

## **THE SPLITTING OF LABOUR MARKET AND EMPLOYMENT ENTREPRENEURIAL STRATEGIES**

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**ABSTRACT:** *Internal structure of the labour market has a highly complex character, which enabled the formulation of conclusions as there is no a single scale labour market economy. Inside it is identify different sections. Market segmentation are represented by all splitting techniques of a population database and follow up a groups of components that satisfy a condition of classification, according to the criteria considered. Labour market segmentation is determined both by economic considerations, also the characteristics of the workforce (level of training, qualifications, job mobility) and institutional issues (regulation of employment, level of union organization). As such, there is barriers to transition from one segment to another job mobility occurs mainly within each segment and limited, between different segments, and wages are not the result of market forces free event, being the effect of social factors, institutional policies with specific expression of each labour market segment. Actual labour market segments are highlighted and analyzed by using several criteria: type of ownership, firm size, degree of organization of labour supply, etc.*

**KEY WORDS:** *labour market; market segmentation; the primary sector; the secondary sector; job mobility; companies' size*

**JEL CLASSIFICATION:** *O1*

### **1. INTRODUCTION**

The starting point for the theory of labour market segmentation is the admission of existence hypothesis of *dual economic system*, divided into two sectors - **the primary sector** (central) and **secondary sector** (peripheral) of large enterprises for companies subject to competition – between it manifests a relationship of dependency.

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Corresponding economic sectors, there are *specific segments of the labour market*, with "mobility barriers" and specific consequences for employees: a) **the primary labour market**, composed of the commitments offered by large firms and / or unions, and its characteristics can be summarized as: high wages, promotion possibilities and job security; b) **secondary labour market** defined by low paid jobs also unstable, and the existence of discrimination.

In general, *primary labour market segment is associated with stable component of demand for goods and services, while the secondary segment is related mainly to the variable component of demand*. Hence the temporal variation of demand for goods, from quantitative and structural issues, is one of the main drivers of market segmentation. However, segmentation is made in connection with *business size*. With adequate financial resources, large companies can promote broad-based, technology news, better working conditions, job stability. In large enterprises, higher level of syndication, which makes hiring and firing workers subject to certain restrictions. This certifies that here, a large proportion of workers belonging to the primary segment of the labour market and within firms there is a certain segmentation of the workforce.

In United States it has emerged in practice - and are reflected in theory - *three sectors of the economy*, which have specific events in the labour market: a) **the economy of the center**, representing the strongest sectors, including large enterprises, often, monopolistic and oligopolistic hold positions, have high productivity, high profits and high salaries, above the national average; b) **peripheral economy**, which includes small businesses, faced with strong competition - their products incorporate a lot of work, productivity and profits are lower and there is an almost total lack of syndication workers; c) **illegal economy**, lack of regular, including various forms of informal work, without achieving stable forms - and often illegal - with a total uncertainty for employees. Each of these labour market segments operates a specific manner and demonstrates the inequalities that exist between different uses of labour and different categories of employees and emphasize the importance of labour demand of firms that adopt its own strategy.

*Labour market segmentation is not limited to employees in large companies, it spreads to the economy level*. Segmentation process explanation to macroeconomic level including small businesses, which have an increased capacity to adapt, allowing them to determine the scope of the variable part of the demand for goods and services. However, small firms have a high flexibility of cost and are able to produce parts and accessories at low prices to big companies. In this way, it explains the existence of extensive networks of subcontracting by large firms, thus it provide their products manufacture of important parts. General configuration of the labour market is in fact the result of a balance between the interests of entrepreneurs and labour unions. Therefore, labour market segmentation can not be determined a priori as "good" or "bad." It is assessed only by the interests of both partners and creates a variety of strategies for both employers and for employees. Therefore, the labour market, fuelled by competitive forces, economic behaviour is a different asset, which each party seeks to maximize its utility, based on certain specific situations, but also anticipating future changes in the foreseeable general economic situation.

*Entrepreneur strategy – in order to maximize profits and increase flexibility of supply is based largely on labour market segmentation.* Employees who possess the highest qualifications and training company which has invested are maintained regardless of changes in business conjuncture. Others are hired and fired depending on the volume of business changes. Thus, some components of labour supply are forced to adapt, rather than other factors of production to market requirements. This occupancy strategy is not exclusive, it shall apply the internal conditions of the company. Usually first try to change the internal organization of business and then adjust the hiring process, dismissal of workers. Consequently, changes occur in the profile of qualifications, working conditions and wages of different categories of workers.

*Employment business strategies tend to maintain (or even expansion) of the secondary labour market segment because it provides an increasing adaptability to changes in business conjuncture.* This involves using various means, including the specific methods and new forms of wage employment (part-time work, employing workers, etc.) that have multiple objectives (reducing labour shortages, providing jobs, homogeneity staff themselves). Application of *new forms of employment* (atypical forms) is found both new firms and those with a certain tradition and is connected, especially the need for *more flexible labour supply* as required by the process of production. Also, being a flexible way to control labour costs or better workforce, new forms of employment sometimes leads to lower wages or less stable jobs, which means increasing the size of the secondary segment labour market.

## **2. LABOUR MARKET MECHANISM**

Complex process that occurs the relations generated by the sale provisions in the labour market requires a detailed analysis of labour supply and demand. Conducting any activities involve the use of a workload. It is not in its entirety, a demand for the labour market. *General condition that requires work to take shape through payroll application is rewarding them.* Application for employment - or, more precisely, the demand for human services a specific case - is the amount of human effort (for that case) that entrepreneurs are willing to buy at a salary rate corresponding general price level in the period considered. But as the worker effort is inseparable from his person, the labour demand translates into demand for workers able to provide the present case workload required. It should be borne in mind that a number of workers is not a fixed quantity of work and a clear case determined. Numerically equal groups of workers may have a different structure in terms of age, sex, force, intelligence, technical ability and therefore may be able to provide some more work than others.

Knowledge of labour demand is more difficult than the demand for knowledge. *Labour demand is derived demand, it depends on the demand for goods, and not an independent application.* Demand for labour is directed by supply and demand of goods suffering it influence. The demand for goods is transmitted through labour demand and the curve is quite sensitive. Labour demand reflects not only the influence of wage rates that workers receive, but also many other causes, which do undergo change as temporary, transient, and sustainable change in the degree of persistence of

cases. Examples quote the seasonal labour changes to large numbers of industries, areas subject to intermittent controls and fluctuations during periods of boom and depression of each economic cycle. Sustainable changes are related to changes in consumer preferences for a product, opening or closing an outlet abroad, the application of restrictive customs procedure (or liberated) exchanges etc.

It is considered that the *factors* on which the depend application for employment are: *marginal productivity of labour, general business conditions*, including predictions and forecasts the size of cyclical global demand. Satisfying the need for work is performed on behalf of the existing *resources* in society that the workload can be made during that period, age population. Not all labour resources existing are related to work offer. Job offers - namely, human services of some sort - is the amount of work, the same qualifications that workers are able and willing to provide a certain wage rate, given the general price level during the period. Human efforts are merchandise that is not separate from workers person human and offer service workers of some sort is present on the labour market as workers. It is defined by the number of workers able and willing to provide work for a particular category of firms in terms of wage and price level prevailing.

*Offer employment* to workers of a given case is *not homogeneous*. Workers of the same items do not have a capacity equal to the effort, not all the same age, physical force, equal health status, professional skills, intellectual and moral qualities. Job offer - as expressed by the number of workers - has a number of *features* compared with normal supply of goods, namely:

- *Workers have relatively low and professional space mobility*. People are attached to economic and social environment in which they arise, even if they have fewer economic advantages. Job offer depends on where work is provided by age, gender, health, etc. - Items that are not expressed by quantity-price curve.
- *The salary is not the only factor determining workers to offer their services to companies*. The sellers of a common commodity are not interested with the destination that will take it to the buyer. Rather, workers are concerned not only agreed to pay, but the conditions under which work is carried out and those who must live.
- *Human services are essentially perishable, ephemeral, can not preserve, to take advantage of a further increase their selling price, thus offering a solid character, a given size at a time*. A worker may refrain from work or more workers may be assigned to it by declaring a strike, but an unused day's work can no longer recover. Production and wages, which could get within a length of time used, is a permanent loss.
- *Daily offer of employment has, in good measure a compulsory character*. Bearer supply means of subsistence needs, when personal resources are depleted strike fund, he is forced to accept a lower salary.
- *Offer of employment is not undertaken exclusively on market economy principles*. Younger generations are not grown by their parents as some goods/merchandises or to sell services as employees. Not simply the desire to recover costs and realize the benefits is the principle governing the employees of a particular case. In this area, with economic laws, act also the demographic laws.

All these features allow to conclude after the offer of employment *is less sensitive to economic factors. In ratio to the price, it has a low elasticity.* The labour market has experienced over time changes. In recent decades, it is characterized by two new phenomena: the group of workers to form trade unions and employers' organizations; the intervention of public powers in regulating the relationship between management and labour market. Consequently, the labour market has become a progressively privileged field of action for union workers and employers' associations and a major area of state intervention.

### **3. UNION PHENOMENON AND DETERMINE WAGE RATES**

*Labour market has institutionalized due to union phenomenon and state intervention.* Individual employment with labour contract of employment between employer and employees are increasingly substituted by collective agreements or contracts, determining labour, often under the control and supervision of public power. State itself issued a series of regulations concerning working conditions and performance issues of wages. It is a fact that unions, by grouping workers have limited weaknesses, resulting from the dispersion and isolation in the power of employers. Unions have power and influence, no longer appealed to developed countries. In all countries, the number of workers enrolled in unions has increased. Central or confederations were created internationally. *The union is working as a labour vendor, which will supersede a large number of independent and isolated workers.* Offered workload is not a function solely of salary rate. Union can influence this rate, altering job offer. It depends on union objectives, which - to some extent - are determined outside the individual preferences of workers who make up the group. Unions - when they become a "power" - have the necessary capacity to play an important role in the labour market and are able to operate tactics to increase wages.

*Contemporary labour market, by its structure, has ceased to be competitive.* Economic and social legislation is dominated by possibility of strike, the conciliation and arbitration procedures for implementation of collective agreements. *New labour market structure is also found in different types of imperfect market.* In terms of labour demand there are monopsony and oligopoly and in terms of supply are union monopolies which have developed the institution of collective bargaining.

When we refer to imperfect markets, the essential problem is that traditional analysis remains essentially an extension of the principles of marginal productivity theory. Comparing salaries and the level at which it is engaged in a labour market with perfect competition to one with imperfect competition, we can draw conclusions on the welfare implications for certain types of market.

#### **Employment policy of a monopolist seeking to maximize the turnover.**

Monopolistic firm faces a decreasing demand curve for the good it produces. This means that if the monopolist commits additional manpower, he will have to lower the property price to sell additional production.

**Employment policy in case of monopsony.** It is considered the monopsony case which sells the finished product to a market with perfect competition. Monopsony is the only buyer of labour in a market and, unlike a monopoly or a firm acting in a

market with perfect competition, is able to influence wages (price) and purchased workload. Equilibrium level at which the monopsony firm is committed is influenced by the marginal cost of labour and the marginal income of employment factor.

Marginal cost of labour monopsonist has two components. First, as a monopsony firm may acquire additional work that offers a higher salary. Then, assuming that all workers receive the same salary, any salary increase offered to purchase an additional amount to be paid also the existing workforce. Therefore, the marginal cost exceeds average cost of labour.

#### 4. BATTLE WAGE AND ARBITRATION SALARY

In times of collective stress, when on the labour market are two powerful groups, union and employers, the determined salary is the battle salary or strategy wage (Figure 1).

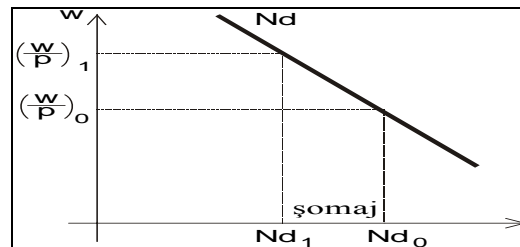
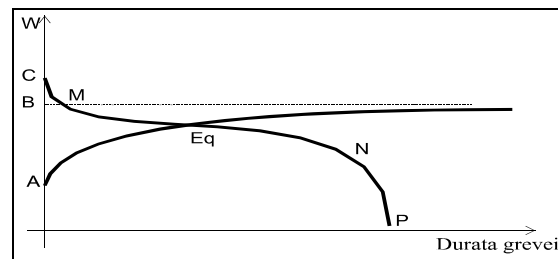


Figure 1. Determine the wage size

Typically, the union asked that the current number of workers used,  $Nd_0$  be paid with wage rate  $w$ . Employers answer is: at this price, you can use only  $Nd_1$  workers, which means that the difference between  $Nd_1$  and  $Nd_0$  will become unemployed. In such case, it is not classic game of supply and demand curves work. But you know that wages are set at a level between  $w_0$  and  $w_1$  using one of the following methods: *the arbitration process* - involves the intervention of a mediator between the parties, who will try "to say" which is appropriate wage rate; the mediator should be responsible and independently of all the warring parties; *the process of the fight* - alary is determined by successive approximations, depending on the will and resilience of the two combatants; if the two groups - unions and employers - are equal as forces, the wage is set at middle range  $w_0$  and  $w_1$ ; if the union is stronger than employers, wages are set close to  $w_1$ .

Hicks's theory emphasizes how the wage rate is determined when triggering a labour dispute. She starts to consider two special curves faced: *curve concessions* they are willing to make patrons ( $A$ ) and *time trade union resistance curve* ( $C$ ). As supply and demand curves, they are of potential type, forward or psychological. However, instead of quantities and prices, they associate a salary rate declared by a strike length. Once the strike begins as an expression of a request for waiver of wages, employers is willing to pay a charge represented by  $A$ . Obviously, it does not satisfy the strikers (figure 2). As the strike is prolonged, the agreed wage curve rises slowly. Entrepreneurs prefer to grow a certain extent, wages, only to prolong the strike.

Concession who did employer are not unlimited. There is a wage rate  $B$  which patrons can not overcome, whatever the duration of labour disputes. It corresponds to the level that makes the profit is zero. Above that level losses appear and better company closes factory, only to yield to pressure employees Employers concessions concrete form of the curve depends on several factors such as: the state treasury company, state of understanding or competition between employers, economic circumstances etc. Union resistance curve is placed backwards in relation to that which describes the behaviour of patronage. At the beginning of the strike, workers expressed their maximum demand, that wage rate,  $C$ . As the strike is prolonged and not get satisfaction, we have to reduce demand, which is reflected in the evolution of specific curve. On this, one can be seen several segments: in the first period, the union gives up relatively easy part of the demand curve behaviour and decreases rapidly (C-M); during the second period, which is quite long, the curve remains substantially horizontal (M-N) - is line resistance, which seems absolutely necessary to express the wage; whether the duration of resistance is not effective, ending a strike which could result in the acceptance of new slaughter, hitherto regarded as impossible, and a final portion of the curve known, the trend of verticality, (N-P).



**Figure 2. Determine the wage through the battle method**

Struggling behaviour of the two curves, considered as legitimate, make clear the balance *point of collective conflict*. As in classical theory, this is the point of intersection ( $Eq$ ) of the two curves. Shape and strength curves of reaction makes it clear that wage rate is likely to be set at a high or low, depending on the strength of the warring groups. Obviously, the analysis undertaken by the two curves is a process of scientific knowledge, not a practical means of determining wages. Salary resulting from a monopolistic structure, of confrontation type is in fact a manifestation of weakness - each make a prediction on the ability to possess other resistance. This salary, which does not result from rational knowledge to economic opportunities, presents a risk. Obtained by force or by intimidation, a salary may also trigger complex economic processes which, out of control, leads to a certain size of unemployment and a rise in costs, which blocks further production.

## 5. CONCLUSIONS

Labour market does not make exceptions to the general rule by which a market is in equilibrium when labour demand equals labour supply. Successive increases of

used work have increasingly less productive results. Decreasing marginal product of labour is determined by the fact that work continuously increasing, other factors are constant, and each worker uses a smaller amount of capital and becomes less productive. Increasing the amount of work increases production but this increase is lower. Firms sell their output at price  $p$  (decided by the market) and pay workers wages  $w$ , which is considered to be the only cost. They undertake work as necessary to obtain maximum profit.

If the total profit represents the difference between revenue and total costs, the profit is the maximum for a number of workers used, implying that to have maximum profit should be **equality between the marginal product of labour and real wage (marginal cost of work)**. As the marginal product of labour decreases with the amount of labour used, the increasing use is possible only when its cost falls (real wages). Job offer are related to the workers which maximize their utility by choosing between income and leisure time. For workers, the *effect of substitution* occurs first. Individual is determined to work harder, to consume less leisure as the wage, price of giving up leisure time increased. But, since wage growth makes the richest individual, it appears the *effect of income* - the individual is determined to require more spare time.

Labour market equilibrium is obtained when real wages are at levels that labour demand equals labour supply in a number of employees. At a higher real wage, there is **excess labour supply** (unemployment), while a lower real wages, there is **excess demand for labour**. *In the first case*, the number of workers who wish to work in those conditions to pay is higher then the number of jobs offered by companies for the same level of salary. *In the second case*, firms require a greater number of jobs than the amount of work provided by workers at the same level of real wages.

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