

THE INTERNAL LABOUR MARKET AND DEVELOPMENT OF HUMAN CAPITAL

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Abstract. *The formation of the theoretical concept of internal labour market (ILM) has begun rather recently under the conditions of both the subsiding of the orthodox Western neo-classic school which treated the firm as "the blackbox" (inputs on the entry and outputs on the outlet) and the strengthening of the institutional approach which interprets economic and labour relations from the position of the micro-level analysis methodology. The analysis of the goal of external and internal labour markets division, and the examination of the factors affecting the formation of internal labour market allow us to define the reasons for the creation of such a market. They can be characterized according to two available directions of advantages: a) the availability of advantages for the employers on internal labour market; b) the availability of advantages for the employees.*

Key Words: *Internal labour market, human capital.*

The formation of the theoretical concept of internal labour market has begun rather recently under the conditions of both the subsiding of the orthodox Western neo-classic school that treated the firm as "the blackbox" (inputs on the entry and outputs on the outlet) and the strengthening of the institutional approach which interprets economic and labour relations from the position of the micro-level analysis methodology.

P. Dorringer and V. Païor define "internal labour market" as an administrative organization where the remuneration for labour and the distribution of labour resources are regulated by the body of administrative rules and procedures. It should be distinguished from the term "labour market" or "external labour market" supported by standard economic theory because in "labour market" decisions concerning wage, distribution of workers and their professional education are taken directly by economic variables. The two markets are interconnected and the transition from one to another occurs on a definite level of the classification of working places that is the "entrance gate" of the internal market. Other working places in the internal market are filled up by promotion or transfer of

the employees. Thus, these places are protected from the influence of competitive forces of the external market. [1]

Nevertheless, the differences between the internal and the external labour market are quite big. In the case of the former, the production materializes the fulfillment of the law of demand and supply of the workforce with the help of various inter-firm procedures. In the case of the latter, the production blocks possible utilization of the law of the demand and supply of the workforce by using either normative or restrictive rules. Internal labour market is a complex of procedures which protect the employees at a specific enterprise from the competition of workers not appertain to the organization.

Thus, enterprises create their own internal labour markets along the external labour market. These markets are to a great extent isolated from the external competitive market and are not subject to its spontaneous fluctuations. The conditions of labour and its remuneration are regulated by rather stable administrative rules. They set their own standards of employment and release, remuneration of labour and promotion of the employees. Part of these rules is not connected with the level of the productivity of labour (e.g. promotion can be made according to the record of service at this very enterprise). The appearance of relatively isolated internal labour market is mainly caused by both the specific skills required for this very enterprise and the necessity for organizing vocational training directly at working places. It is also connected with the existence of informal inter-firm connections, determined by customs and oral norms.

External labour market is a socio-economic category that includes historically formatted, specific social mechanism (the model of demand and supply of the workforce) which realizes a specific complex of socio-labour relations (employment, utilization and exchange of the workforce) and helps establishing and observing the balance between the employers, employees and the state. Unlike the external, internal labour market is a system of socio-labour relations, limited within a specific enterprise where the remuneration of labour (wage) and its allocation are set and determined by administrative rules and procedures. Internal labour market is determined by the presence and the content of human capital at the enterprise, its movement inside the enterprise, the reasons for movement, employment level, the degree of equipment utilization, the availability of free, recreated and releasing working places. A given functional comparison helps to discover the goal of the division of labour markets and the reasons for internal labour market formation.

The goal for dividing labour markets on external (with respect to organization) and internal (within organization) is created by an obvious need in a mechanism, which connects the functioning of markets at every level to provide effective utilization of human capital. If the state does not reach the level of organization in the issues of social sphere regulation, it narrows the scale of state regulation of labour market greatly because major part of economically active population has the status of employed and is concentrated at internal labour markets of organizations. The absence of such mechanism does not allow state regulation policies touch the level of organizations, which leads to a spontaneous development of internal labour markets.

The analysis of the goal of external and internal labour markets division, and the examination of the factors affecting the formation of internal labour market allow us to define the reasons for the creation of such a market. They can be characterized according to two available directions of advantages:

1. The availability of advantages for the employers on internal labour market:
 - the advancement of the workforce inside the enterprise diminishes the costs of employment and selection of the employees, and decreases the risk of making a mistake when filling up vacant places;
 - retrenchment on labour costs connected with the retraining and the education of workers;
 - effectiveness of inter-firm investments into the specific (qualified) human capital;
 - retrenchment on transaction costs (costs connected with making deals on external labour market);
2. The availability of advantages for the employees:
 - employees get guarantees of employment and permanent income;
 - possibility of promotion;
 - the search for a new working place outside the enterprise takes much time and is quite expensive;
 - provision of social guarantees and social defense.

Wage-laborers (as the carriers of human capital) and employers (as the consumers of human capital) can be considered the subjects of internal labour market. Wage-laborers are the people selling their human capital on internal labour market, concluded an agreement with the employer and receiving wages as the equivalent of the labour force sold. [2, p.191] Wage-laborers of the organization should be classified in accordance to qualitative indicators of human capital, which determines their level of qualification.

Sale and movement of wage-laborers' human capital at internal labour market occurs in the processes of socio-labour relations. Inter-firm competition between employees – the workers of the same appointment level in specific organization department is one of the most important processes. The incentive for such competition can be either qualification (receiving a higher skill-category) or economic (receiving a higher salary, or bonus), or career growth (receiving a higher position).

Employers are legal or personal entities, irrespective of the form of ownership, who permanently employ one or more employees, offering labour agreement to the latter.

Traditionally, the following people are considered as employers on internal labour market: the director of the enterprise, who has, according to the organization charter, the right to officially employ the workers; chief managers of the departments of the enterprise. The latter conduct the direct management of the employees' labour activity during the process of realization of socio-labour relations.

Socio-labour relations between the subjects of internal labour markets are the components of ILM at any given level of its functioning (team, section, workshop, etc.) that have a legal status and the character of social and labour interrelations. It predetermines the possibility of the wide use of these relations as an instrument of effective utilization of human capital in ILM.

Objects of internal labour market are those onto which practical and economic activity of its subjects is directed. As such for ILM we define the following: first, human capital, as the form of the reflection of qualitative level of the workforce determining future level of revenue and incomes; and, second, forms and conditions of realization of human capital on internal labour market (qualification level of the employees, working places, forms

and conditions of employment, salary). A detailed analysis of the forms of realization of human capital on ILM will be made later.

The definition of the subjects and the objects allows finding out major functions of internal labour markets that it fulfils:

- 1) providing the workers with various social defense, and guarantee of employment;
- 2) provision of specific professional training and development of the workers' human capital in accordance to innovation changes in organization;
- 3) retention of the most valuable part of the workers, possessing a highly developed human capital;
- 4) maintaining the definite level of socio-economic conditions for realization of the forms of human capital;
- 5) provision of the equilibration of demand and supply of human capital inside organization.

So, internal labour market can exist in the form of intra-organizational market the object of influence of which is human capital (i.e. human capital market). Education and the professional and qualification level are necessary requirements for the subjects of this market. The level of human capital development affects the functioning of ILM on one hand, and the position of every particular worker in the organization, on the other.

The analysis of existing human capital investment models allows one to methodologically define the essence of a given investment process. Its basis is the understanding of the term "investments in human capital". Economic concepts of human capital (T. Schultz, G. Bekker, J. Kandrick, J. Mintser et al) interpret this notion quite widely and extensively and determine it, in general, as the costs which transform the skills and the abilities of a person and let him achieve some economic results: receive greater money income, produce the goods in bigger amounts and of better quality, on one hand. On the other hand, these are real financial inputs made by an entrepreneur (employer) that bring him economic profit, reflected in the growth of his revenues and growing competitiveness of his enterprise.

Investment as the instrument of the development of human capital under the conditions of internal labour market is a system of methodological and technical devices of realization of this process, which is embodied in corresponding operations and procedures. Thus, investment as the instrument of human capital development can be presented as an investment mechanism defined as a complex of appropriate connections and relations, determining investment measures (operations and procedures) in the area of human capital development in ILM. The structure of the human capital investment mechanism in internal labour market will be presented as the interrelations between the subject and the object of this process; the totality of methods and means of investment influence on the development of human capital; the characteristics and the principles of the analysis of the assessment of effectiveness of the input of investment resources.

Main production and functional role of human capital investment mechanism in ILM consists in the provision of the quality of functioning of worker's human capital aimed at the accomplishment of long-term structural shifts in different elements of human capital. The more large-scale are the effects of human capital investment mechanism under the conditions of ILM, the wider is the usage of qualities of human capital, the more brim-full they are incarnated in professional and qualification characteristics of the workers, the

greater is the output of high technology goods, which, in the very end, affects the growth of the wealth of the workers, the entrepreneurs, and the state in general.

The production and functional role of a human capital investment mechanism in ILM determines the goal of the functioning of this mechanism under production conditions which are:

- broadening of production due to full and effective utilization of the possibilities of human capital, available at ILM;
- preventing the moral and physical wear of human capital and minimizing its affect on the technical level of production;
- increasing the quality of the produced goods by using high professional, qualification and technological skills of the workers;
- implementing the measures to create positive social and production conditions for the realization of human capital.

Nevertheless, we should admit the existence of special features of human capital investment mechanism at ILM, distinguishing it from investment mechanisms of other types. These characteristic features are the consequence of the specificity of the investment in human capital. Thus, the following special features of human capital investment mechanism at ILM can be mentioned:

1. The effectiveness of influence of human capital investment mechanism on a particular worker directly depends on the length of the period of his working activity. The earlier the worker is involved in the human capital investment process, the sooner the revenues from the investment appear, though more qualitative and protracted investments bring a higher and more prolonged effect.
2. Human capital investment mechanism is affected by both its moral and physical wear under the condition of a specific ILM, and the process of its accumulation. Thus, the direction of activities of a particular human capital investment mechanism will be determined, first, by the extent of the natural wear (ageing) of a human organism and its psycho-physiological functions; second, by the degree of a moral (economic) wear in the consequence of the ageing of knowledge or changing value of the education acquired determined by ILM; third, the need in a human capital accumulation which occurs during the recurring retraining of the employee and the process of gaining the production-related experience.
3. The investment mechanism examined is affected by the specificity of a human capital accumulation process, i.e. the yield of a human capital investment reaches a definite level, limited by the highest frontier of a human labour activity (active working age), and then decreases sharply.
4. Human capital investment mechanism can have a "mutual multiplying effect". [3, p.50] Its crux is that characteristic features of human capital qualitatively increase during the investment process not just for those directly affected by the investments but also for those involved in indirectly (e.g. if the retraining of the employee is funded, then the professional characteristics of both the trained and the trainer improve; the result is that they both begin receiving a higher salary).
5. Any human capital investment mechanism under the conditions of a particular enterprise and its ILM will be specific and unique because both its character and

the types of investments in the workforce are determined by intra-firm socio-economic conditions and by intra-firm culture (traditions and values).

6. Being compared with other investment mechanisms in different forms of capital, human capital investment mechanism is determined by the highest effectiveness of the influence which, in turn, is determined by huge revenues from the investment in human capital. This circumstance has been fully proven in the concepts of human capital investment. [4,5,6, etc.]

Thus, human capital investment mechanism in ILM is the process that encompasses:

- 1) investment or investing (the term "investing" is closely connected to the term "funding" because the utilization of funds presupposes their preliminary formation. "Funding" is accommodating somebody a capital for the purposes of property formation, financial assets accumulation; "investing" is the utilization of financial assets);
- 2) the complex of practical activities (investment activities) in implementing the investments conducted by the subjects of internal labour market.

Human capital investing at ILM is the process that assumes the presence of both the object of the investing impact and the subject implementing this impact with the use of specific methods. The specificity of a given investment process under the conditions of ILM is that the owner of a human capital can be both the subject, the object, and the result of investing. This specificity is determined by the fact that qualitative characteristics of human capital are created at a personal (individual) level of a worker; his expenditures of labour and efforts of self-development and self-improvement play a crucial role in this process. But these expenditures are inevitably included in general process costs because the accumulated stock of knowledge, skills and other productive qualities of a man may be applied and estimated only during the productive process and under specific conditions of ILM. This circumstance proves the existence of objective interconnection between the objects of investment and its subjects who implement specific methods of investment impact.

The objects of a human capital investment are:

- 1) workers' education – the level of secondary, professional and higher education, ability of the workers for the professional retraining and qualification upgrading;
- 2) workers' health – the condition of full physical, mental and social welfare, reflected in a definite level of a person's health;
- 3) workers' culture – the complex of specific means, benchmarks, examples and norms of behavior of the personnel of a particular enterprise, reflected in every employee's cultural and intellectual level.

Distinguishing features of the objects of investing affecting the process of investing in any way are:

- the absence of any material base, intangibility and, at the same time, the ability to bring profit to the owner based on long-term rights and advantages which work for him as long as possible;
- the absence of a desire to sell these objects under normal conditions of the work of the enterprise and the functioning of ILM;
- the duration of exploitation, that allows taking into account the term of investment (e.g. the possibility of a long-term investment);

- the absence of useful tailings;
- the multi-purpose character of utilization, that allows using these objects in different sections of production activity (in the process of production of selected types of products, fulfilling the work or rendering the productive services, in the area of management, etc.);
- the impossibility to divide and extract any part of the property of the enterprise due to its intangibility.

The subjects of a human capital investment process are the people (investors) implementing the investing their own, borrowed or debt capital in the form of investments and providing their purpose utilization. Direct investors of human capital in ILM are: the employer (entrepreneur), the worker (a human capital bearer), government bodies, supporting the development of the enterprise, foreign personal or legal entities interested in the enterprise. Banks, insurance companies, brokerage businesses, and other organizations can be considered indirect subjects of investment activity.

The subjects of investment process act in the sphere of practical realization of the investments in ILM. This investment sphere includes:

- the sphere of human capital development where the investing in the objects of investment takes place;
- the sphere of innovations where the research and development potential of the workers is created and sold;
- the sphere of creation of the organizational and productive conditions of ILM where the sale of human capital occurs.

The subject of investment process in ILM determines the methods of investment influence on the objects of investments, proceeding from their specificity and profitability of investments. The mode of human capital investment can be defined as a system of devices, implemented in a definite succession during the investment process. The modes of investment are designed according to a thorough analysis of procedures (measures) and a reveal of the most suitable and economical way of investment influence.

Based on this definition, it is advisable to separate out major general methods of a human capital investment in ILM:

- the method of initial human capital investment – the system of procedures and activities used in the process of initial engagement of a worker in the conditions of a particular ILM (training, employment, adaptation, apprenticeship of the worker, etc.);
- the method of extensive investment - the system of procedures and activities used when the productive potential of the worker increases under the conditions of previous (permanent) production environment (the systems of public health, advanced training, measures of economic and social incitement, etc.);
- the method of reinvestment (intensive investment) – the system of procedures and activities used when free investment resources directed to the qualitative innovation perfection of the human capital that will be possibly used in future (public health, advanced training, development and perfection of specific skills and the level of intelligence, incitement, the formation of every worker's mission, intra-firm culture, etc.) are available.

The analysis of condition and development of internal labour markets of Byelorussian enterprises during last 15 years allows defining the following stages and chronology of this development.

Stage 1 (1991-1993) – the period of comprehension and initial adaptation to new rules and values of market economy. Internal labour market and human resource management in general were the shadow of economic strategy in most enterprises. The administration of enterprises was solicitous about searching for the ways of development under the conditions of lost economic connections after the break-up of the Soviet Union. Thus, the problems of internal labour market development and regulation seemed irrelevant. But it was this state when internal labour markets of Byelorussian enterprises conducted the most massive discharge of workers because of the reduction of the staff 1991 г. – 48,7%, 1992 г. – 55,4%. [8]. Such behavior of the employers was the objective market reaction to the conditions of socio-economic instability.

Stage 2 (1994-1996). This period is characterized by the formation of excessive employment shed at internal labour markets. This can be proved, first, by the fact that GDP in 1995-1996 declined for 7% and the number of the employed – less that for 3,2%. [9, p.351] Second, growing number of both part-time employed (1994 – 13,2%, 1995 – 19,8% from the average number of ILM staff), and the employees recorded as on administrative leave (1994 – 24,8%, 1995 – 36,4% from the average number of ILM staff). [8, p.105]

There began a "washing-out" of young and mobile workers in ILM, the renewal and professional growth of workers stopped. This was due to inability of the employers to create new working places and, thus, provide their full employment because of the decrease of investment in fixed capital that occurred in 1995 and 1996 (1995 г. – 69%, 1996 г. – 95, in comparison to the previous year). [10]

Stage 3 (1997-2000). Excessive employment in ILM continued (e.g. 41% of Mogilev industrial enterprises had excessive employment in 1997-1998). Excessive employment in ILM, in its turn, determines low level of unemployment in external labour market (1995г. – 2,9%, 1999г. – 2,1%). [11, p.265-266]. The methods of functional adaptation of quantitative number of staff: the transfer of the employees to a half day regime, widening practice of administrative leaves, backpays, increasing differentiation in wages, broadening sphere of informal relations between administration and the employees (e.g., according to author's observations, such instrument was used in 50% of Mogilev industrial enterprises) became major instruments of ILM regulation. The amount of remuneration of workers in ILM decreased to 78% to 1990 level what testifies to negative trends in correlation of the demand and the supply of human capital in ILM. Social and economic problems of ILM functioning in Belarus became one of the reasons why the insolvent (1997 – 17,3%) and unprofitable (1998 - 14,2%) enterprises appeared. [9, p.382-385]

But it was that stage when the administration of enterprises began to realize the necessity of the renovation of production, of the transition to producing more competitive goods, and, as a consequence, to the conduction of optimization and reorganization of ILM of the enterprises, to bringing the number of workers into line with the real need in them.

Stage 4 (2001-2003). The period of quantitative optimization of ILM personnel. The following indices testify of the optimization trends in ILM:

- 1) the dynamics of unemployment in Belarus (2001 - 2,3%, 2002 – 3%, 2003 – 3,1%) [11, p.265-266];

- 2) the coefficient of workers' turnover because of releases (2002 – 23%, in comparison to 1995 – 19,3%) [11, p.227];
- 3) the decrease of number of workers in ILM in every branch of economy of the Republic of Belarus: the total number of ILM workers in the end of 2002 was 3922,5 thousand people, and in the same period for 2003 it was 3919,8 thousand. Thus, the correlation between the employed and the released workers in that period (2002-2003) was 74,4% and 85,7% respectively (e.g. in 2000 – 94,1%) [11, p.227; 265-266];
- 4) the period of optimization was the period of the lowest need of ILM for workers (2002 – 24,4 thousand people and 2003 – 31,7 thousand) in the whole period observed (1997-2003) – e.g. the same index was 37,8 thousand people in 1999. This proved the fact that the employers did not want to activate the demand for human capital in external labour market, but preferred to solve the problems of the ILM on the account of the workers they had. [11, p.228]. Such optimization process was necessary for Byelorussian enterprises in order to survive.

Stage 5 (2004 – current time). This stage is still formed. The author's observations allow only taking stock of the trends formed without making any deep social and economic analysis of them because the time lag is insignificant, and the manifestation of these trends is unstable.

The development of ILMs of Byelorussian enterprises may be characterized from the point of the level of their formation: the domination of either primary or secondary ILM. By using the following instruments of analysis: the calculations of personnel turnover according to employment and release; the examination of the structure and the character of releases, and of the reasons for personnel floating; the comparative ration of nominal wage imposed; the dynamics and the structure of the personnel costs, etc; it can be stated that Byelorussian industrial enterprises were represented by both primary (e.g. the coefficient of hiring is higher than the coefficient of release) and secondary ILM in last six years (period examined 2000-2005). The enterprises with predominantly primary ILMs belong to such branches of industry as energy and fuel industries, ferrous metallurgy, construction materials industry, food, flour-grinding, groats and mixed fodder industries. Primary ILMs formed at the enterprises in these industries are characterized by a vivid effectiveness in their functioning (what is proven, for instance, by a stable growth of real wages). Unfortunately, major Byelorussian industries, those determining both its GDP and place in international division of labour, are represented by the enterprises with secondary ILMs: chemical and oil-chemical, machine-building and metal-processing, light industries. The enterprises belonging to such industries as glass and porcelain industry, microbiological industry, forest and wood-processing industry, medical and printing industries are characterized by the instability of their ILMs, which are severely affected by market competition.

If we examine the enterprises with primary ILMs in accordance to their regional location, we can admit the fact that the majority of such enterprises are situated in Minsk and Brest regions, and in the city of Minsk. From the point of view of the newest regional studies, social and economic development of these regions is considered to be the most advanced. This is also testifying to the fact of effective influence that primary ILMs of the enterprises of the regions make on economic development of the region as a whole.

CONCLUSION

Thus, the methodology of human capital investment in internal labour market of organizations under the conditions of market transformation can become a strategic basis for maintaining high professional level of the workforce.

Represented as such, the methodology of human capital investment is adopted to the conditions of post-Soviet countries. Besides, a human capital investment mechanism under the conditions of internal labour market of organization looks more individually-aimed and specific, for it can be used as a practical instrument in managing labour resources of organization.

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INTERNO TRŽIŠTE RADA I RAZVOJ LJUDSKOG KAPITALA

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Stvaranje teoretskog koncepta internog tržišta rada (ILM) započelo je sasvim nedavno pod uticajem kako povlačenja ortodoksne zapadne neo-klasične škole koja je kompaniju tretirala kao "crnu kutiju" (sa ulaganjima na ulazu i ostvarenjima na izlazu), tako i jačanja institucionalnog pristupa koji ekonomske i radne odnose tumači sa pozicije analize mikro-nivoa metodologije. Analiza svrhe podele na eksterno i interno tržište rada, i proučavanje faktora koji utiču na stvaranje internog tržišta rada, dozvoljavaju nam da definišemo razloge za stvaranje takvog tržišta. Oni se mogu okarakterisati prema dva dostupna pravca prednosti: a) dostupnost prednosti za poslodavce na internom tržištu rada; b) dostupnost prednosti za zaposlene.

Ključne reči: *interno tržište rada, ljudski kapital*