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The Relationship between the Internal Labour Market and Transitions from Temporary to Permanent Employment in Korea

Hyondong Kim and Dong-Jin Lee

This study examines the relationship between internal labour markets (ILMs) and the transition from temporary to permanent employment, particularly following the legislative changes regarding the use of temporary workers in Korea. We test our research model based on data gathered during two different periods from 619 and 616 Korean companies respectively. The results show that ILMs help companies turn temporary employees into permanent ones. Furthermore, environmental dynamism increases the need for temporary workers, which prohibits the transition from temporary to permanent employment, particularly when seniority-based pay is tightly implemented within a firm. The effects of ILMs on the transition from temporary to permanent employment become pronounced as companies internalize institutional changes. The current study demonstrates that the features of the employment system shape and establish organizational norms and traditions and play a critical role in achieving the intended effects of institutional change.

KEYWORDS: employment transition, temporary employment, permanent employment, internal labour markets (ILMs); flexibility; environmental dynamism.

Introduction

Over the past decade, there has been a significant increase in the number of temporary workers in Organization for Economic Cooperation and Development (OECD) countries. However, the widespread use of temporary employees has raised questions with regard to social responsibility. Temporary workers have historically been employed in low-impact positions with poor working conditions and have been excluded from social benefits, such as health insurance and pension plans (David-Blake, Broschak, and George, 2003; Antoni and Jahn, 2009). In addition, temporary workers may be trapped in recurring extended temporary contracts (García-Peréz and Muñoz-Bullón, 2011). The OECD countries recently

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passed legislation imposing limits on the duration of temporary contracts and the number of renewals (Antoni and Jahn, 2009). Despite these legislative changes, few studies have examined the reasons behind a company's decision to award or deny temporary employees permanent jobs (Antoni and Jahn, 2009). The literature downplays the critical role of the employer in such decisions.

This study highlights the role that employers play in transitioning temporary employees into permanent positions. Transitions from temporary to permanent positions internalize administrative controls over employment and reduce flexibility. As a result, companies are less willing to make temporary workers permanent. Human resources policies and programmes are susceptible to changes in institutional environments (Godard, 2002). The enactment of laws and regulations to protect the rights and benefits of temporary employees may coerce companies into making temporary employees permanent. However, unless institutional changes are viewed as legitimate and morally sanctioned, companies may be unwilling to internalize these changes (Godard, 2002).

Internal labour markets (ILMs) refer to organizations and the administration of rules and policies on employment within individual firms (Pfeffer and Cohen, 1984; David-Blake and Uzzi, 1993; Osterman, 2011). ILMs influence the types of employees a firm hires and determine how they are managed and paid (Bidwell, 2009). ILMs prescribe the features of employment systems, which are closely associated with variations in temporary employment across firms (Lautsch, 2002; Osterman, 2011). However, the role of ILMs as major determinants of firm choice regarding temporary employment has not been fully explored. The current study investigates the significance of ILMs on a firm's decision to award temporary workers permanent jobs.

The South Korean labour market was liberalized after the 1997 financial crisis. An amendment made to the Labour Standard Act in 1996 removed rigid rules and legislation governing labour markets (Lee, 2011). There had been significant growth in the temporary employment of salaried workers, from 26.8% in 2003 to 34.9% in 2010. The South Korean Congress wrote the Temporary Employment Protection Act (TEPA) in 2007 to protect the welfare of these temporary employees. According to the TEPA, a temporary employment period must generally be limited to two years, after which employers are required to make temporary workers permanent (Lee, 2011). Furthermore, temporary employees are entitled to working conditions, compensation, and benefits equivalent to those enjoyed by permanent workers, as long as the nature of the job is similar to that of its permanent counterpart. However, a significant number of companies have evaded TEPA's regulations by using outsourcing services and replacing existing temporary employees with new ones rather than making the existing temporary employees permanent (Lee, 2011).

Employment relationships can be viewed as a balancing of competing interests among company stakeholders (Budd, Gomez, and Meltz, 2004). Institutions (government, companies, and employees) have conflicting legitimate interests regarding temporary employment (de Jong, Schalk, and Goessling, 2007). While efficiency is regarded as a major business objective, equity and voice must be considered as key objectives of employment relationships (Budd, 2004). The government enacts labour laws and regulations to curb the increasing number of temporary employees. Companies have explored several options for complying with TEPA's changes, and transitions from temporary to permanent employment help them in this goal. However, such transitions are accompanied by increased labour costs and reduced flexibility, which impair efficiency. It is assumed that the idiosyncratic aspects of a company's employment system significantly influence whether efficiency is regarded as a key priority or as a priority that can coexist with equity and voice as shared business interests. Investigating ILMs and the related issue of temporary employment also explores how stakeholders integrate different interests to create mutual gains in terms of employment outcomes.

A large number of companies prefer to externalize their human resources, which allows them to adjust the number of employees in response to changes in the business environment (Bidwell, 2009). ILMs offer employees opportunities to improve their skills and capabilities; these opportunities are geared toward employment objectives that differ from those of temporary employment (Shaw, Dineen, Fang, and Vellella, 2009). ILMs and temporary employment coexist within individual firms and can complement each other in terms of firm competitiveness (Kalleberg, 2001). However, ILMs and temporary employment are not compatible in their purposes and features, as they can also act as alternatives to each other. By investigating the role of ILMs, this study elaborates the process through which companies decide to transition temporary employees into permanent positions at the expense of labour flexibility. Furthermore, flexibility is important to firms in confronting the various challenges brought about by environmental dynamism. To address environmental dynamism, flexibility must be promoted via programs that enhance firm competitiveness. By examining the intersection of companies and environmental dynamism, this study further articulates how companies effectively manage ILMs and temporary employment to foster employment flexibility.

Using WPS (Workplace Survey) data collected by KLI in 2007 and 2009, this study presents evidence regarding ILMs and how they relate to changes in employment status. The WPS data estimate the probability of transitioning temporary employees in South Korean firms to permanent positions in light of TEPA. The KLI WPS includes sets of human resources practices and programs, the use of temporary employment at a company, and organizational characteristics. WPS serves as an appropriate dataset for examining the transition from temporary to permanent employment following legislative changes.

Theoretical background

Bureaucratic controls constitute the structural features of ILMs and induce company workers to comply with the company's policy objectives. The structural elements of ILMs, including hierarchical job ladders, seniority-based promotion systems, and firm-specific training and development programs, specify job tasks and define the levels of job responsibility within a firm (Pfeffer and Cohen, 1984; David-Blake and Uzzi, 1993; Osterman, 2011). ILMs are embedded in organizational structures that support employees in pursuing long-term development within a company. ILMs appear to be positioned at the opposite end from labour externalization within the human resources system continuum. The question has been raised as to whether ILMs complement temporary employment. Existing studies have investigated how ILMs facilitate or inhibit the organizational use of temporary employment. ILMs aim to develop company-specific skills and identification with company interests (Bidwell, 2009). In contrast, temporary employment emphasises cost controls and fills vacancies on an as-needed basis. Several studies have shown that firms structured with ILM-oriented systems use less temporary employment (David-Blake and Uzzi, 1993; Kalleberg, 2001). Other studies have noted the possibility for ILMs and temporary employment to coexist. The core-peripheral model indicates the dual labour market inside the company: in the core sector, the company manages ILMs, and in the peripheral sector, the company creates labour externalization (Kalleberg, 2001). ILMs and temporary employment make a joint contribution to firm competitiveness by offering strengths and compensating for weaknesses in the firm's employment system (Kalleberg, 2001; Bidwell, 2009).

Following institutional changes, it is necessary for employers to change employment policies and regulations. The government enacts labour laws and regulations to shape employer policies and practices in human resources management. Employer policies and practices are formed and established within institutional environments. In South Korea, the government enacted TEPA to limit the use of temporary employment and to provide support for temporary employees' welfare. Companies are required to transition temporary workers into permanent employment to comply with the new legislation. The present study assumes that, inspired by institutional environmental changes, the features of the employment system, such as ILMs, lead companies to make these transitions from temporary to permanent employment.

Further, environmental dynamism escalates the uncertainty emanating from competitive rivalry and fluctuating market demands. In the face of dynamically changing environments, companies must adjust employment volume to the change in demand using short-term contracts for specific tasks. Making transitions from temporary to permanent employment allows firms to leverage human

capital by developing human resources as a valuable and non-imitable resource. However, this type of transition is accompanied by increased overhead costs and a reduced ability to divest non-valuable resources. Dynamic business environments increase the need for adaptability in terms of numbers and types of temporary employment, which, in turn, reduces the number of temporary employees that are made permanent.

Stakeholders with competing interests tend to pursue different employment objectives, such as efficiency, equity, and voice, to create a balance (Budd, 2004). Transitions from temporary to permanent employment are made to comply with the changes in temporary employment laws and regulations, are facilitated by the compatible features of employment systems, and can satisfy employee demands regarding fair treatment and work autonomy. Investigating ILMs and their transitioning of temporary workers to permanent ones generates knowledge about the interests of various stakeholders in the employment relationship that can be used to balance competing employment demands.

Hypotheses

ILMs and transitions from temporary to permanent employment

Although ILMs enable employees to pursue stable, long-term jobs, researchers and practitioners are concerned about their rigid nature. Additionally, companies' use of temporary employment has grown rapidly (Kalleberg, 2001). The simultaneous use of ILMs and temporary employment enables organizations to achieve unique human capital value and labour flexibility (Bidwell, 2009). In this study, however, institutional changes, such as the implementation of TEPA, enable ILMs to preserve their features, thereby facilitating the transition of temporary employees into permanent positions. Prior studies have demonstrated that legislative changes may determine the number of temporary employees that firms use by impacting the choices the firms can make regarding employment arrangements. Antoni and Jahn (2009) and Vosko (2010) reported that the deregulation of private employment agencies has resulted in significant growth in the temporary employment industry. Caroli, Gautié, Lloyd, Lamanthe, and James (2010) compared differences in temporary employment by analysing the French and UK food processing industries. French employment protection laws are stringent regarding the use of temporary employment. In contrast, the UK has few legal requirements regarding temporary employment. In Caroli *et al.* (2010), UK employers showed a preference for temporary employment, whereas French companies adjusted their working time to seasonal demands. Thus, institutional changes motivate companies to change employment policies and programs, particularly with regard to transitions from temporary to permanent employment.

In the South Korean workplace, institutional changes also play an important role in shaping and establishing firm employment characteristics. Park and Park (2005) and Nho (2007) demonstrated that high labour costs impose pressure on permanent employment in the Korean workplace. Batt and Nohara (2009) found large wage differentials between unionized and non-unionized workplaces in South Korea. Labour unions erect entry barriers against temporary workers. To enforce tight cost controls, Korean companies prefer using temporary workers instead of permanent ones. Labour unions regard temporary employment as a means to ensure job security for permanent employees. Korean employers and labour unions are unwilling to transition temporary employees to permanent status. Thus, the South Korean government enacted TEPA to protect the welfare of temporary employees. Under TEPA, Korean employers must transition temporary workers to permanent status to remain in compliance with labour laws and regulations.

ILMs endorse the long-term careers of Korean employees separate from the use of temporary employment. ILMs offer firms the discretion to enact alternative arrangements to transitioning temporary employees to permanent status. Korean employers whose ILMs are loosely constructed are more likely to use outsourcing services than offer their temporary workers permanent positions. The internal promotion system fosters stability in employment by structuring job ladders. Seniority-based pay plans reward employee motivation and effort over longer periods of time. Job security increases the identification of permanent employees with companies, leading to higher organizational commitment. Internal promotion systems, seniority-based pay plans, and job security provisions all provide incentives for employees to make continued career progress. Training programs are an investment in the skills, knowledge, and capabilities of employees, which tie employee values to the firm's business features. Characteristics embedded in ILMs enable firms to foster stability in employment systems. They motivate company managers and employees to pursue continued career progress, which facilitates transitions of temporary employees into permanent positions. Existing literature also reveals that firms where ILMs are tightly built and established prefer hiring regular workers rather than temporary ones. Van Jaarsveld, Kwon, and Frost (2009) indicated that measures of functional flexibility (e.g., the percentage of employees that work in teams, investment in training, and job discretion) are negatively related to the use of temporary employees in the UK, Canada, and the US. David-Blake and Uzzi (1993) and Way, Lepak, Fay, and Thacker (2010) also found that high investment in permanent workers only reduces their withdrawal behaviours when temporary workers are used to promote employment stability. Lautsch (2003) considered ILM practices (e.g., job ladders, seniority-based promotions, and the availability of healthcare benefits) and how they increased the access of temporary workers to healthcare benefits.

In terms of efficiency, when companies increase the ratio of temporary employment, labour expenses are reduced and employment flexibility enhanced.

But, transition of temporary employment into permanent employment fosters fairness in employment systems by making working conditions equivalent. Furthermore, it increases employee identification with company membership by accommodating employee interests, even those of temporary workers. ILMs help companies to achieve a balance among different business objectives (e.g., efficiency, equity, and voice) with the transitions of temporary into permanent employment. Employers at companies with tightly built and well-structured ILM systems are willing to facilitate the transition of temporary workers to permanent positions. Therefore, the following hypothesis is proposed:

HYPOTHESIS 1: ILMs facilitate the transitions of temporary employees to permanent positions in companies.

The moderating role of environmental dynamism

Uncertainty derived from environmental dynamism erodes the ability to create and sustain competitive advantage over time. Without the appropriate resources, firms may not be able to respond to unexpected events (Sirmon, Hitt, and Ireland, 2007). Flexibility, defined as the ability to respond to a variety of needs, is necessary to help firms mobilize and coordinate resources, which, in turn, develops and manages firm competitiveness (Wright and Snell, 1998; Sirmon *et al.*, 2007).

Within environmental dynamism, the successful combination and deployment of resources determines the survival and prosperity of the firm. ILMs enable employees to acquire, accumulate, and develop firm-specific knowledge and skills that result in enhanced firm performance. However, ILMs can become bureaucratized, rigid systems that reduce the firm's ability to respond to a changing business environment. Companies can develop numerical flexibility by increasing the number of temporary employees. It is expected that numerical flexibility complements ILMs because it allows employers to adjust the number of employees to adapt to fluctuating demand. In the face of a dynamic environment, companies must take action to reduce labour costs and enhance firm competitiveness. By combining ILMs with numerical flexibility, the ability to create human capital portfolios, deploy employees in response to environmental threats, and exploit market opportunities is enhanced.

Within a dynamic environment, the companies in which ILMs are strongly tied to the employment system are increasingly required to adjust the number of their employees as well as the skills of those employees. Bureaucratized controls on employee behaviour inhibit companies from appropriately responding to a dynamic environment. By increasing the number and proportion of temporary workers, companies benefit from ILMs by minimizing their disadvantages. Specifically, seniority-based pay plans and job security provisions increasingly demand numerical flexibility. Seniority-based pay plans reward job tenure, increase

overhead costs, and reduce the financial resources necessary for addressing environmental changes. Job security provisions offer employment guarantees that constrain the company's top management from adjusting its number of regular workers. Companies increase their use of temporary workers to reduce costs and enhance employment flexibility when seniority-based pay plans and job security provisions are strictly implemented. Companies that focus on the seniority and security of regular workers are more likely to use temporary workers when they confront environmental dynamism. Thus, environmental dynamism renders companies less likely to transition their temporary employees to permanent positions when ILMs, particularly in terms of seniority-based pay plans and job security provisions, are strictly built and implemented.

HYPOTHESIS 2: A dynamic external environment will negatively moderate transitions from temporary to permanent employment in the presence of ILMs, particularly those ILMs with seniority-based pay plans and systems that promote job security.

Method

Sample and Procedure

We obtained the data for this study from the Workplace Panel Survey (WPS) 2007 and 2009. KLI, a government-funded research institution, has conducted the WPS since 2005 to gather data on human resources and industrial relations. The WPS is conducted biannually in conjunction with the Ministry of Labour to access respondents (employees). The WPS benchmarked the Workplace and Employee Survey (WES) conducted by Statistics Canada. Similar to the WES, the WPS is a nationally representative survey of establishments in the private sector (Batt and Colvin, 2011). The WPS contains a variety of data about human resources policies and programs, industrial relations, and organizational characteristics that can be used to test the research model in this study. The WPS uses the stratified sampling method to verify sample validity. A survey package was mailed to firms' HR managers, industrial relations managers, and the employee representatives responsible for human resources management and labour relations.

The WPS was conducted in 2005, 2007, and 2009. The survey on temporary employment has been conducted since 2007, following the enactment of TEPA. This study uses WPS data gathered from 1,749 companies in 2007 and 1,424 companies in 2009. In 2007, the total number of companies that reported giving their temporary employees permanent positions was estimated to be 725. In 2009, this number was estimated to be 710. After elimination, the final sample included 619 companies in WPS 2007 and 617 companies in WPS 2009. The participation rate was approximately 80-90%, which satisfies sample representation.

Measures

The transition of temporary employees to permanent positions

Since 2007, TEPA has required employers to make a decision regarding their workers' employment status following the end of their two-year employment contracts: either award temporary employees permanent positions or terminate current temporary employees and replace them with new temporary employees. The WPS panel survey asks human resources managers about the transition of temporary employees to permanent positions. Two dependent variables, the percentage and number of temporary employees within a company, indicate the extent to which temporary employees are given permanent employment. Changes in temporary employment are divided into several categories, such as the transition from temporary to permanent employment, the maintenance of temporary status, and the use of outsourcing and contract services. The percentage measure is calculated by dividing the number of temporary employees who have been given permanent status by the number of temporary employees whose employment status changed over the preceding two years. Another measure uses the actual number of temporary employees who were given permanent positions.

Internal Labour Markets (ILMs)

Reflecting the characteristics and components of ILMs suggested by Lautsch (2003), David-Blake *et al.* (2003), and Pfeffer and Cohen (1984), we operationalized ILMs by using their internal promotion systems, seniority-based pay, training programs, and job security. The internal promotion system was measured by surveying the extent to which companies fill job vacancies internally. The items included: 1- job openings filled by internal workers; 2- an early promotion system; and 3- a dual-ladder for company managers and professionals. Seniority-based payment was assessed by the extent to which companies implement seniority-based, job-based, and skill-based pay plans. We measured training programs by the number of programs a firm has implemented.

Employee training programs included the nine following items: 1- internal training arrangements; 2- external training arrangements; 3- online training; 4- financial support for study groups; 5- technical guidance and worker training for subcontractors and vendors; 6- technical guidance and worker training by parent companies and primary contractors; 7- training leave; 8- tuition reimbursement; and 9- scholarships.

Job security was assessed using the following seven items: 1- In past years, were permanent employees in your company subject to downsizing for manage-

rial reasons? 2- In past years, has your company made plans to downsize permanent employees? 3- Does your company have a company policy such that permanent employees may not be terminated for managerial reasons? 4- Does your company have a company policy that guarantees the employment of permanent employees? 5- Does collective bargaining guarantee the employment of permanent employees at your company? 6- Does bargaining in labour councils guarantee the employment of permanent employees at your company? And, 7- Do other company policies guarantee the employment of permanent employees at your company?

Additionally, individual ILM practices were dummy-coded (Yes: 1; No: 0). If a company had implemented a particular practice, the practice was coded as 1. If the company had not implemented a particular program, the program was coded as zero. The internal promotion system, seniority-based pay, training programs, and job security were operationalized as the sum of all items.

The operationalization of ILMs in this study includes internal promotion, a hierarchical payment system, training programs, and job security provisions that together are defined in the literature as an ILM's structural elements (Pfeffer and Cohen, 1984; David-Blake and Uzzi, 1993). The operationalization of ILMs from several studies is consistent with the current study's operationalization. ILMs in Lautsch (2003) included job ladders and seniority-based HR policies. Shaw, Dineen, Fang, and Vellella (2009), and Batt and Colvin (2011) created HRM inducements and an investment index, which are grounded in ILM theory. Shaw *et al.* (2009) and Batt and Colvin (2011) included internal promotion opportunities, the number of training programs, and employment security. Godard (2011) used traditional HR practices, such as seniority-based placement and technical training. The ILM measures operationalized in this study reflect measurements widely used in previous studies, thus confirming the validity of the current measurements.

Environmental dynamism

Environmental dynamism was measured by the degree of change for sales in each industry. Environmental dynamism refers to the volatility in industry membership (Keats and Hitt, 1988). The environmental dimensions are defined in terms of industry-classification codes. We used Standard Industrial Classification (SIC) codes to measure sales change as an indicator of environmental dynamism. Following Keats and Hitt (1988), we regressed time against sales in each industry for the previous five years. The standard error of the slope coefficient in the regression was divided by sales (mean), which refers to the value of environmental dynamism.

Control variables

We controlled for firm size, firm age, unionization, and industry membership. Firm size was calculated as the total number of employees, and firm age was computed by the difference between the survey date (2007 and 2009) and the firm's founding year. Industry dummy variables were created to control for inter-industry differences. Industry memberships included manufacturing, construction, retail, finance, and other service industries.

Estimation Strategy

The percentage of temporary employees given permanent positions has a lower bound of zero and is censored on the left (Batt and Colvin, 2011). Because ordinary least squares (OLS) produce biased estimates of the censored distribution, this study uses the tobit regression model to make accurate estimates about censored distribution (Long and Freese, 2006).

As for the number of temporary employees given permanent positions, the current study uses a zero-based negative binomial regression to examine the two-way interaction between ILMs and environmental dynamism. The number of temporary employees given permanent positions has widely dispersed count data. The linear regression model produces biased and unreliable estimates for count data. Negative binomial distribution is inferred from the likelihood probability function and is used to estimate the probability of a count. Negative binomial distribution assumes *over dispersion* – a variance greater than the mean (Hilbe, 2011). With regard to the number of temporary workers given permanent positions, the variance of count variables is greater than the mean, which is referred to as *over dispersion*. Furthermore, more than half of the sampled companies have no record of their workers' transitions from temporary to permanent employment status. Zero-truncated data change the likelihood probability, which violates the assumptions of a negative binomial distribution. The negative binomial distribution model may not be appropriate for estimating the probabilities of count data when the data include excessive zero counts. More than two-thirds of the companies reported that no temporary workers are given permanent positions (424 companies out of 619 companies in 2007 and 402 companies out of 616 companies in 2009). The zero-inflated negative binomial distribution is used to estimate the dispersed count data (Hilbe, 2011). The present study uses the zero-based negative binomial distribution model to obtain reliable estimates on the research model.

Results

Tables 1 and 2 present the descriptive statistics and zero-order correlations among the study variables. On average, companies implement at least one of the

TABLE 1
Descriptive Statistics

Year	2007 ^a		2009 ^b	
	Mean	S.D.	Mean	S.D.
1. Manufacturing	.33	.47	.30	.46
2. Construction	.04	.21	.04	.21
3. Retailing	.07	.25	.07	.27
4. Finance	.08	.27	.07	.26
5. Other service industries	.52	.50	.50	.50
6. Firm size	635.16	1,254.80	571.06	1,255.61
7. Firm year	26.29	18.49	27.25	18.77
8. Labour union	.52	.50	.55	.56
9. Internal promotion system	1.48	1.02	1.20	1.07
10. Seniority-based pay plan	1.27	.53	.71	.77
11. Training programs	4.13	2.07	2.95	2.12
12. Job security	2.12	1.48	1.91	1.04
13. Environmental dynamism	.03	.04	.03	.02
14. Transitions of temporary into permanent employment ^c	.25	.39	.27	.38
15. Transitions of temporary into permanent employment ^d	13.22	95.49	10.16	57.32

^a n=619; ^b n=616; ^c Percentage Variable; ^d Count Data

internal promotions and seniority-based pay programs, as well as three training programs. For the training programs, a large number of companies have internal training arrangements, external training, online training, financial support for study groups, tuition reimbursement, and scholarships. The number of temporary employees transitioning to permanent positions is approximately 25%, with a range from 0 to 2,091. Over twelve companies gave more than 100 temporary employees permanent positions.

To measure whether temporary employees are given permanent positions, we used the tobit regression in Table 3. Model 1 included the control and independent variables. Model 2 added a moderating variable and examined the interactions between the independent and moderating variables. According to Model 1, the independent variables of internal promotion systems ($p < .01$), seniority-based pay ($p < .05$), and job security ($p < .05$) were positively related to the transition from temporary to permanent employment in 2009. However, the independent variables failed to demonstrate significant effects on the transition from temporary to permanent employment in 2007. Model 2 shows a negative interaction between seniority-based pay and environmental dynamism in 2009 ($p < .05$). A one standard deviation increase in the internal promotion

TABLE 2
Correlations

Variables	1	2	3	4	5	6	7	8	9	10	12	13	14	15	16
1. Manufacturing		-.22	-.32	-.21	-.58	.00	.18	.06	.20	.19	-.05	.03	-.31	.03	-.09
2. Construction	-.15		-.10	-.07	-.19	-.01	.02	-.08	-.08	-.06	.08	-.08	-.24	-.10	-.03
3. Retailing	-.19	-.06		-.10	-.27	-.08	-.20	-.08	.02	-.02	.06	.04	-.12	-.02	.10
4. Finance	-.21	-.06	-.08		-.09	.20	.08	-.06	.01	-.08	.15	-.06	-.21	.02	.15
5. Other service industries	-.67	-.21	-.26	-.28		-.04	-.10	.07	-.18	-.10	-.11	.01	.66	.03	.13
6. Firm size	.03	-.02	-.04	.26	.14		.11	.18	.13	.04	.27	.03	.05	-.12	-.01
7. Firm year	.06	-.00	-.16	.06	.00	.19		.20	-.08	-.02	.00	-.03	-.02	-.16	-.04
9. Labour Union	.00	-.07	-.02	.01	-.03	.22	.21		.08	.11	.09	.21	.18	-.06	-.07
10. Internal promotion system	.01	.02	.10	.12	.13	.17	-.07	.06		.10	.37	.04	-.09	.15	.04
11. Seniority-based pay	.07	.02	-.00	.00	.08	.08	.00	.04	.17		.02	.11	-.08	-.11	.06
12. Training programs	-.02	-.01	.00	.14	.05	.25	.03	.08	.36	.07		-.02	-.08	.05	-.08
13. Job security	-.07	-.04	.01	.03	-.06	.05	.03	.09	-.01	.03	.02		.07	.16	-.03
14. Environmental dynamism	-.31	-.14	-.16	-.16	-.52	-.06	.15	-.02	-.14	-.04	.02	.10		-.17	-.04
15. Transitions of temporary into permanent ^a	.09	-.09	-.02	.04	.06	.05	-.02	-.07	.10	.04	.08	.04	-.04		.26
16. Transitions of temporary into permanent ^b	-.06	-.03	-.01	.22	.04	.46	.17	.05	.05	-.01	.12	.09	-.04	-.04	.20

^a Percentage variable; ^b Count data

Horizontal line represents 2007 data; *n*=619

Correlations greater than .08 are statistically significant at *p*<.05. Those that are more than .10 are statistically significant at *p*<.01.

Vertical line represents 2009 data; *n*=616

Correlations greater than .09 are statistically significant at *p*<.05. Those that are more than .11 are statistically significant at *p*<.01.

system, seniority-based pay, and job security was associated with 10.7% ($1.07 \times .10$), 5.2% ($.77 \times .07$), and 5.4% ($1.04 \times .05$) increases in the transition rate from temporary to permanent employment respectively. Additionally, a one standard deviation increase in interactions between seniority-based pay and environmental dynamism was associated with a 5.55% lower transition rate from temporary to permanent employment. However, environmental dynamism had no interaction with the structural elements of ILMs or with transitions from temporary to permanent employment in 2007. The Tobit regression analysis provided support for Hypothesis 1 and provided partial support for Hypothesis 2 in 2009. Contrary to 2009, there were no significant results regarding ILMs, environmental dynamism, and transitions from temporary to permanent employment in 2007.

TABLE 3

Regression results for the effects of ILMs and environmental dynamism on the transition from temporary to permanent employment^a

Variables	2007 ^b		2009 ^c	
	Model 1	Model 2	Model 1	Model 2
Manufacturing	.07(.08)	.07(.09)	-.05(.07)	-.07(.07)
Construction	-.48(.20)*	-.47(.21)*	.07(.13)	.04(.14)
Retailing	-.04(.15)	-.03(.15)	.03(.10)	.02(.11)
Finance	.06(.13)	.07(.14)	.19(.11)	.19(.12)
Firm size	.03(.03)	.03(.03)	-.00(.02)	-.00(.02)
Firm year	-.02(.05)	-.01(.05)	-.05(.04)	-.05(.04)
Labour union	-.15(.08)**	-.14(.08)+	-.01(.05)	-.00(.05)
Internal promotion system (IP)	.06(.04)	.46(.29)	.10(.03)**	.10(.03)**
Seniority-based pay (SP)	.09(.07)	.24(.54)	.07(.03)*	.06(.03)
Training programs (TP)	.03(.02)	-.09(.12)	.01(.01)	.01(.01)
Job security (JS)	.02(.02)	-.06(.18)	.05(.02)*	.05(.02)*
Environmental dynamism (ED)		.27(1.04)		-1.10(1.44)
IP * ED		1.30(.92)		.04(1.32)
SP * ED		.44(1.74)		-3.37(1.75)*
TP * ED		-.41(.41)		.69(.69)
JS * ED		-.27(.58)		-1.62(1.13)
Constant	-.21(.22)	-.39(.27)	1.01(.28)**	.98(.27)**
Log likelihood	-510.92	-318.65	-501.30	-497.64
LR chi2 (11/16)	25.83	28.34	42.63	49.97
Pseudo R2	.02	.03	.04	.05

^aThe percentage of temporary employees who became permanent employees

^b $n=619$; ^c $n=616$; + $p < .10$ * $p < .05$ ** $p < .01$

A zero-based negative binomial regression was used to estimate the count data in Table 4. In 2009, internal promotion systems ($p < .01$) and seniority-based pay ($p < .10$) allowed companies to transition employees from temporary to permanent status. However, the Tobit regression analysis showed that the individual practices of ILMs failed to affect the transition from temporary to permanent employment in 2007. Environmental dynamism ($p < .01$) was negatively related to the transition from temporary to permanent employment in both 2007 and 2009. Environmental dynamism had no interaction with ILMs in 2007 and 2009. Thus, our zero-based negative binomial regression analysis supports Hypothesis 1.

TABLE 4
Regression results for the effects of ILMs and environmental dynamism on the transition from temporary to permanent employment^a

Variables	2007 ^b		2009 ^c	
	Model 1	Model 2	Model 1	Model 2
Manufacturing	.14(.37)	-.35(.41)	-1.05(.32)***	-1.48(.35)***
Construction	-2.50(.85)*	-3.01(.92)**	-.33(.63)	-.98(.69)
Retailing	-.06(.59)	-.48(.62)	-.46(.61)	-.84(.64)
Finance	1.44(.57)*	1.05(.59)*	.45(.57)	-.31(.66)
Firm size	.62(.16)**	.61(.17)**	-.05(.08)	-.01(.08)
Firm year	-.17(.17)	.00(.18)*	-.05(.19)	-.03(.21)
Labour union	-.58(.32)*	-.68(.33)*	-.22(.25)	-.19(.25)
Internal promotion system (IP)	.08(.16)	1.38(1.30)	.47(.17)**	.45(.17)**
Seniority-based pay (SP)	.23(.30)	.19(2.07)	.35(.19)+	.29(.19)
Training programs (TP)	.03(.08)	.36(.48)	-.07(.07)	-.04(.07)
Job security (JS)	.04(.10)	.19(.89)	.16(.14)	.17(.13)
Environmental dynamism (ED)		-10.07(4.31)***		-24.34(7.75)***
IP * ED		4.13(4.14)		-5.81(6.96)
SP * ED		-1.50(6.76)		-12.85(10.63)
TP * ED		1.06(1.58)		3.52(3.91)
JS * ED		.47(2.81)		-6.29(6.01)
Constant	-.98(1.13)	-4.30(1.76)*	2.19(1.71)	2.78(.78)***
Log likelihood	-1,129.31	-1,125.95	-1,222.75	-1,217.43
LR chi2 (11/16)	80.98	87.71	32.36	43.01
Ln alpha	2.35(.11)***	2.32(.11)***	2.30(.08)***	2.37(.08)***

^aThe number of temporary employees who became permanent employees

^b $n=619$; ^c $n=616$. + $p < .10$ * $p < .05$ ** $p < .01$

In sum, Hypothesis 1 was supported by the positive relationship between ILMs and the transition from temporary to permanent employment (in terms of both the percentage and the number of transitions from temporary to permanent em-

ployment). Hypothesis 2 was partially supported by the negative interactions between seniority-based pay and environmental dynamism (in terms of percentage but not the number of transitions from temporary to permanent employment).

Discussion

The purpose of this study was to investigate the role of ILMs in the transition from temporary to permanent employment status. Prior research has neglected the process through which employers choose to transition their temporary workers to permanent positions. By testing the relationship between ILMs and the transition from temporary to permanent employment, this study identifies the conditions under which employers decide to give temporary employees permanent positions. The results of this study reveal that ILMs facilitate the transition from temporary to permanent employment status. Firms with tightly constructed and maintained ILM systems transition temporary employees into permanent positions. The transition of temporary workers to permanent positions is accompanied by a number of disadvantages; it increases labour costs and may weaken a firm's ability to adapt to fluctuating business environments. Despite these disadvantages, companies that have strictly built and established ILMs are willing to make such transitions. New laws and regulations on temporary employment place normative pressure on firms to change the way in which they use temporary workers. This study reveals that ILMs have spillover effects on employment structures. They facilitate the transition from temporary to permanent employment status by emphasising stable, long-term employment. It is important to foster stability in the employment system and reinforce the characteristics of ILMs.

Furthermore, environmental dynamism exerts a significant influence over the effects of ILMs on the transition from temporary to permanent employment. Enhancing adaptability is crucial to a firm's survival and prosperity in a dynamic environment. Companies must adjust the number and skills of their workers to market demands. However, seniority-based payment systems inhibit the transition of temporary employees to permanent employment in dynamic business environments. In the face of a dynamic business environment, seniority-based pay plans exacerbate the rigidity of bureaucratized systems, which reduce firms' adaptability to dynamic business environments.

In addition, internal promotion systems, training programs, and job security fail to exhibit significant influence over the transitions of temporary workers to permanent positions within dynamic environments. The internal promotion system creates career development plans by specifying the skills and capabilities required for job performance outcomes (Bidwell, 2009). Training programs increase investment in firm-specific skills and professional expertise. Job security provisions reinforce reciprocity between employers and employees by providing

incentives for performance over longer time periods. Under dynamic business environments, internal promotion policies, training programs, and job security provisions increase investment in employee skills and capabilities, which enhances human capital adaptability. Thus, in the face of environmental dynamism, the structural elements of ILMs exert varying effects on the transition of temporary employees to permanent positions.

Theoretical and practical implications

The present study adopts the ILM theory to offer explanations regarding the transition from temporary to permanent employment; ILMs determine this transition. In the face of changes in institutional environments, ILMs make amendments to employment policies and programs. In Korea, TEPA may coerce employers to reduce the number of temporary workers they employ. A large number of companies with strictly constructed and established ILMs are willing to move their temporary employees to permanent positions to comply with the legal changes made by TEPA. Companies that have loosely-managed ILMs are more likely to choose alternatives to upgrading their workers' employment status, such as outsourcing services and the termination of temporary employment contracts. Employment systems, such as ILMs, shape organizational norms regarding employment decisions. ILMs strengthen the norm of reciprocity between employers and employees, inducing companies to invest in human capital (Way *et al.*, 2010). ILMs encourage companies to develop their human capital, and provide spillover effects for temporary employment. The stakeholders in employment relationships can create shared interests by integrating ILMs into decisions regarding temporary versus permanent employment, can foster trusting, long-term employment relationships, and can reinforce the idiosyncratic aspects of organizational employment systems (Budd *et al.*, 2004). Existing employment policies and programs experience changes spurred by new government laws and regulations over temporary employment. In terms of efficiency, companies consider outsourcing services and replace old temporary workers with new ones. When intersecting with ILMs, companies consider equity and voice, through which employers and employees can build trusting relationships. The present study highlights the significance of cultural traditions and organizational norms in the use of temporary employment, thereby deepening the theoretical implications of the transition of temporary workers to permanent employment status.

This study also provides a contingency perspective regarding employers' choices in the transition from temporary to permanent employment. Dynamic environments exacerbate ambiguity regarding the types of resources and capabilities necessary for generating and sustaining firm competitiveness (Sirmon *et al.*, 2007). In a dynamic environment, companies shape and develop employee flexi-

bility to enhance their adaptability in a changing market. However, for companies in which ILMs are strictly designed and established, temporary employment is the least effective method for addressing environmental dynamism. Environmental dynamism induces companies to increase the use of temporary employees, which fosters numerical flexibility. In particular, seniority-based payment rewards permanent employees over longer periods, which poses the risk of fostering rigidity within the employment system. Seniority-based pay limits a company's ability to adjust the number of regular workers because company tenure determines their career progress. In dynamically changing environments, seniority-based pay is designed to coexist with temporary employment. Such a situation serves a distinct strategic purpose; cost pressures are mitigated and incentives are provided for career stability (Lautsch, 2003). In regard to the transition from temporary to permanent employment, it is necessary to examine the environmental influences on ILMs and the changes they produce in the employment system.

The statistical results between 2007 and 2009 are inconsistent. Environmental dynamism significantly moderated the relationship between seniority-based pay and the transition from temporary to permanent employment in 2009. However, environmental dynamism did not have the same effect in 2007. Godard (2011) analysed the study model using datasets for the years 1997-1998 and 2003-2004 from a Canadian household telephone survey and compared the statistical results between the two periods. The two datasets provide different statistical results regarding alternative work practices and the psychological tensions of individuals (Godard, 2011). Godard (2011) attributed statistical differences to specification errors and sampling bias. Likewise, sampling may be a cause of the statistical differences here, as the companies in the 2009 sample differ from those in the 2007 sample. However, the years in which the datasets were collected caused statistical differences. In 2007, legislative changes placed normative pressure on companies to obey new labour laws and regulations and promote the transition from temporary to permanent employment. As TEPA coerced employers to reduce the number of temporary workers they hired, most companies made changes in their HR practices and programs. The implications for ILMs became more pronounced in 2009, two years after TEPA's legislative changes went into effect, because the legal pressures subsided (Godard, 2011). Two years after TEPA's enactment, particular features of the employment system such as ILMs began exerting more influence over the debate regarding temporary versus permanent employment. Legitimacy was deemed a company priority after TEPA became law, but ILMs helped balance multiple interests by giving temporary workers permanent employment status (as legally required by TEPA). It is essential to consider the 'when' as we investigate the effects of institutional change on the employment system.

Limitations and Future Research

This research has several potential limitations. First, a single measure was used to examine the transition from temporary to permanent employment. It is possible that errors were made in response to the survey questions. Second, we used cross-sectional data, which can limit the causality among the variables in this research model. This study conducts statistical analyses on a research model with workplace panel data gathered in 2007 and 2009. By conducting multiple tests on the research model, we attempted to validate the statistical results. However, a longitudinal investigation would elaborate the complex dynamics between ILMs and the transition from temporary to permanent employment. A longitudinal research design is necessary to identify the changes to ILMs and their effects on the transition from temporary to permanent employment over time. Third, comparing the cost-benefit analysis with the normative approach elaborates on how ILMs facilitate or inhibit the transition from temporary to permanent employment. Fourth, the research model did not examine Western companies and thus does not provide cross-cultural insight. Fifth, we interpret various statistical results on the moderating effects of environmental dynamism between the 2007 and the 2009 WPS. Future studies should conduct a more detailed analysis to explore whether employers successfully absorb institutional changes within the employment system or if other institutional mechanisms weaken the system's environmental effects. Sixth, temporary workers are hired for either cost-control purposes or for their role-specific knowledge and skills (Way *et al.*, 2010). We cannot access the reasons behind a firm's hiring of temporary workers. Future studies must explore the reasons behind temporary employment.

Conclusion

The employment system shapes organizational culture and norms regarding human capital. When institutional environments experience change, the employment system determines the acceptability of employers with regard to those changes. ILMs are tightly built and established within Korean workplaces and are willing to transition temporary workers to permanent positions by following policies and regulations. Environmental dynamism increases the need to foster flexibility and inhibits the transition from temporary to permanent employment. Further, changes in the institutional environment drive the extent to which ILMs determine the transition of temporary to permanent employment. Once new labour laws and regulations are enacted, companies take immediate action to comply with these changes. After a few years, the features of the employment system become pronounced in shaping and establishing employment policies and practices. We expect our research will motivate scholars and practitioners to explore more detailed explanations behind the transition from temporary to permanent employment.

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SUMMARY

The Relationship between the Internal Labour Market and Transitions from Temporary to Permanent Employment in Korea

Over the past decade, Korean businesses have experienced significant growth in the proportion of temporary employment. In response, the Korean government has enacted the “Temporary Employment Protection Act” to curb the use of temporary employment. With these legislative changes, Korean employers confront choices about whether to encourage transitions from temporary to permanent employment or to utilise outsourcing/contracting services. The purpose of this study is to explore internal labour markets (ILMs) and investigate why companies are willing to transform temporary employment into permanent employment. Furthermore, in the face of market volatility, we consider how companies are willing to increase the number of temporary workers in order to more easily adjust the numbers and types of human resources, rather than constructing and establishing ILMs within a firm. By investigating the interrelated relationships between ILMs, environmental dynamism, and transitions from temporary to permanent employment status, this study elaborates the features of ILMs in making employment decisions.

The statistical results of this study show that structural elements of ILMs facilitate transitions from temporary to permanent employment. Among ILMs, only seniority-based pay plans reduce the number of permanent employees transferred from temporary status when companies experience dynamic changes in their environments. Furthermore, ILMs exerted greater influences over employers’ decisions about transitions from temporary to permanent employment a few years after the enactment of changes in temporary labour laws and regulations.

This study shows that the features of an employment system determine companies’ decisions about temporary versus permanent employment. ILMs shape and establish organisational norms and cultural traditions that determine employment structures. Furthermore, institutionalised environments also determine whether employers decide to make transitions from temporary to permanent employment. Future studies should pay attention to the features of employment systems as determinants regarding firms’ human capital.

KEYWORDS: employment transition, temporary employment, permanent employment; internal labour markets (ILMs); flexibility; environmental dynamism.

RÉSUMÉ

La relation entre le marché interne du travail et les transitions entre emploi permanent et emploi temporaire en Corée

Durant la dernière décennie, les entreprises coréennes ont connu une hausse significative de leur proportion d'emplois temporaires dans leur emploi total. Le gouvernement coréen a adopté la Loi sur la protection de l'emploi temporaire afin de ralentir le recours à cette forme d'emploi. Les employeurs coréens font face au dilemme suivant : favoriser les transitions d'emplois temporaires vers des emplois permanents ou externaliser ou encore sous-contracter certains services. Le but de cette étude est d'explorer les marchés internes du travail et de chercher à savoir pourquoi des entreprises sont disposées à transformer des emplois temporaires en emplois permanents. Par contre, face à la volatilité des marchés, les entreprises auront tendance à accroître le nombre de leurs travailleurs temporaires pour être en mesure d'ajuster plus facilement le nombre et le type de ressources humaines, plutôt que de construire et établir des marchés internes du travail (MIT) en leur sein. En se penchant sur les interrelations entre les MIT, le dynamisme de l'environnement et les transitions d'emplois de statut temporaire à permanent, notre étude cherche à cerner les caractéristiques des MIT eu égard aux prises de décisions en matière d'emploi.

Les résultats statistiques de l'étude montrent que certains éléments structurels des MIT facilitent les transitions d'emplois temporaires vers des emplois permanents. Parmi les MIT, seuls ceux comportant des régimes de rémunération basés sur l'ancienneté ont affiché une réduction du nombre d'employés permanents à la suite de conversions d'emplois temporaires en emplois permanents après que les entreprises eurent connus des changements dynamiques dans leur environnement. L'effet des MIT sur les décisions des employeurs de favoriser les transitions d'emplois temporaires vers des emplois permanents se fait davantage sentir après quelques années suivant l'adoption de changements dans les lois et règlements sur le travail temporaire.

Cette étude montre que les caractéristiques d'un système d'emploi influent sur les décisions des entreprises dans le choix entre emplois temporaires et emplois permanents. Les MIT configurent et établissent des normes organisationnelles et des traditions culturelles qui à leur tour déterminent les structures d'emplois. De plus, les contextes institutionnels influent aussi sur les décisions des entreprises de favoriser l'une ou l'autre forme d'emploi. Les études à venir sur le sujet devraient mettre davantage l'accent sur les systèmes d'emplois dans la détermination du capital humain des entreprises.

MOTS-CLÉS : marché interne du travail, Corée, type d'emploi, emploi temporaire, emploi permanent, système d'emploi.

RESUMEN

La relación entre el mercado laboral interno y las transiciones del empleo temporario al empleo permanente

En la última década, la proporción de empleo temporal ha experimentado un crecimiento significativo en el medio empresarial coreano. En reacción a esto, el gobierno coreano ha emitido la Ley de protección del empleo temporario para restringir el uso del empleo temporario. Con estos cambios legislativos, los empleadores coreanos se ven confrontados al dilema siguiente: favorecer la transición de empleos temporarios a empleos permanentes o recurrir a la externalización de ciertos servicios y a la sub-contrata. El objetivo de este estudio es de explorar los mercados laborales internos e investigar porqué las empresas estarían dispuestas a convertir empleos temporales en empleos permanentes. Sin embargo, frente a la volatilidad de los mercados, las empresas tendrían tendencia a aumentar el número de trabajadores temporales para estar en medida de ajustar más fácilmente la cantidad y el tipo de recursos humanos en lugar de construir y establecer mercados laborales internos en su seno. Abocándose a las interrelaciones entre los mercados laborales internos (MLIs), el dinamismo de los entornos y las transiciones de empleos de estatuto temporario a permanente, nuestro estudio contribuye a precisar las características de los MLI que juegan en las decisiones en materia de empleo.

Los resultados estadísticos del estudio muestran que ciertos elementos estructurales de los MLI facilitan las transiciones de empleos temporales en empleos permanentes. Entre los MLI, solo aquellos con regímenes de remuneraciones basados en la antigüedad han experimentado una reducción de la cantidad de empleados y de empleados permanentes como consecuencia de las conversiones de empleos temporales en empleos permanentes después que las empresas habían conocido cambios dinámicos en sus entornos. Es más, los MLI ejercieron una influencia más importante en las decisiones de los empleadores de favorecer las transiciones de empleos temporales en empleos permanentes algunos años después de la adopción de los cambios legislativos y reglamentos sobre el trabajo temporal.

Este estudio muestra que las características de un sistema de empleo influyen las decisiones de las empresas sobre la opción entre empleos temporarios y empleos permanentes. Los mercados laborales internos configuran y establecen normas organizacionales y tradiciones culturales, las cuales, a su turno, determinan las estructuras de empleos. Es más, los contextos institucionales influyen también las decisiones de las empresas en cuanto a favorecer una u otra forma de empleo. Los estudios futuros sobre el sujeto deberían poner el acento sobre todo en el rol de los sistemas de empleos en la determinación del capital humano de las empresas.

PALABRAS CLAVES: mercado laboral interno, Corea, estatuto de empleo, tipo de empleo, empleo temporal, empleo permanente, sistema de empleo, dinamismo del entorno.