

RESEARCH IN PERSONNEL
AND HUMAN RESOURCES
MANAGEMENT

RESEARCH IN PERSONNEL AND HUMAN RESOURCES MANAGEMENT

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RESEARCH IN PERSONNEL AND HUMAN RESOURCES MANAGEMENT

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INVESTOR IN PEOPLE

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CHAPTER 1

THE ROLE OF HUMAN RESOURCE MANAGEMENT IN SURVIVING OR THRIVING: A REVIEW OF COMPENSATION SYSTEMS AND LOW-WAGE WORK

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ABSTRACT

Organizational scholars studying compensation often place an emphasis on certain employee groups (e.g., executives). Missing from this discussion is research on the compensation systems for low-wage jobs. In this review, the authors argue that workers in low-wage jobs represent a unique employment group in their understanding of rent allocation in organizations. The authors address the design of compensation strategies in organizations that lead to different outcomes for workers in low-wage jobs versus other workers. Drawing on and integrating human resource management (HRM), inequality, and worker literatures with compensation literature, the authors describe and explain compensation systems for low-wage work. The authors start by examining workers in low-wage work to identify aspects of these workers' jobs and lives that can influence their health, performance, and other organizationally relevant outcomes. Next, the authors explore the compensation systems common for

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this type of work, building on the compensation literature, by identifying the low-wage work compensation designs, proposing the likely explanations for why organizations craft these designs, and describing the worker and organizational outcomes of these designs. The authors conclude with suggestions for future research in this growing field and explore how organizations may benefit by rethinking their approach to compensation for low-wage work. In sum, the authors hope that this review will be a foundational work for those interested in investigating organizational compensation issues at the intersection of inequality and worker and organizational outcomes.

Keywords: Compensation; pay level; pay-for-performance; pay volatility; inequality; low wage work; benefits; pay administration; social sustainability; strategic human resources

INTRODUCTION

A growing stream of research has pointed to the role of organizations in societal inequality (Bapuji et al., 2018; Cobb, 2016). Several causes have been noted. Bapuji et al. (2020) identified philanthropy, institutional work, externality, and employment practice causes, while Amis et al. (2020) noted that hiring, promotion, role allocation, compensation, and organizational structures all encourage inequality to persist. Cobb (2016) focused attention on the proliferation of market-oriented practices, such as external labor market emphasis, executive compensation, and changes in firms' boundaries as drivers of inequality. Similarly, Bidwell et al. (2013) pointed to changing employment practices as the cause of growing inequality. A thread among this work is that the organizational role in inequality is at least partially an issue of the practices and policies applied to the workforce, which emerge from labor market factors and organizational strategies.

Using a strategy-oriented view, Bapuji et al. (2018) suggest that value distribution, that is, "allocation of retained earnings among those who contributed resources to value creation and appropriation," is a key component of inequality, describing such distribution as a complex socio-political process (p. 988). They further explained that value distributions have become skewed as few claimants have more power. While executives and shareholders have high power, employees were categorized as having medium to low power and thus recipients of smaller portions of retained earnings (Bapuji et al., 2018). Research on health and well-being reports negative health outcomes for those who are lower in compensation (Sayre & Conroy, 2023), while research on inequality has reported negative health outcomes for those at the low end of the income spectrum, especially in environments of high inequality (Kawachi & Kennedy, 1999).

Overall, there are three main streams of research that have attempted to better understand inequality and its effects on workers at lower levels of the organization. First, there is research that speaks broadly to the HR practices

and designs that create inequality. This research often considers the full suite of practices, identifying either a general HR approach (e.g., market orientation, Bidwell et al., 2013; Cobb, 2016) or coverage of a specific dimension in various practices (Amis et al., 2020). Second, there is research with a macro-focus that addresses value and rent allocation processes. This research tends to lump all employees into one “non-executive” group and considers them as one broad stakeholder (Bapuji et al., 2018); however, there are large differences in the non-executive worker population with some workers having much less power to demand resources than others. Much of the research in this area that does address outcomes for those at the low end of the income spectrum focuses on macro-concepts, such as minimum-wage policy (Tsao et al., 2016) and income inequality (Wu & Li, 2018), while using broad constructs and measures such as household income, which includes government programs (Ford, 2011). A final stream of research looks at the experiences of workers in precarious work (Kalleberg, 2018), front-line jobs (Mcbride et al., 2005), low human capital work (Marler et al., 2002; Masters & Miles, 2002), or low-wage work (Schultz, 2019). This research addresses the worker experience but does not dive into details on pay in an organized fashion beyond acknowledging low wages.

In this chapter, we draw on and integrate the HRM, inequality, and worker literatures with the compensation literature to identify the low-wage work compensation design dimensions, reasoning behind those dimensions, and effects of those dimensions for workers and organizations. We focus on the organizational pay design contributors to the outcomes of workers in low-wage work, arguing that workers in these jobs represent a unique employment group in our understanding of rent allocation in organizations. Specifically, we address the design of compensation strategies in organizations that lead to different outcomes for workers in low-wage jobs than other workers. We study compensation systems for low-wage work, recognizing that the experiences are unique for these workers, and by doing so, we show why there is merit in treating this type of work as unique. This exercise provides an integrated explanation of the design and subsequent implications of compensation for workers in these jobs. As a result, many potential areas of research are noted. Our hope is that this chapter will be a foundational work for those interested in investigating organizational compensation issues at the intersection of inequality and organizational outcomes.

Our approach begins with a description of the jobs and lives of workers in low-wage work. This allows us to identify the primary themes of workers’ lives that can influence their health, performance, and other outcomes relevant to organizations. Next, we explore the nuances of compensation strategy for this group building on the compensation literature. Here, we identify what compensation design approaches are prevalent for low-wage work, then propose the likely organizational reasoning for these approaches, and describe the worker and organizational outcomes of these designs. A summary of our integration is provided in Table 1.1. Based on this picture, we discuss avenues for future research and explore how organizations may benefit by thinking more deeply about their approach to compensation for low-wage work.

Table 1.1. Low-wage Work Pay Strategies, Strategic Considerations, and Effects.

Pay Strategy	Design of Low-wage Jobs	Design Considerations	Effects on Workers
<i>Pay level</i> – how much employees are paid (Gerhart, 2000)	<ul style="list-style-type: none"> • Low pay in general and often minimum wage (Fusaro & Shaefer, 2016) • Pay is often at or below the poverty threshold • Lower wage rates in small firms and above market rates in large firms (Cobb & Lin, 2017; Cobb & Stevens, 2017) 	<ul style="list-style-type: none"> • Low wages reduce costs to compete in highly competitive markets (Appelbaum & Schmitt, 2009) • Lower wages to the “non-core” or “peripheral” workforce (Delery & Shaw, 2001) • Low-wage work is often outsourced, which allows for wages to be held down (Bidwell et al., 2013) • Incentives are not used for low-wage jobs to the extent they are seen as low in value creation variability 	<ul style="list-style-type: none"> • Pay level is associated with (where more is better): • Employee health and well-being (Sayre & Conroy, 2023) • Performance (Meuris & Leana, 2015) • Motivation (Conroy & Gupta, 2019) • Job attitudes (Williams et al., 2006) • Turnover likelihood (Rubenstein et al., 2022)
<i>Pay determinants or basis</i> – how pay is determined	<ul style="list-style-type: none"> • Many low-wage jobs do not have pay-for-performance (Bhaskaran et al., 2022) • Most common pay-for-performance types in low-wage jobs are: • piece-rate pay (based on objective, results oriented performance; Sayre & Conroy, 2023; Zardkoochi & Bierman, 2016) • tipping from customers (Kundro et al., 2022) 	<ul style="list-style-type: none"> • Varies with the specifics of the industry and type of work • Driven by cost-savings, industry norms, and performance measurability 	<ul style="list-style-type: none"> • Piecework leads to physical stress (Schleifer & Okogbaa, 1990); poorer physical health (Davis, 2016); burnout (Yeh et al., 2004) (Sayre & Conroy, 2023) • Tipping related to sexual harassment (Kundro et al., 2022) • Pay-for-performance for low-wage work increases workplace safety incidents (e.g., Artz & Heywood, 2015; Bender et al., 2012)
<i>Pay structure</i> – size of pay differences, relative wages, pay dispersion (related: mobility within the structure)	<ul style="list-style-type: none"> • Growing pay gap between workers in low-wage jobs and workers at higher levels • Decreased likelihood of moving out of low-wage work overtime (Schultz, 2019) • Less opportunity to move up in the firm structure • Decline in internal labor markets (Bidwell, 2013; Schultz, 2019) 	<ul style="list-style-type: none"> • Increased reliance on market pricing and proxies for value creation (e.g., stock prices) to decide compensation levels (Bivens & Kandra, 2023; Conroy, 2019) • Executive pay has ballooned in the past few decades (Bivens & Kandra, 2023) 	<ul style="list-style-type: none"> • Growing pay gap might lead workers to feeling unfairly treated, which might cause stress (Sayre & Conroy, 2023) • Increased absenteeism (Pfeifer, 2010) • Increased unethical behavior (John et al., 2014)

<p><i>Pay administration</i> – policies and practices associated with the distribution of pay to workers; includes paycheck frequency, pay information disclosure</p>	<ul style="list-style-type: none"> Increased pay frequency, which may be important for workers experiencing scarcity Low-wage work is likely to involve pay volatility at higher rates than other forms of work 	<ul style="list-style-type: none"> Pay frequency depends on how an employee is legally required to be paid, convenience for the organization, and employee competition Shifting risk from the organization to the worker around hours and demand Increased scheduling uncertainty and number of hours worked (Schneider & Harknett, 2019) Increased pay volatility (Conroy et al., 2022) 	<ul style="list-style-type: none"> Increased pay frequency may provide a buffer for immediate financial needs Increased pay frequency may also lead to greater spending and a lack of funds when needed later Pay volatility is associated with turnover, especially for the lowest paid workers (Conroy et al., 2022) and detrimental health and well-being outcomes (Sayre, 2022)
<p><i>Benefits</i> – noncash and deferred cash programs</p>	<ul style="list-style-type: none"> Many benefits (e.g., healthcare, retirement, and leave) are unavailable to workers in low-wage jobs Benefits might be difficult for workers to utilize (e.g., unpaid leave) 	<ul style="list-style-type: none"> Increased use of nonstandard working arrangements (e.g., part-time, temporary, and contract work) This shift reduces employee benefits and thus organizations' costs (Kalleberg, 2000) Increased use of high-deductible health plans Shifting risk to workers in move from defined benefit to defined contribution retirement plans 	<ul style="list-style-type: none"> Decreased health benefits leading to unfavorable health outcomes; health insurance may be too expensive or difficult for workers to navigate, exacerbating health problems Limited financial means to set aside earnings for retirement, so missing out on company contributions Leave programs are often unevenly available and usable for workers (Kossek & Lautsch, 2018)

LOW-WAGE WORK LITERATURE REVIEW

Research defining the category of employees experiencing lower levels of the income strata has taken many approaches to defining this set of workers. Researchers have focused on descriptors such as “low income” (Leana & Meuris, 2015), “working poor” (Leana et al., 2012), “front line work” (Frank-Miller et al., 2022), “lower class” (Côté, 2011), “low skill work” (Maxwell, 2006), “low wage” (Fusaro & Shaefer, 2016), and “precarious work” (Kalleberg, 2018). Thus, drawing the boundaries around a relevant type of work and employee category can be much more difficult than it is to draw a boundary around other work categories, such as executive and knowledge work.

Research on inequality has drawn the line between executives and employees as separate claimants on firm resources, treating them as different categories with different levels of bargaining power (Bapuji et al., 2018). We suggest further nuance is necessary here, as the Bapuji et al. (2018) categorization identifies everyone from supervisors, doctors, and small business owners to migrant and fast-food workers as falling within one category. Those in the former group have substantially higher pay in most cases, higher skill and education expectations, and greater access to financial resources; thus, there is likely to be higher competition for their skills in the labor market in comparison to the latter group (e.g., migrant and fast-food workers). Those in the latter group are more likely to receive lower compensation, have fewer education requirements, and have less access to financial resources; those in this category are viewed as more interchangeable in the demand for their labor. On average, the former types of work (e.g., management and medicine) have higher barriers to entry and perceived organizational value, while the latter have low barriers to entry and perceived organizational value. Such considerations suggest that there are those who have high levels of power (i.e., executives, Gray & Kish-Gephart, 2013), some power (i.e., professionals and managers), and those with little to no power (i.e., other workers, Resnick & Wolff, 2003). The differences within the “employee” category are substantial and likely to be associated with different labor markets, human resource strategies, and power dynamics (Conroy & Morton, 2023; Lepak & Snell, 1999). Relatedly, value distribution within the employee category is also expected to be substantially different.

We focus our research on the category of low-wage work and non-transitory workers who fill low-wage jobs. These types of jobs are often classified as low-skill jobs, which are jobs that have minimal education and work experience requirements, often not more than a high school education and one year of work experience. Individuals in low-skill-requirement jobs are more likely to have jobs that pay low wages and to have lower levels of household income than those in high-skill-requirement jobs (Maxwell, 2006). Within this category, there are two general types of workers who work in low-skilled jobs – young people who tend to be transitory in this type of work and the economically disadvantaged, for whom “low-skilled jobs are a way of life” (Maxwell, 2006, p. 9). Some young people in low-wage jobs are only temporarily in these jobs, as they might still be in school; these workers often have familial financial support and

fewer personal demands. Once their education is complete or once they acquire work skills on the job, they will likely advance to high-level, high-skilled, and ultimately high-compensated jobs.

The second type of worker, the economically disadvantaged, will often have lower levels of education and intermittent work experience. They are more likely to live in poverty and more likely to hold low-wage jobs throughout much of their lives (Maxwell, 2006). Given these two groups have distinct life circumstances and possibly different career progressions, we focus on the latter group who are more likely to remain in low-wage jobs over long periods of time or possibly for their entire lives. Workers in this category in the United States typically represent the lowest income strata of employed workers and, thus, are a key demographic for understanding societal inequality. We note that the low-wage work and pay design issues that we review are likely true for both groups because the work and compensation systems tend to be the same; however, the implications of these designs are likely different because those who are non-transitory and who lack financial resources will experience these pay designs differently.

Low-wage Work Characteristics

As noted, many low-wage jobs have limited entrance requirements, often requiring no more than a high school education and no more than one year of work experience. This means there are low barriers to entry for these jobs and a highly fluid labor market. Low-wage jobs are concentrated in a few industries, namely service, retail, and manufacturing, with occupations including administrative support, production, food preparation and service, sales, and building and grounds maintenance. These industries comprise about 75% of these jobs. In particular, the service industry contains a disproportionately high number of low-wage jobs (Maxwell, 2006). Although these jobs are considered “low skilled” in that specific education and experience requirements are low, certain skills might still be required, such as physical and mechanical skills, communication, problem-solving, and English language skills (Maxwell, 2006). Recent immigrants might be at a disadvantage in obtaining and holding a job to the extent that English language skills are required.

In addition to being concentrated in a limited number of industries, low-wage jobs also share commonalities related to the design of the job and common management practices that govern such jobs. A common feature of low-wage jobs is a “command and control” management style that promotes a lack of autonomy and decision-making for workers. This ensures that jobs are “highly scripted and tightly bounded, minimizing organizational dependency on employee discretion and cognitive capacity” (Meuris & Leana, 2015, p. 149). From an organizational standpoint, this type of management style might be appropriate for low-wage jobs, given that such jobs generally require relatively low skills and thus have relatively low barriers to entry and exit. Hersey and Blanchard (1972) proposed a situational model of leadership in which specific leadership and management practices should be adapted to a given situation. These practices vary according to the amount of relationship focus and task focus followers require, as well as the

level of development that followers need (Hersey, 1976; Thompson & Vecchio, 2009). In our case, workers in low-wage jobs might be in more need of development, and thus, organizations might institute a more directive and task-focused leadership style, such as a command-and-control style.

Another reason that organizations design low-wage jobs as highly scripted is to accommodate high turnover rates for workers in these jobs. This highlights the fact that many low-wage jobs not only have relatively low barriers to entry but also low barriers to exit. For example, mean employee turnover in quick-service restaurants can be as high as 120%, while average employee turnover is 60% annually for line-level employees that work in the lodging segment (Tracey & Hinkin, 2008). Reduced autonomy might decrease individuals' work motivation, decrease their adherence to safety protocols, increase their negative affect, and more generally decrease trust and social cohesion in the workplace (Meuris & Leana, 2015; Parker et al., 2001). In addition to a lack of autonomy, this command-and-control management model also subjects workers to high levels of employee monitoring, which can negatively affect employees' relationships with their organizations and can lead to other negative outcomes, such as anxiety, anger, and stress (Hartman, 1998; Meuris & Leana, 2015).

Following from the highly scripted nature of many low-wage jobs, these jobs are also designed for limited employee learning. To the extent that low-wage jobs have high turnover rates, organizations may limit their resource expenditures and not devote substantial amounts of time and money to training and developing the workers in these roles. Researchers have suggested that the level of formal on-the-job training for low-wage work tends to be low (Leana et al., 2012), which reinforces the highly scripted nature of such jobs. This could limit skill acquisition, development opportunities, and advancement opportunities for workers. Additionally, many workers are in jobs that are physically and psychologically demanding (Leana et al., 2012; Leana & Meuris, 2015). Low-wage jobs such as working in a warehouse or manufacturing plant likely deplete workers' physical strength and might lead to higher levels of health problems or workplace safety incidents. Related to psychologically demanding jobs, many workers are employed in jobs with caregiving responsibilities (e.g., health aides, childcare workers), and these jobs often require emotional labor in addition to manual labor (England & Folbre, 1999). These types of "care" jobs can lead to high levels of stress for these workers, which could subsequently negatively impact work performance (Durden et al., 2007).

Finally, low-wage jobs are also often characterized by variability in work schedules, related to which days and hours, or shifts, employees are required to work, as well as the number of hours they work per week (Chung, 2022; Henly & Lambert, 2014; Osterman & Shulman, 2011). Workers also often face uncertainty about their job security (Meuris & Leana, 2015). Many organizations have implemented variable work schedules to deal with uncertain environments. This promotes staffing flexibility, or "the ability to increase or decrease the volume of labor in the short term to meet fluctuating market demand" (Chung, 2022, p. 515). This affects the worker because it varies the number and/or timing of their work hours from one day or week to the next, with little choice in whether