The role of human resources in closing the wage gap: example of selected companies

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ABSTRACT

According to the Economic Policy Institute, worker productivity grew by 74% between 1973 and 2013. Yet, during this same time period, compensation for median wage workers, grew only by 11% (Mishel, Gould and Bivens, 2015). This is in contrast to executive pay, which has continued to increase by nearly 50% since 2009 (Mishel and Schieder, 2016). So, compensation is not growing at the same rate as productivity demands for the hourly worker. Clearly a misalignment between expected worker productivity and fair worker compensation exists.

A compensation system with large pay gaps can result in high employee turnover, low employee morale and employee shirking. Employees focused on perceptions of pay inequality are in a state of inefficiency and can cost organizations money rather than contribute to production. Organizations do not have to accept the status quo by simply observing as employees adopt modes of inefficiency. Internally, an organization can restructure the compensation plan, to include meaningful benefits that support hourly worker alignment with organization goals. This alignment can result in gains beyond short term productivity to long term profitability. Further, there is potential for increased employee morale and public recognition of corporate ethical behavior.

The following paper will discuss the wage gap, strategic human resource management as an underutilized resource, meaningful benefits with consideration to Maslow's Hierarchy of Needs, examples of strategic human resources as closing the wage gap, needed benefits, examples of strategic human resources as closing the wage gap, desired benefits and implications for human resource managers.

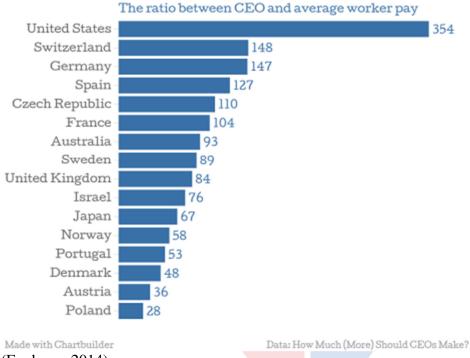
Key Words: Wage Gap, Strategic Human Resources, Maslow's Hierarchy of Needs, Benefits

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INTRODUCTION

Since the 1980s, most of the industrialized world has experienced an increase in income inequality (OECD, 2014). Some view this inequality as being driven by significant increases in salary by top incomes (Alvaredo, Atkinson, Piketty, & Saez, 2013). However, there are others that attribute this trend to low minimum wages (Neumark, 2015). Consider the following data about global minimum wage ranges from the highest to the lowest.





(Ferdman, 2014).

While the United States has the 11th highest minimum wage, the US also has the highest executive pay to average worker pay at 354. Australia with the highest minimum wage has the 8th highest executive pay with a ratio of 93 between CEO and average worker pay. But, all 16 listed countries do have CEO pay that is significantly higher than the pay received by the average wage worker. Clearly, there is a large gap in pay from the executive to the average worker.

It is certainly true that from one organization to another the magnitude of the wage gap between executive pay and the average worker, varies. Never the less we can say the following implications develop from large executive to worker wage gaps within an organization: (Charles O'Reilly, 2007)

- Increased employee turnover.
- Inefficiencies of organizational resources.
- Decreased employee work effort.
- Increased employee allegiance to a union.
- Social implications associated with income.

Faced with these issues corporations are not without tools that can be used to address each potential negative outcome. Simply raising employee wages is not always an adequate or feasible response. However, a strategic approach to human resource management can often address all of these issues and mitigate their impact on productive, corporate culture and employee satisfaction. For the purposes of this treatment we will define Strategic Human Resource Management as the following: planning for organizational hiring, onboarding, development of employees and legal protection with dynamic analysis of current and future staffing needs and continual alignment of all employees with organizational mission, values and goals. In short, Strategic Human Resource Management (SHRM) has the purpose of recognizing the individual employee's needs and aligning them with the organization's short and long term goals. Through valuing the employee first and understanding of employee needs, organizations can offer unique benefits that are cost effective and especially meaningful to the employee. Consider the quote from Richard Branson, CEO of Virgin, "Clients do not come first. Employees come first. If you take care of your employees, they will take care of the clients." The following paper will discuss:

- The wage gap.
- Strategic human resource management as an underutilized resource.
- Meaningful benefits with consideration to Maslow's Hierarchy of Needs.
- Examples of strategic human resources as closing the wage gap, needed benefits.
- Examples of strategic human resources as closing the wage gap, desired benefits.
- Implications for human resource managers.

WAGE GAP

Is a Wage Gap Bad?

J.C.Penney's Ron Johnson, received \$53.3 million in compensation as reported in 2012. "Comparing his earnings to the \$29,688 average compensation for a department store worker is the equivalent of stacking the length of a loaf of bread—give or take a few slices—against the height of the Empire State Building," (Smith and Kuntz, 2013).

Likewise, Walmart CEO Mike Duke earned about \$16,826 an hour with an annual salary of \$35 million in 2010 (Gomstyn, 2010). The average CEO compensation was \$15.2 million in 2013 (Davis and Mishel, 2014). CEOs make upwards of 340 times the average worker and this increase has been substantial since the 1980s when CEO pay was only 42 times the average worker (Nadar, 2013). The defense of the CEO pay packages is that they are necessary to attract top talent in the business world and reward them for their efforts (Nadar, 2013). But, can this glaring reward for a single individual, have negative consequences for the organization?

Charles O'Reilly, director of Stanford GSB's Center for Leadership Development and Research says that huge salary imbalances between CEOs and the people who work for them can send bad vibes throughout the organization, weaken loyalty and erode the talent pool (Stanford GSB Staff, 2007). Over a five-year period of time, O'Reilly tracked five levels of senior management from division general manager to vice president. From the data he collected, O'Reilly developed the following conclusions: when the CEO is overpaid and the employees are underpaid, there will be turnover, there are long-term consequences to paying employees too much or too little, employees observing a huge pay gap may experience a decrease in their efforts and an increased allegiance to a union, wage gaps can increase the tendency for individuals to perceive greater inequality than actually exists and finally, pay is not a purely economic corporate issue, but pay can have broad social implications. Regarding this last point, consider this example from McDonalds. In 2016, the CEO earned a bonus of \$23 million while a

large portion of MacDonald's hourly employees earned around \$7.00 per hour. In the United States, many of these hourly employees still required governmental financial assistance in spite of working full time jobs. For some wage workers, this extreme pay gap is particularly demoralizing (Minnick, 2016).

Simply Increase the Minimum Wage?

Raising the minimum wage is often recommended by policymakers as the way to alleviate this income inequality. However, is simply raising the minimum wage the solution? While it is certainly an option, researchers are conflicted regarding the potential outcome of raising minimum wage, even going as far as to say that raising the minimum wage could potentially damage overall national employment. "The current model of competitive labor markets predicts that a higher minimum wage will lead to job loss among low-skilled workers" (Neumark, 2015). In effect, if the minimum wage is set higher than competitive equilibrium, employers will substitute costly low skilled labor with technology and/or increase product prices to support the higher employee wages. Neither outcome is beneficial to the hourly employee.

STRATEGIC HUMAN RESOURCES AN UNDER UTILIZED RESOURCE

According to the Wharton management professor Peter Cappelli the issue is "whether employees believe that the amount you are paying them, all things considered, is unfair relative to what you are asking them to do and relative to what [type of job] they could get someplace else," (Wharton, 2013). In agreement, Wharton Management Professor John Paul MacDuffie says, to address the feelings of being underpaid, employees must focus on the fact they are lucky to have a job in a down economy, focus on benefits, demand a raise or quit. Minimum wages have failed to provide for a decent standard or living and a fair reward for labor (Blake, 2004, p. 4).

Steve Jobs' said Apple's greatest asset was the people, the employees. In alignment with Mr. Jobs, many companies are now recognizing their employees as truly the organization's most valuable asset. Long-term organizational success and financial performance is directly related to the talents, accomplishments and actions of the employees. With this knowledge, why would the minimum wage workers be underpaid? Sometimes, minimum wage is all the organization can afford. Other times, the organization has not fully recognized the value of each employee. And often organizations simply have not explored creative options for rewarding and supporting their employees. Pay is not the only tool an organization can implement to reduce the compensation gap between worker and executive. Ann Mulcahy, former chairperson and CEO of Xerox Corporation says, "Work/life benefits allow companies meaningful ways for responding to their employees' needs; they can be a powerful tool for transforming a workforce and driving a business' success." Strategic human resources have the purpose of identifying and implementing work/life benefits that are motivating to individual employees while also aligned with the organization's mission, values, goals and budget.

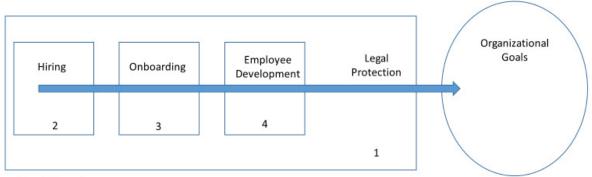
Human Resource Functions and Strategy Human Resource Management

Human Resource Management serves to motivate employees and has emerged as essential for developing efficient organizations. For the purposes of this paper, four key functions of human resources will be identified.

- Key Function- Hiring employees.
- Key Function- Onboarding employees.
- Key Function- Developing employees.
- Key Function- Legal protection for the organization and the employee.

Each of the four aspects, hiring, onboarding, developing, legal and alignment have the potential to support efficiencies, support retention and build employee job satisfaction. But, it is through strategic application of the four key functions, that an organization can gain alignment and competitive advantage.

Figure 1: Strategic Human Resource Management



- 1. Legal Protection
- 2. Hiring
- 3. Onboarding
- 4. Employee Development

In all stages include high communication, focus on building trust, prioritize human capital and support all employees in being strategic partners with the organization.

Legal protection, hiring, onboarding and employee development are essential functions for maintaining an organization staff. The extent to which an organization excels in each function predicts short term and long term organizational goal attainment. Ineffectively addressing these functions leaves the organization vulnerable. Minimally addressing the functions can allow an organization to remain operational. But, strategic planning in each of the four function areas can create an organizational staff with a talented employee pool that possess current and future skills needed to reach organizational optimization. Each function with a description of ineffective, effective and strategic planning will be discussed.

Legal Protection

• Ineffective legal protection allows companies exposure to risk. Companies have at least an 11.7% chance of having an employee file a lawsuit against them and the cost of an employee lawsuit that goes to trial averages \$200,000 (Simpson, 2015).

- Effective HR legal protection involves the maintenance of organizational compliance in relation to employees from hiring to firing.
- Strategic human resource management applies legal protection through human resource competencies involves balance of short term actions that continually support long term compliance maintenance.

Hire Employees

- Ineffective hiring can result in loss of resources, time and corporate culture. Consider it costs \$3,328 to replace a \$10 an hour employee (Merhar, 2016).
- Effective hiring creates a competitive advantage by integrating employees that will contribute to current and future organizational needs.
- Strategic human resource management applied to the hiring function focuses of identifying candidates that have the current necessary job skills, the potential to meet future job skills and job skills that support comprehensive organizational needs.

Onboarding Employees

- Ineffective or no employee onboarding results in higher turnover and slow rates of productivity for new employees. Consider many employees are still deciding if they will remain with the company for up to six months post hire.
- Effective employee onboarding, orientation and training, increases the speed at which an employee becomes productive and increases potential for retention.
- Strategic human resource management develops an onboarding process that involves bringing the employee into the organization and supporting their further understanding and alignment with organizational culture, mission, values and goals.

Development of Employees

- Ineffective employee development or a lack of employee development will result in reduced competitive advantage through employee skills and low employee morale.
- Effective employee development involves ongoing training and development essential for maintaining a talented employee's cutting edge skills. The cost of training is offset by the competitive advantage gained through innovation and retention.
- Strategic human resource management builds employee development that aligns the employee's goals and interests with the employer's goals and interests.

Strategic Human Resource Management is About Alignment

Strategic Human Resources is about supporting employee engagement, aligning talent with organizational goals and minimizing the costs associated with hiring, onboarding, lost productivity, lost engagement, errors, reduced training and damaged culture (Bersin, 2016). Specifically, SHRM can use the comprehensive knowledge of the organization to create benefits that attract, involve, develop and sustain the employee in a way that the employee self directs towards organization goals.

MEANINGFUL BENEFIT WITH CONSIDERATION OF MASLOW'S HEIRARCHY OF NEEDS

Each organization offers some benefits that address the needs of their hourly workers. But, what is the difference between offering benefits and strategic development of benefits programs that address employee's needs? Consider, Google and Facebook have high employee satisfaction and high CEO-worker pay gap (Dishman, 2015). The employee can be satisfied, even with a wide pay gap, if the individual employee's needs are addressed. Strategic Human Resources help organizations offer a variety of benefits that support individual employee needs. Contemplate strategic benefits in the context of Maslow's Hierarchy of Needs.

Developed by Abraham Maslow (1908-1970), Maslow's Hierarchy of Needs is a motivational theory in psychology that is comprised of a five tier model of human needs. Maslow believed people are not singularly motivated but rather possess a series of motivational systems. Our needs begin at the basics including breathing, food, water, sleep, survival needs and progress through safety, belonging, self-esteem and to the highest level self-actualization.

If someone is missing the lower level needs, these will be their motivators until met. As an example, the need for food will be the motivator until met. Once lower level needs are achieved, an individual will begin to seek higher level growth needs. Every person has the ability to move through the hierarchy of needs towards self-actualization.

- 1. Physiological needs- air, food, drink, shelter, warmth and sleep.
- 2. Safety needs -security, order, stability, law and freedom from fear.
- 3. Social needs friendship, trust, acceptance, affiliation and love.
- 4. Esteem needs independence, achievement, self-respect, and respect from others.
- 5. Self-actualization needs self-fulfillment, seeking personal growth and reaching potential.

Figure 2: Maslow's Hierarchy of Needs



Strategic benefits should be designed with the intent of helping employees meet physiological, safety, social and esteem needs, scaffolding an employee towards visions of or onto self-actualization. Employees need food, water, safety and rest, these needs can be met through consistent income, medical insurance and safe work environments. But, employees also value experiences of friendship, achievement and self-fulfillment. These benefits can be met through opportunities to socialize, develop talents and think creatively. In fact, some employees might say they value experiences of social and esteem more than money. For these reasons, when salary increases are not an option, strategic and meaningful benefits can be of great value to the employee, the organization and the community.

ORGANIZATIONS MINIMIZING THE WAGE GAP THROUGH APPLICATION OF STRATEGIC HUMAN RESOURCE MANAGEMENT, NEEDED BENEFITS

The wage gap is experienced throughout the globe between executives and hourly employees. This gap can contribute to employee dissatisfaction and minimized employee motivation. Strategic Human Resource Management not only brings about efficiencies within an organization, SHRM has the potential to develop benefits that serve the long term needs of hourly employees. There are many organizations currently implementing purposeful benefits in a way that can provide physiological and safety needs to employees.

Chick-Fil-A

Chick-Fil-A, a fast food restaurant, seeks to hire upper range high school students and offers \$1000-2000 scholarships, to encourage employee development. Further, there are growth opportunities within the organization for committed employees as more than half of the new restaurant operators are seasoned Chick-Fil-A employees (Site Staff, 2001). Finally, the chain is closed on Sunday so all employees are guaranteed one day off a week.

Costco

Costco, an American membership only warehouse club selling a wide range of merchandise, offers full insurance benefits to part-time and hourly workers, including dental and medical (Adams, 2014). Further, employees can take advantage of the in-house optical centers and pharmacy, with generic medications as low as \$5.

Whole Foods

Whole Foods, an American supermarket chain that features foods without artificial ingredients, offers hourly employees regular work schedules with work hours between 20-30 hours per week. Many of these employees are eligible for medical insurance upon hitting 30 hours a week and at 20 hours per week receive paid time off and percent store discount. Also, after 6000 hours of service, stock options are available (Kim, 2014).

Starbucks

Starbucks Corporation is an American coffee chain and since 1988 Starbucks has offered a "comprehensive compensation program" that recognizes and rewards employees as partners of the company. Employees receive competitive base pay, health care for eligible full and part-time partners with an average of 20 hours per week and equity in the company in the form of Bean stock. In 2013 employees received over \$234 million in pre-tax gains from Bean Stock. Starbucks also offers a 401K savings plan with employer match, tuition reimbursement, short term disability, paid vacation time and 30 percent in store discount (Kim, 2014).

Lands Ends

Lands End is a men's and women's apparel shop with approximately 2000 employees working in its call center and distribution centers with many part time workers receiving benefits such as the employee discounts, access to the on-site medical clinics and use of the on-site fitness center and child care centers. In addition, Lands End offers part time employees dental, vision and life insurance benefits. Seasonal employees that commit to return to work the next year can also receive benefits over the entire year (Kim 2014).

UPS

UPS, United Parcel Services is a worldwide delivery and shipping company that offers hourly employees full benefits, including medical/dental coverage and tuition assistance and many part-time employees are eligible for tuition assistance benefits. The company has "Earn and Learn" programs at around 90 U.S. locations where students can balance school and part-time work (Kim 2014).

Organization	Benefit	Level of Maslow's Hierarchy
Chick-Fil-A	Guaranteed day off and academic scholarships.	Physiological and safety.
Costco	Health benefits to part time employees.	Physiological and safety.
Whole Foods	Part time employees receive health benefits and paid time off.	Physiological and safety.
Starbucks	Part time employees receive health benefits and equity in company in the form of Bean Stock.	Physiological and safety.
Lands End	On-site medical clinic and on- site fitness center.	Physiological and safety.
UPS	Hourly employees receive full health benefits and tuition assistance.	Physiological and safety.

The provided examples support, for the most part, employee's physiological and safety needs. When organizations support employee's basic needs, the employees have increased desire to be at work, increased appreciation for the organization and decreased absenteeism.

EXAMPLES OF STRATEGIC HUMAN RESOURCE AS CLOSING THE WAGE GAP, DESIRED BENEFITS

Human Resource Managers should consider strategic application of benefits with the understanding of Maslow's Hierarchy of needs as creating benefits programs that build on employees physiological, safety, social and esteem needs. Purposeful identification and application of meaningful benefits will allow organizations to enrich the lives of their employees, regardless of employee salary. It is possible, with strategic benefits, to retain and help hourly employees reach the highest levels of needs, esteem and self-actualization, within each job.

With that said, human resources leaders should not look at any problem in a vacuum as if it is an "on or off" issues. Rather, recognize there are a vast number of tools that can be used to compensate and value employees. "In a recent national survey, 95 percent of Americans consider a job's perks and benefits before deciding to either stay in a position or accept an offer," (Hall, 2012, p. 1). United States organizations are increasingly responding to employee interest in benefits and finding ways to offer unique benefits that are meaningful to their employees. The following examples are the result of organizations understanding and responding to the needs and interests of their unique employee groups.

Company	Benefit	Level of Maslow's Hierarchy
Red Ventures	Full Length Indoor Basketball court, gym and locker rooms.	Social and esteem.
InDemand Interpreting	Keys to Porsche Boxster to drive to paid company lunch.	Social and esteem.
Magoosh	Workers can complete tasks any time of day and no vacation time is every denied.	Social and esteem.
The Nerdery	All employees can bring their dogs to work and Nerd Support will arrange for mobile groomer appointment.	Social.
Barton Publishing	Staff trips to whitewater rafting, zip lining and mountain climbing.	Social and esteem.
Moneycrashers	Once employees reach certain sales levels, the management will perform the more menial tasks.	Social and esteem.
MorrisCare	If an employee is bored with their job, they can shape it into something else entirely. 35-hour work weeks and receive full salary.	Social and esteem.
Google	Boccie-Ball Court and Bowling Lanes at the Headquarters	Social and esteem.
SAS	Unlimited sick days.	Physiological and safety.
JM Family Enterprises	Child care center, free haircuts and yachts for employee use.	Physiological, social and esteem.
Autodesk	Six week paid sabbatical every four years and you can bring your dog to work.	Physiological and social.
Atlantic Health FactSet	On site acupressure services. Free lunches with on-site pie	Physiological and safety. Social and physiological.
	truck, Chinese truck and cupcake truck.	
Microsoft	Organic spa and private shopping mall.	Social and physiological.
Mattel	Offices close at 1PM every Friday.	Social and physiological.
Chesapeake Energy	On-site botox injections, tanning beds and parent/child yoga.	Social and esteem.
S.C. Johnson	Free concierge service.	Physiological and social.

Airbnb	Ping pong tables, organic	Social and esteem.
	lunches and formal Fridays.	
Zappos	Mini parade for the employee	Physiological and social.
	of the month and life coaches.	
Advanced Medical	Beer cart Fridays.	Social.
Umpqua Regional Bank	Shopping Loans for	Social and esteem.
	professional wardrobe	
	repayable through payroll	
	deductions.	
David Evans and Associates	Employees are paid up to \$6 a	Physiological, social and
	day if they commute to work	esteem.
	by walking, biking, carpooling	
	or riding a bus.	
LoadSpring Solutions	Dream vacations. The	Physiological, social and
	company will give employees	esteem.
	who travel abroad a week off	
	of work and an additional	
	\$5,000.	

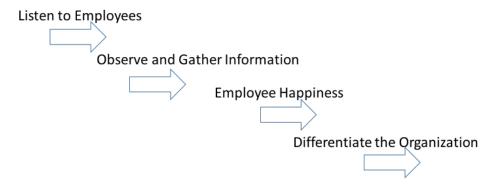
The described examples are the result of strategic human resources where human resource and organizational leaders have customized benefits to meet the unique needs of employees at a specific organization. These are higher level benefits with the overall purpose of supporting employee social and self-esteem needs. Supporting employee's higher level needs are of benefit to an organization because when employees fulfill needs of social and self-esteem, they begin to seek opportunities for self-actualization and innovation.

IMPLICATIONS FOR MANAGERS

In each of the four described human resources functions, legal protection, hiring, onboarding and development there are strategic benefits that can be offered to support hourly employees like building a positive work environment, paid time off, health benefits, tuition reimbursement, scholarships and wellness programs. But, to reach maximization in employee support and organizational gain, each benefit should be identified and applied through careful analysis seeking maximum fit with unique organizational employee needs. To seek a maximum fit, human resource leaders should:

- Listen to and respond to employee's interest and needs.
- Observe employee work environment and seek opportunities to improve their working conditions.
- Seek benefits to address happiness of employees at work.
- Seek unique benefits that can differentiate the organization from other organization.

Strategy for Creating Meaningful Employee Benefits



Listen to Employees

Human Resource leaders should strive to understand employees through listening and seeking the answer to the question, "What do my employees at this organizational location need?" This means Human Resource leaders need to be engaged with employees, talking to employees, holding departmental meetings and maintain an open door policy where employees can share their ideas and needs. Even within one organization, employees at different locations will have different needs. Understanding these needs begins with an HR leader that listens. For example, through listening, it may become clear that an employee needs an office closer to their manager to support efficiency.

Observe and Gather Information

Human Resource leaders should be observing their teams. Observation includes an internal and external scan of the environment. Internally, again, walking through the organization, observing employee performance and watching for areas where employees need help, are achieving or need resources. HR leaders can scan the external environment through reading reviews of the organization and talking with customers and community members. Through observation, HR leaders can identify some employee needs that go unmentioned. Sometimes employees are unaware of or cannot voice a workplace need. For example, through observation, it can become clear that an employee is needing a laptop or an iPad to complete their work.

Seek Employee Happiness

Strategic human resources can design employee benefits that not only meet basic employee needs, but support employee happiness and satisfaction. Organizations that seek to improve the lives of their employees will have employees that want to come to work and want to keep their jobs. Some benefits that seek to support happiness include flexible work schedules and opportunities for increased socialization.

Differentiate the Organization

Through an understanding of employee needs and desires, organizations can seek to support employee happiness and build employee loyalty. Benefits are great tools for differentiating the organization. The organization can become a place that supports each employee, like no other organization in the region. Understand your employee's needs and specifically their interest can support the employer in offering a benefit that is of unique value to the organization and to their team of employees.

CONCLUSIONS

Consider the quote from Laszlo Bock, Google's Senior Vice President of People Operations, when he discusses the value of organizational benefits, "It turns out that the reason we're doing these things for employees is not because it's important to the business, but simply because it's the right thing to do. When it comes down to it, it's better to work for a company who cares about you than a company who doesn't. And from a company standpoint, that makes it better to care than not to care," said Bock.

Strategic Human Resources can support organizational success, organizational finances and employee basic and desired needs. Hourly employees can experience job enjoyment and improved quality of life with the inclusion of unique organizational benefits like paid time off, wellness programs, awards, recognition, trips, care for children and free meals. A healthy organization that gives back to the employees is one way to improve the executive worker wage gap. With strategic human resources and understanding of Maslow's Hierarchy of Needs, benefits can be identified that not only support organizational health but can lead to employees having control and choice with the ability to work towards a higher paying job. Without strategic human resources, the only thing employers can do to incentivize employees, is to offer more money, and more money is not always feasible.

In closing, consider the words of Heidi Golledge, chief executive of CareerBliss, "Employee happiness has an impact on overall productivity, and helps decrease turnover. Happier employees equate to better business and a better life in the community."

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