

# **ENCLOSURE OF MANAGERS: THE INTERNAL LABOUR MARKET FOR TOP MANAGERS \***

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## **Abstract**

A theory of Internal Labour Markets (ILM) is presented, one that treats ILM as a strategy of enclosing labour, and involves three enclosure mechanisms, 1. long-term contracts, 2. financial incentives, and 3. symbolic incentives, the presence of these being based on four factors of enclosure: labour shortage, firm-specific skills, control and custom. The theory was used to derive hypotheses concerning ILMs pertaining to the labour of top managers and considering control and firm-specific skills as the reasons for enclosure. The hypotheses were tested on a sample of 403 top managers from listed Swedish corporations. The findings indicate top managers to mainly be subject to ILMs due to their having firm-specific skills. Control, though not excluded as a cause of managerial ILMs, appears to be of decreasing importance with increasing level in the hierarchy.

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**Key Words:** Internal Labour Market, Top Management, Control.

In terms of being an economic resource, labour has the advantage of being flexible, knowledgeable and autonomous. However, in a production process in which actions are coordinated, limits need to be placed on labour's autonomy. In a similar vein, since labour's being knowledgeable implies it to accumulate knowledge of the production process and skills relevant to it, these represent an investment both for the individual worker and for the firm which increase the value of labour and produce a rent (Marshall, 1890), which introduce the problem of how this rent is to be distributed. Thus, labour confronts the economic agents involved with problems of control and investments.

As has been pointed out (Carter & Carter, 1985), one strategy for managing labour, developed early in this century, is that of an internal labour market (ILM). An ILM is characterised (1.) by a job ladder which firm-outsiders only have access to at certain 'ports-of-entry', shielding the internal labour force from outside competition, and (2.) by wage distribution according to a firm's predetermined rules and procedures (Doeringer & Piore, 1971). The present paper argues that the special benefits of an ILM are that it encloses or confines labour, thus stabilising labour supply, enhancing the capacity of the employer to exert control, shielding the labour force from outside competition, and creating the basis for investments in the creation and distribution of internal rents. The paper's aim in theoretical terms is to present a model of the ILM as a strategy. This can be seen as contributing to knowledge of ILMs through distinguishing explicitly between factors that contribute to labour's enclosure and the different enclosure mechanisms utilised, ILM constituting one set of mechanisms of this sort.

In empirical terms, earlier literature in the area of ILMs has been mainly concerned with blue collar labour. However, white collar labour too has characteristics that would make ILM a suitable strategy for its enclosure, particularly when labour supply is limited and there are strong motives for control. A white collar labour force that could be expected to have an especially high degree of flexibility, knowledgeability and autonomy is that of top management. Its performance is hard to evaluate since with increasing hierarchical level the number of variables that influence performance but which the manager is unable to control increases. Since top managers, in order to perform well, must possess a high degree of freedom, one would expect them to be subject to an Internal Labour Market strategy, or more specifically to what has been termed the Managerial Labour Market (Fama, 1980). The present paper, which examines top management as a specific craft aims at contributing to empirical knowledge of Internal

Managerial Labour Markets through testing various hypotheses concerning ILMs using a sample of top managers from listed corporations.

An additional, subordinate empirical contribution of the paper is that it deals with a Swedish sample. ILM research is dominated by the use of US samples. This obviously involves the risk of generalising relationships that could well be exotic peculiarities to the US. There is thus a need for testing hypotheses concerning ILMs on non-US samples in order to ascertain what principles of ILMs that apply to countries generally. The paper provides the opportunity for making an ex post comparison with US results since it tests various hypotheses regarding ILM that have relevance to US conditions as well on an empirical data set consisting of 403 top managers from the Swedish corporations that are listed on the Stockholm stock exchange.

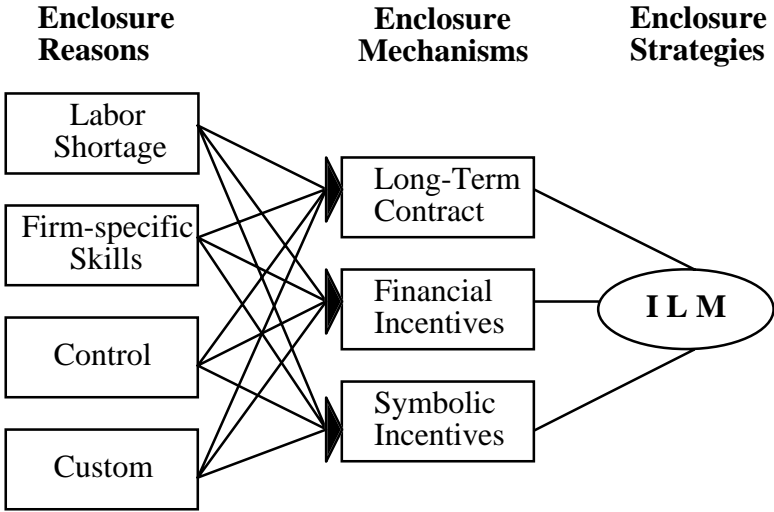
The paper is organised as follows: The next section reviews relevant literature and formulates a theory of the enclosure of managerial labour, one that distinguishes conceptually between the reasons for enclosure, different mechanisms of enclosure and the strategy of having an ILM consisting of a combination of different enclosure mechanisms. The section thereafter, concerned with top managerial labour, presents various hypotheses derived from the theory of ILMs, all of them testable and pertaining either to control or to the firm-specific reasons for the enclosure of managerial labour. The succeeding section deals with the methods employed and describes the dataset of 403 top Swedish managers. The result section presents the results of the ANOVA performed on the dataset. In the final section the findings are discussed and conclusions are drawn, the major ones being that the reason for enclosure is primarily that of skill specificity and not of control; that it is important to distinguish between different internal labour markets, also in the case of top management; and that enclosure strategies appear to decrease in importance as one gets closer to the top.

## **A GENERAL THEORY OF THE ENCLOSURE OF LABOUR THROUGH INTERNAL LABOUR MARKETS**

In a perfect labour market there are no wage differences when the market is in equilibrium. Noting the wage differences that clearly exist, however, some researchers have tried to explain them in terms of such non-market factors as information shortage due to technological deficiencies, or of such employee constraints as resistance to moving (Loveridge & Mok, 1979). Another set of explanations for wage differences in the labour

market has focused on market factors (Doeringer and Piore, 1971), strategies of labour enclosure being seen to create mobility inertia, one characteristic of this being the existence of wage differences. Among the most debated and highly investigated enclosure strategies are those of the Internal Labour Market (ILM) and of the Occupational Labour Market (OLM). The aim of this section is to summarise research on ILM in terms of an theory of labour enclosure (Fig. 1.). I firstly summarise the different reasons for the enclosure of labour and the different enclosure mechanisms utilised, as described in the literature. I then argue that one combination of these mechanisms is that of the enclosure strategy of ILM.

**FIGURE 1.**  
**A THEORY OF LABOUR ENCLOSURE**



One reason for the enclosure of labour is that of the employer’s facing a shortage of suitable labour (Bills, 1987, Pfeffer & Cohen, 1984). Once having recruited a worker, the employer attempts to tie the worker to the firm, thus reducing the risk of labour shortage.

A second reason is the presence of firm-specific knowledge and skills, such as when an employer needs labour that possesses special knowledge and skills of a sort that is not traded on the market due to the firm-specific character of the technology or the idiosyncrasy of the jobs or jobs involved (Althauser & Kalleberg, 1981; Baron, Davis-Blake & Bielby, 1986; Doeringer & Piore, 1971). This utility is created through formal

internal training and through experience gained within the firm. The firm-specific asset thus created represents an investment both for the employer and for the employee, one in which both parties have an incentive to protect the value of the investment made. The employer needs the specific knowledge and skills of the employee and the latter has made an investment of low value outside the firm. Each party endeavours, therefore, to tie the other party to itself more closely, creating an enclosure strategy in which the aim is to create mobility inertia through establishing labour market boundaries. Thus, the enclosure of labour is a strategy that can be used by both employers and employees.

A third reason for the enclosure of labour is the control enhancement it provides through creating an extended period of observation (Althauser & Kalleberg, 1981; Bills, 1987; Elbaum, 1983; Goldberg, 1981; Pfeffer & Cohen, 1984) and through the development of customs (Doeringer & Piore, 1971). If an ambiguous transformation process takes place in which where bureaucratic control, largely by means of standardisation, is impossible and in which output control becomes hazardous due to their being only a vague relationship between action and output, the only mechanism of control which remains is that of control through socialisation (Ouchi, 1980; Collin, 1993). Since socialisation represents the transmission of norms and values, the control mechanism of socialisation requires that there be an ongoing relationship so as to provide time for the employee to become familiar with norms, for the employer to observe the behaviour of the employee, and for the sanctions that the employer utilises to be implemented - or for collective sanctions for individual shirking to be carried out by fellow employees (Doeringer, 1988).

A fourth reason for the enclosure of labour is that of custom, i.e., of institutionalised actions in which the original rationale for enclosure has diminished in strength or is embedded in the structures of past actions and culture (Doeringer & Piore, 1971; Jacoby, 1990, Loveridge & Mok, 1979, Pfeffer & Cohen, 1984).

The employer can achieve the enclosure of labour by means of different enclosure mechanisms. One mechanism is that of highly specified, long-term contracts. Although such contracts succeed in enclosing labour, thus reducing search costs and exploiting investments in firm-specific knowledge, they have the inflexible and thus costly disadvantage of being long-term (Pfeffer & Cohen, 1984, Wachter & Wright, 1990). One possibility for avoiding these deficiencies is for the employer to only select those assignments that have a high probability of being stable and unchanged during the

duration of contract, thus creating the conditions necessary for writing highly specified contracts (Williamson, 1996). The other possibility is to write quite open, incomplete contracts. However, open-ended contracts have severe incentive limitations (Jensen & Meckling, 1976) and need to be supplemented by various incentives and control mechanisms, one of the latter being the mechanism of implicit contracts and thus of relying on other enclosure mechanisms.

Enclosure through financial incentives is created by paying workers higher wages than the external labour market do. There are two reasons for paying excess market wages. According to the career tournament model (Rosenbaum, 1984) it creates incentives to high performance in the firm since a dismissal involves the loss of the premium gained in the firm. Another possible reason for excess market wages is that described by the 'efficiency wage' hypothesis (Cappelli & Cascio, 1991), which says that wage differences reflect not only issues of incentive but also the existence of firm-specific skills. This specificity creates an internal rent that is distributed between the parties in accordance with their respective powers of negotiation and with considerations of incentives (Doeringer, 1986; 1988).

The creation of symbolic incentives such as advancement on a job ladder is the third enclosure mechanism (Baron, Davis-Blake & Bielby, 1986, Cappelli & Cascio, 1991). This creates status and informal appreciation within the firm and is thus specific to the firm. Not being transferable outside the firm, symbolic incentives are usable outside the firm nevertheless. This usability, such as that of status within society, strengthens the enclosure of labour. However, in contrast to financial incentives, which distribute a utility that is of ready use outside the firm, status inside the firm is something which can be gained in any firm, whereas status in society is dependent upon societal valuation of the firm.

These mechanisms are analytical in character and are probably seldom observable in pure form empirically. The Internal Labour Market (ILM), representing a combination of these three mechanisms, is a rational response to the reasons for enclosure listed above. An ILM typically consists of a job ladder with entry at the bottom, movement upwards and wage distribution according to seniority (Baron, Davis-Blake and Bielby, 1986; Wholey, 1985). The ladder creates opportunities for on-the-job training, increases the observability of the workers, signals proper behaviour, and creates commitment to the firm.

First, the ladder creates opportunities for on-the-job training, this producing assets that are firm-specific (Baron, Davis-Blake & Bielby, 1986, Doeringer, 1988). The distribution of the rent on these assets is open to negotiations between the employer and the employee. The latter has no incentive to invest in on-the-job training if the investment is non-tradable, i.e., firm-specific, and if it does not lead to a higher wage or some other advantage within the firm. A part of the rent has to be distributed to the worker. On the other hand, the employer has no incentive to invest in training if the return of the investment is paid to workers in its entirety. Accordingly, the rent is divided up between the two parties (Wachter & Wright, 1990). The career tournament hypothesis (Rosenbaum, 1984.) implies, however, that the rent does not need to be distributed to all the workers who invest in training. In a tournament, all participants take stakes in the game, the payoff being positively correlated with the height on the ladder. In comparing low-level positions, the wage differences between the firm and the labour market can be small since in participating in the internal career tournament the persons at these positions put their internal rent at stake. Thus, the presence of an ILM cannot be determined solely through observing of wage differences.

On-the-job training involves the transfer of knowledge between workers. An obstacle to this transfer is that more knowledgeable workers need to defend the market position their knowledge has allowed them to attain (Carter, 1982; Pfeffer & Cohen, 1984). This barrier-to-entry behaviour can be substantially reduced if vertical competition is excluded and only horizontal competition is permitted. This creates a barrier to entry structurally, the knowledgeable worker no longer undermining his/her market position through the transfer of knowledge.

Secondly, job ladders extend the observability of workers, thus improving the allocative competence of the firm in terms of human capital. A job ladder as an incentive structure involves internal recruiting so as to provide incentives for firm-specific investments and for the transfer of knowledge (Osterman, 1984). The effect of promoting long-term commitment to the firm is that the employer can observe employees over a long period of time, coming to know the capacity of each individual. Whereas adverse selection burdens labour market exchange, it is practically non-existent in hierarchical exchanges due to the superior knowledge on the part of the employer. However, although this reasoning implies only internal recruiting to be possible when using ILM, experience tells another story. This is because a job ladder is only one aspect of the hierarchical



structure of a firm and is restricted to the balancing of incentives and control on the one hand and the allocation of competencies on the other. The recruitment of a manager implies not only considerations of who is most competent as a manager, but also the risk of external recruitment, along with questions of the incentive effects of internal versus external recruitment.

Thirdly, the ladder creates opportunities for signalling proper behaviour, being a signalling device for both employer and employees. The employer signals through promotion of the employee what behaviour is appropriate in the firm. Employees, in turn, signal their loyalty through advancing on the ladder.

Finally, job ladders enhance commitment to the firm. Being trained by fellow workers, the individual worker tends to identify with relations to particular fellow workers and with the group. An economic explanation of this behaviour would be that commitment to the firm is the effect of the collective interest in protecting firm-specific assets. A psychological explanation could be that human beings tend to search for appreciation and for belonging to a group. Commitment thus becomes both the cause and the effect of group membership and provides the feeling of the group's having a common cause and destiny.

To summarise, an ILM is a response to labour shortage, to the need of firm-specific skills, to needs of control, and to custom. It is composed of implicit long term contracts, of financial and symbolic incentives, and is organised in terms of a job ladder with entry at the bottom. Thus, an ILM is an internal control and incentive device.

The concept of ILM has sometimes been extended in the literature, however, so as to include markets for individual crafts, termed horizontal or occupational labour markets (OLM) (Loveridge & Mok, 1979). These are occupational labour markets created mainly in the interest of labour (Wholey, 1985). OLMs contribute to the segmentation of labour markets, but in a different way than ILMs do, being based on formal competence and being characterised by horizontal movement between firms, thus being non-internal and not using job ladders. An OLM is a market in which labour is homogeneous, thus approaching the conditions of a perfect market. Both ILMs and OLMs contribute to the segmentation of labour markets but, as it appears, for opposite reasons. Although they need to be differentiated conceptually, there could be labour forces that are subject to market forces combining the characteristics of ILM and of OLM, as will be discussed at some length at the end of the paper.

## **HYPOTHESES OF INTERNAL LABOUR MARKETS FOR MANAGERS**

This general theory of ILMs will be transformed here to testable hypotheses concerning reasons of control and firm-specific skills for the enclosure of managers. The focus is on two of the four reasons for enclosure that are dealt with, as well as on a specific craft, that of management.

The general theory predicts that custom and labour supply influence the use of an ILM strategy. These two reasons will not be used to develop testable hypotheses, however, since the data material here cannot serve to test any hypothesis regarding either custom or supply. The reasons of control and firm-specific skills will be examined instead.

Internal labour markets have been investigated with establishments being the empirical object (Pfeffer & Cohen, 1984). Baron, Davis-Blake & Bielby (1986) argued for the centrality of job characteristics and found stronger support for ILMs being a response to job characteristics than for their being a response to characteristics of the establishment. Here, the theory is tested on a different empirical object, that of a population within a special craft, that of managers. Although studying establishments has the advantage that it allows the existence of an ILM to be measured directly, an ILM is difficult to observe, however easy it may be to define. One reason for there being difficulties in observing an ILM is that the establishment involved may change, and with this the character of the ILM. Another approach is to observe ILMs indirectly through observing persons who are subject to them. Restricting oneself to a single craft has the obvious advantage of its being easier to discover the enclosure reasons, if any, that there are.

The theory of ILMs will be tested on the craft of the management of a corporation, defined as consisting of the functional managers, the division managers, the vice presidents, the president (i.e., the CEO or the managing director) and the chairman of the board. Although the hypotheses employed are based on the theory of ILM that has been presented, the hypotheses are restricted to the management category and to its being subject to ILM influences. Most research on ILMs has been focused on blue collar labour, which is rather surprising bearing in view of blue collar workers' often being subject to bureaucratic control, to technical control and sometimes also to direct control (Perrow, 1986), there thus being only weak reasons for considering the ILM to be an additional

mechanism of control here. On the other hand, since top management is subject to control mechanisms that are less distinct, such as premise control through socialisation (Ouchi, 1980), it can indeed be thought to be exposed to an ILM strategy.

The frequency of change of firm that managers experiences will be used as an empirical indicator of the presence of an ILM. A low frequency of change of firm suggest there to be labour enclosure, i.e., an ILM to have influence. The frequency of functional change, in turn is used as an indicator of the presence of an occupational labour market (OLM), a low frequency implying a functional restriction being placed on careers. There obviously are other factors as well that influence the frequency of change, such as individual preferences towards changing an employer. However, the only aim here is to consider the influence of ILMs and OLMs on the frequency of firm change and of functional change.

The first set of hypotheses concerns the reason for utilising an ILM being the presence of firm-specific skills. Whereas knowledge and skills in law and business administration are non-specific, knowledge and skills concerning technological matters tend to develop into becoming industry-specific or firm-specific. Thus, one can expect to find those educated or functionally engaged in technological matters to be subject to ILMs, whereas those educated or engaged in matters of administration, information, law or personnel can be expected to be rather mobile across firms, indicating the existence of an OLM.

Accordingly, the following two hypotheses regarding the existence of ILMs can be expressed:

$H_{f1}$ : A manager with an educational background in law or business administration will tend to have a higher frequency of firm change than a manager with an educational background in a technological subject.

$H_{f2}$ : A manager who has matters of law, personnel, information, accounting or finance as his/her functional responsibility will tend to have a higher frequency of firm change than a manager with functional responsibility for technological matters or R&D.

Similarly, the following two hypotheses regarding the existence of OLMs can be expressed:

H<sub>f3</sub>: A manager with an educational background in law or business administration will tend to have a lower frequency of functional change than one with a technological background.

H<sub>f4</sub>: A manager with a functional responsibility in matters of law, personnel, information, accounting or finance will tend to have a lower frequency of functional change than a manager with responsibility for technological matters or for R&D.

The second set of hypotheses concerns the reason for using an ILM being that of control. Labour that produces an output that is hard to measure can be controlled by appropriate socialisation (Ouchi, 1980). In discussions of agency theory it has been suggested that the internal managerial labour market is one of the main mechanisms available for the control of general managers (Fama, 1980). General managers such as divisional heads and company presidents should in these terms be particularly exposed to enclosure strategies.

H<sub>c1</sub>: A general manager (division head or president) will tend to have a lower frequency of firm change than a functional manager.

One qualification needs to be made, however. A president often has to be picked from outside if a major strategic shift is planned, due to such a person lacking personal investment in internal networks and being unaffected personally by such a change. Accordingly, a company president could be expected to have a higher frequency of firm change than a divisional manager.

H<sub>c2</sub>: A company president will tend to have a higher frequency of firm change than a divisional manager.

Since ILMs are one of several corporate governance mechanisms (Fama, 1980; Ricketts, 1994), an association between ILMs and the main corporate governance mechanism, the ownership structure could be expected. Such an expectation is based on

the observation that the owner of a firm can have a strong influence on the use of enclosure strategies. Those corporations controlled by individual capitalists or by families, and thus tightly held corporations, tend generally to be small, which has been a variable used to explain the absence of ILMs (Pfeffer & Cohen, 1984), but those firms are at the same time presumably governed by persons engaged in the firm's daily routines, thus being knowledgeable principals with a capacity for direct control. If this is indeed the case, then a structural control mechanism such as an ILM is not needed for the control of management in tightly held corporations. The opposite being the case in corporations controlled by management. Thus, ownership structure and not size influence the use of enclosure strategies. There could be two reasons for this. One is that of the interest of an absent owner in creating an ILM for the sake of controlling the supply of management. The second reason is that of the manager's interest in restricting entry to the firm, thereby reducing competition within the firm. Thus, an ILM can be a control structure for which the interests of owners and of the managers coincide. It can thus be expected that managers in tightly held corporations should be less subject to ILMs than managers in corporations with absent owners are, i.e., in management-controlled firms.

H<sub>c3</sub>: Managers in tightly held firms, such as those controlled by a single capitalist or by a capitalist family, will tend to show a higher frequency of firm change than managers in firms with institutional or management control.

## METHOD

The various hypotheses concerning ILMs were tested on a sample of the personal records of 403 managers employed by listed Swedish corporations at hierarchical levels ranging from functional managers in a division to the chairman of the board. The data were collected at the end of 1994 by means of a survey in which a questionnaire was mailed to those 669 persons whom the annual reports of the firms in question designated as being managers, a group presumably encompassing the entire population of managers at the level in question in corporations listed at the Stockholm stock exchange. The survey asked participants for their personal records, such that they were to report every position they had, describing each in terms of function, hierarchical level, corporation, and time of entry and exit, and were also to report on their education. After one reminder, 424 surveys had been received, a response rate of 63,4 per cent. Due to missing values, the sample

included in the analysis consists of 403 individuals (60,24%). No significant differences between this sample and the population of managers at this level were found on variables for which data for the entire population were available (the variables of hierarchical position, functional affiliation, industry and gender). However, there is one particular sampling error that seems likely to have occurred. Due to loyalty toward their alma mater, managers educated at Lund University were probably more prone to respond. However, it is hard to believe that the school attended would influence the probability of being subject to ILMs.

The survey data was collected and coded by two graduate students, Jörgen Malmsten and Magnus Rönnlid, to whom I express my gratitude.

Two variables were used as indicators of ILMs and OLMs, respectively:

- ILM indicator: frequency of firm change per year of working life
- OLM indicator: frequency of functional change per year of working life

Frequency of change per year of working life, being the inverse of the average time spent in a given firm or function, is a measurement of mobility in which the effect of the age component in career development is radically reduced. Noting only frequency of change, or time spent in a given firm or function, would create a confusing variable involving both mobility and age.

The definition of a firm is crucial in observing internal labour markets. In fact, using frequency of firm change as a variable implies that the firm can constitute an ILM. I choose to define a firm as a concern, that is, as the collection of those legal firms that belong to, and are subject to, the authority of one single corporation. This means that a change from one company to another within one and the same concern does not count as a change of firm, it's being assumed that a concern constitutes an ILM. The alternative, that of considering establishments or legal firms as each constituting a separate firm, would be to transfer the definitional difficulties either to the factory system or to the legal system.

Work functions are defined here as being those of accounting (including budgeting) and finance, legal work, technological work, personnel work, information, R&D, production, marketing, strategy, computer work, work with environmental issues and non-classified work. Any move from one of those categories to another is classified as a functional change. In measuring the current functional position, the number of categories has been reduced to four in terms of the degree to which they involve firm-specific skills.

Legal and personnel work and information are presumed to be basically independent of the firm in question and are subsumed under a single category. Accounting and finance, having an intermediate degree of firm-specific skills since the art of budgeting and finance can differ markedly between different technology and different industries, represents a category of its own. Technological work and R&D, assumed to involve a high degree of firm-specific skills and knowledge, constitute a category of their own. All other separate categories of work are non-classified.

Educational background was classified as encompassing the areas of law, business administration, technology and non-classified. A general lack of highly specialised study program areas in Sweden motivated the subsuming of those not belonging to law, business administration or technology into the category non-classified.

In ownership terms, a firm was classified as being owner-controlled if a single family or a single capitalist was in control, the firm otherwise being regarded as subject to management control. The overall classification of firms was one based on a classificatory system developed by two independent researchers who showed an interrater agreement of 94%. Disagreements were solved on the basis of discussion, resulting in a single list.

Organisational level encompassed the levels of chairman of the board, president, vice president, president of a subsidiary, and functional manager.

## **RESULTS**

The data were analysed using ANOVA in order to test the seven hypotheses. Table 1. presents the results.

**TABLE 1.**  
**ANOVA TESTING HYPOTHESES OF ILM AND OLM**

n=403	Frequency of firm change	Frequency of functional change
<b>Educational Subject</b>	7,63****a (0,07) <sup>b</sup>	4,67** (0,20)
1. Business Administration	0,108 <sup>c</sup>	0,080
2. Law	0,134	0,053
3. Technology	0,078 (1., 2.) <sup>d</sup>	0,099 (2.)
<b>Function</b>	5,89*** (0,14)	9,481*** (0,90)
1. Accounting or Finance	0,102	,048
2. Law, Information, Personnel	0,138 (3., 4.)	,057
3. Technology, R&D	0,061	,062
4. General Manager	0,092	,097 (1., 2.)
<b>Owner</b>	1,202 (,09)	1,316 (,23)
1. Wallenberg Business Group	0,086	0,089
2. Handelsbank Business Group	0,101	0,700
3. Family & Capitalist	0,106	0,095
4. Government & Institutions	0,110	0,079
<b>Organisational Level</b>	1,35 (,10)	9,08*** (,06)
1. Functional manager	0,108	0,059 (2.)
2. Divisional Manager	0,088	0,109
3. Vice President	0,104	0,085
4. President	0,100	0,097
5. Chairman of the Board	0,083	0,055

a: F-ratio and F-probability († p<.1; \*p<.05; \*\*p<.01; \*\*\*p<.001)

b: Significance of Levene test for homogeneity of variances

c: Arithmetic mean

d: Significant difference between the mean and the mean indicated by number in parenthesis according to the Scheffe test with 0,05 significance level



Significant differences between groups were found in both frequency of firm change and frequency of functional change concerning educational background and organisational function. In addition, differences in frequency of functional change could be distinguished as regards organisational level.

As hypothesised, managers educated in law or in business administration and engaged in similar functions had a higher frequency of firm change than managers within a technological area. Managers engaged in the functional areas of law, information and personnel had a significantly higher mean frequency of firm change than general managers and managers responsible for technological matters. As predicted, managers with a background in law and functionally responsible for matters of legal work, personnel and information showed a significantly lower frequency of functional change. Thus, there is support for the prediction that managers with firm-specific skills tend to be subject to labour enclosure strategies, that is, to ILMs. Managers lacking firm-specific skills seem to be subject to occupational enclosure, thus being functionally restricted.

However, no significant difference in the frequency of functional change that hypothesis  $H_{f4}$  predicts was obtained. This indicates there to be no simple negative relationship between frequency of firm change and frequency of functional change. In fact, the Pearson correlation coefficient between the two was found to be 0.12. The enigma this presents is taken up in the discussion section.

Little support was obtained for the predictions based on the reasons for control, no appreciable difference between a president and a functional manager in mean frequency of firm change ( $H_{c1}$ ) being found. Presidents had a slightly higher mean than divisional managers, in line with  $H_{c2}$ , but the difference was not significant. No differences based on ownership were detectable, though the largest business group, consisting of the largest firms in Sweden, did have a lower frequency of firm change, suggesting the use of ILM.

## **DISCUSSION AND CONCLUSIONS**

The present study provided support for the following conclusions: 1.) that the Swedish managerial labour force is to be subject to ILMs mainly for reasons of firm-specific skills, 2.) that reasons of control is not an important factor in the use of ILMs in this context, and 3.) that an ILM and an OLM in no sense exclude one another in the sense of a person who is high in functional change, i.e., who is subject to ILM to a high degree, to be low in firm change, or vice versa.

Hypotheses derived from the notion of firm-specific skills were in large measure supported. Thus, the study corroborates earlier results interpreted as indicating that one reason for an ILM's coming about is that it facilitates the enclosure of labour in order to defend human investments, create incentives for investment and distribute internal rent.

Hypotheses aimed at testing the importance of control as a reason for the establishment of an ILM obtained no appreciable support. This result could reflect either an inferior research design or the empirical fact of control not being an important reason for establishing ILMs at a managerial level. The latter would refute Fama's (1980) claim of the prominence of internal managerial labour markets. Although the research design could indeed be inferior in the sense of the hypotheses and the variables being poorly conceived, the variables have probably not been poorly measured since the recording of organisational level is not open to any interpretative subjectivity, and since the ownership categories, although adjudged subjectively, were assessed with a high degree of interrater reliability. The hypotheses in question were also derived directly from the theory of ILM, making such an objection not very plausible. However, there is one factor that could possibly have led to the non-significance result, namely that a steady-state strategy were employed, a president would best be recruited from inside, resulting in a low frequency of firm change, whereas if the strategy or the environment were changing, the president would best be recruited externally (White, Smith & Barnett, 1997; Wiersema & Bantel, 1992). Although data on strategy is lacking, an inspection of the standard deviations obtained reveals that presidents showed lower standard deviation than functional managers, quite the opposite of what the hypothesis would lead one to expect. Thus, it appears unlikely that the results simply reflected an inferior research design.

Another basis for the non-significance of results relating to control could be that of control being a non-issue empirically in regard to the creation of ILMs. This could be particularly true of the managerial labour force, which has to possess a high degree of freedom and also controls both the incentive and the control system of a corporation (Hill 1985). For example, Elbaum (1983) found that ILMs were more likely to appear among production workers than among managers, due to production workers' strong needs for employment security and advancement. Reich, Gordon & Edwards (1973) would have added another reason, that of the reproduction of capitalist hegemony through the dividing up of the labour force. However, Pfeffer & Cohen (1984) found that firms engaged in production had a lesser propensity to form ILMs than non-producing firms,

suggesting producing firms to have mechanisms other than ILMs for controlling workers. Arriving at the same conclusion, Cohen & Pfeffer (1986) found that a control perspective could not predict the selection processes in manufacturing firms in the San Francisco area. However, there could be a rational explanation for such findings. Enclosure could well be the major reason for securing a supply of labour in the establishing of ILMs for blue collar workers, inasmuch as there are other mechanisms of control available within an organisation. Thus, there are reasons to believe that an ILM is only one of several mechanisms of control. Since no other controlling mechanisms were studied, such as those of option plans, the truth of the hypothesis cannot be tested. The non-significant results concerning the control hypotheses point to the need, however, of investigating further the role of ILM for managers as a controlling device.

What is particularly confusing and needs to be explained is why there are no differences based on ownership. Why do tightly held corporations, presumably controlled by the owner, expose their managers to the same influence of an ILM as loosely held corporations in which the incentive and control systems can be assumed to be controlled by management. One reason could be that a tightly held firm, generally small in size, has very few positions available, thus reducing a manager's possibilities for changing job or position within the firm (Pfeffer & Cohen, 1984). The resulting increase in employment risk can be paid for through higher wages or can be reduced through the positional insurance which an ILM constitutes. Accordingly, it appears that an ILM can be either an instrument for controlling management in the interest of owners, or an instrument for controlling the promotional system in the interest of managers.

Another reason for the non-significant results here could be that control in corporations is partly culturally dependent, which Jacoby (1990) argues for strongly. The managers in the present study being Swedish could be taken to imply that they are not subject to the intense controlling mechanisms that US managers tend to be exposed to since native Swedish managers have grown up in a society with a rather homogenous population, with norms and institutions that foster cooperation and feelings of common interest (Lane, Lubatkin and Collin, 1996). However, a more economic-rational hypothesis could be put forward too, based on the contention that institutions are rational responses to factors of long-term influence, i.e., to historical strata. Since during this century Sweden has had many large corporations that together have required a large number of managers, at the same time as the population is quite small, there is and has

been a severe managerial labour shortage in Sweden, the solution to this supply problem according to the theory of ILMs being that of enclosing labour. Thus, internal managerial labour markets in Sweden at all managerial levels may perhaps mainly have been established because of labour shortage, due to the need of reducing competition between corporations regarding managers.

There was found, finally, to be no appreciable difference in functional change between managers in technological field, who are presumably subject to ILMs, and managers in legal and other professional or semi-professional areas, who are presumably being subject to OLMs. This indicates that the internal and occupational labour markets are not self-excluding categories. On the contrary, they can be regarded as involving two separate dimensions, as shown in figure 2.

**FIGURE 2.**  
**CLASSIFICATION OF LABOUR MARKETS**

		<b>Differentiation</b>	
		<i>High</i>	<i>Low</i>
<b>Firm-Specific Skills</b>	<i>High</i>	Internal Occupational Labour Market	Internal Labour Market
	<i>Low</i>	Occupational Labour Market	Jedermanns Labour Market

Figure 2. is influenced by the findings of Wholey’s (1985), showing that in the labour force of a law firm the presence or absence of an ILM is dependent upon the degree of differentiation within the firm. Thus, figure 2 distinguishes between the degree of firm-specific skills and the degree of differentiation in labour skills. High firm-specific skills tend to lead to ILMs and high differentiation to OLMs. Yet when they coincide a combination of the two is created that could be termed the internal occupational labour market (IOLM). Those managers having technological matters as their area of functional responsibility could thus be subjected to both these forces and thus create an internal technological-occupational labour market.

Such a typology is an improvement on the more common differentiation between ILMs and OLMs without consideration of IOLMs (Loveridge & Mok, 1979). In addition,

it points to an interesting problem, that of what the top management labour market consists of. In terms of the classification shown in figure 2, top management appears to be close to the market for the non-firm-skilled and the undifferentiated labour force, termed Jedermanns Labour Market (a minor translation of the term ‘Jedermannsteilarbeitsmarkt’ in Lutz & Sengenberger, 1974). For example, the presidents of corporations studied showed a high degree of functional change (table 1.), being in this sense undifferentiated, and a high degree of change of firm, indicative of rather low firm-specific skills. Taken as a whole, this indicates, rather paradoxically, that presidents can be seen as being close to a Jedermann Labour Market. This has certain normative and theoretical implications. Different types of labour are subject to different forces and are thus best treated separately. Managers not yet undifferentiated in their skills could presumably be enclosed through the use of an ILM, whereas those close to becoming presidents, possessed of rather undifferentiated skills, are less easily influenced by ILMs and need, therefore, to be enclosed, mainly through financial incentives. This idea, that of ILMs’ having decreasing power of enclosure with increasing hierarchical level, may be one explanation for the existence of tournament reward systems. In a tournament, the rewards are very small at the bottom and very high at the top. Small rewards at the bottom could be an indicator of the effective use of an ILM, combined with small financial incentives. With an increase in level on the hierarchical ladder, on the other hand, ILMs tend to be reduced to the rule of providing financial incentives. Thus, the reward system of a tournament is a reflection not only of productivity and incentives, but is also a reflection of mobility and enclosure.

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