Gazier (1998).
3. The term ‘solution’ is used here in a non-technical sense and does not exclude the possibility of unintended consequences, either positive or negative.
4. In this study, which draws primarily on qualitative research evidence, it is clearly difficult to establish retrospectively the degree of coherence of a previous ILM structure. Nevertheless, the evidence for each organisation does indicate that past systems were closer to the traditional ILM model than current systems. Hence, it is possible to identify a transformation in a direction away from the traditional ILM model.
5. The case-study evidence which we draw upon here is part of a three-year, Leverhulme-
funded study of changing employment policies and practices in seven large organisations. The results from three organisations – a large pharmaceuticals firm, an NHS Trust and a newspaper firm – are not reported. A subsequent stage of research has involved interviews with employees (around 200 across the seven organisations), which adds an important dimension to the implications of changing employment policies and practices. Importantly, however, the additional evidence does not change the main argument presented here. Forthcoming work will address the impact of the shift away from traditional ILM policies on different workforce groups across the different organisations. At this stage, the aim is to present our argument in the public domain in order both to contribute to the rapidly evolving debate on change at work and to establish a preliminary basis for forthcoming work from this ongoing research project.

6. For overviews of the banking sector see Cressey and Scott (1992); Storey (1995); for the local government sector see Keen (1994/95); Stoker (1988); for the retail sector see Burke and Shackleton (1996); for telecommunications see Ferner and Colling (1991).

REFERENCES


Damian Grimshaw
Department of Employment Studies
Manchester School of Management
UMIST, PO Box 88
MANCHESTER
M60 1QD

Accepted January 2000