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The Employment Relationship and Inequality: How and Why Changes in Employment Practices are Reshaping Rewards in Organizations

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The Employment Relationship and Inequality: How and Why Changes in Employment Practices are Reshaping Rewards in Organizations

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Abstract
We review the literature on recent changes to US employment relationships, focusing on the causes of those changes and their consequences for inequality. The US employment model has moved from a closed, internal system to one...

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more open to external markets and institutional pressures. We describe the growth of short-term employment relationships, contingent work, outsourcing, and performance pay as well as the success of social identity movements in shaping employment benefits. In doing so, we address the role of organizations as sites of conflict within and between stakeholder groups, examining how struggles among stakeholders have contributed to reorganizing employment relationships. We also examine how these changes have affected inequality by (i) influencing the distribution of rewards within organizations (via changes in the determination of pay and benefits and in the allocation of workers to jobs) and (ii) altering, on a macro level, how rewards are distributed among different stakeholders. In closing, we identify areas where future work is urgently needed.

Introduction

Employment practices have changed radically over the last few decades. Following World War II, the dominant employment system was closed, inwardly focused, and hierarchically governed. Most mobility into jobs was from within the organization; workers were expected to remain with the same firm throughout their careers; pay was aimed at maintaining equity within the organization; and most functions and workers were fully internalized. Since about 1980, however, employment systems have changed in ways that reflect an “open systems” approach (Scott, 2003) and an orientation toward external markets rather than internal hierarchies (Bradach & Eccles, 1989; Williamson, 1975). Employee tenure has declined, downsizing has become more frequent, and the disparity between the pay of the top and bottom levels of the organization has grown substantially. Organizations also now employ increasing numbers of contingent workers via arm’s-length relationships and outsource many previously core functions. Moreover, the employment relationship is increasingly subject to external institutional forces arising from civil rights protections that reflect pressure from social identity movements and state regulatory actors outside the firm.

Although the scope and scale of many of these employment changes have been reviewed elsewhere (Ashford, George, & Blatt, 2007; Cappelli, 1999; Davis-Blake & Broschak, 2009; Hollister, 2011), those accounts have paid little attention to the political and distributional implications of those changes and, in particular, to their effects on inequality (for a recent exception, see Kalleberg, 2011). Through their employment practices, organizations directly influence inequality because they determine which workers are assigned to which jobs and what pay and benefits are associated with each job. This is one reason why employment practices tend to be highly contested, as the organization’s different stakeholders seek to mold the employment relationship in their own interests. Our review focuses on these distributional struggles by examining two questions: What has driven recent changes in the employment relationship? And, how have those changes affected the distribution of rewards in society?
Our review of the literature on the causes of changes in employment, takes the perspective of the organization as a site of conflict among different stakeholders, which include any party with a direct economic interest in the organization (e.g. shareholders and employees) as well as other parties in society that seek to influence the organization (e.g. state, professional, and social movement actors). All these stakeholders aim to shape employment practices both through negotiations inside organizations and through broader societal struggles that shape the institutional environment in which organizations operate. We draw on this perspective to argue that recent changes in employment relationships are the outcomes of power struggles at the societal level.

Turning to how these changes in the employment relationship have reshaped the allocation of rewards, we discuss research on inequality among workers and among the firm’s different stakeholders. We review what is known about how changes in the employment relationship have affected the distribution of rewards within organizations by shaping not only how pay and benefits are allocated within jobs, but also how workers are allocated to jobs. These changes have consequences both for general income inequality and for inequality among different groups of workers. We assess whether there is evidence that changes in the employment relationship have led to a redistribution of wealth among stakeholders—in particular, away from employees and toward shareholders.

We believe that this is an appropriate and pressing topic for management and organizational scholars, since no other group is better equipped with the interdisciplinary tool kit needed to understand the roots of the changing employment relationship and its implications for inequality. Below, we document that the relationship between workers and employers is shaped by several factors: the activities of labor markets, the attempts of organizations to rationalize their production activities, the institutional norms that dictate the mutual expectations of workers and employers in society, the regulations that seek to enforce those norms, and the activity of multiple groups of stakeholders seeking to mobilize various resources to shift the terms of the employment relationship in accordance with their own agendas. The breadth of these influences on employment relationships is matched by the range of research streams that have contributed to our understanding of them. In this review, we therefore draw on the relevant literature from diverse fields such as organizational and transaction cost economics, labor economics, industrial relations, the sociology of work and occupations, research on stratification and social capital, neoinstitutional theory, and research on social movements. It is not our goal to contribute directly to any of these domains of theoretical inquiry; however, we hope that juxtaposing the contributions that each has made to our understanding of the new employment relationship may spur useful conversations across those domains.

Our review reflects several deliberate choices that narrow our focus. First, we hew to the American context because it is the setting in which most
empirical research has been conducted to date. Fully extending our discussion to other contexts would require careful consideration of the differing ways that societal actors (e.g., the state and social identity movements) shape employment practices elsewhere, a task beyond the scope of this review. Second, we focus on employees’ direct material rewards to the exclusion of other outcomes resulting from changes in the employment relationship—for example, worker affective outcomes and organizational performance—that have been reviewed elsewhere (Kelly et al., 2009). Third, we do not discuss the broader literature on the causes of changing inequality within the USA except where it is relevant to our discussion of changes in the employment relationship. Much research has explored the relative roles of influences on inequality such as technological change (Autor, Levy, & Murnane, 2003), union decline (Card, 2001), global competition (Freeman, 1995), and financial deregulation (Phillipon & Resheff, 2012). Although we explore some of the effects of those influences on the employment relationship, we do not discuss their broader effects on inequality. Finally, we acknowledge that large bureaucratic organizations, family businesses (Gomez-Mejia, Cruz, Berrone, & De Castro, 2011), and entrepreneurial firms (Baron, Hannan, & Burton, 2001) may all construct the employment relationship in different ways. We generally bring this variation to the fore when it makes a difference in our arguments, but we mainly talk about the employment relationship as a general construct. This approach reflects the lack of scholarship examining how these changes have played out across different kinds of organizations.

The rest of this paper proceeds as follows. The next section provides an overview of the literature on the changing employment relationship. This is followed by our review of research on the reasons for change and on how those changes affect inequality. We close with a discussion of the state of the literature and our recommendations for future research. While our review highlights that much has been learned about employment relationships and inequality, we also identify several gaps in our knowledge and make suggestions for future research.

**The Changing Nature of the Employment Relationship**

*Where We Have Come From*

A defining feature of postwar employment systems was the dominant role played by administrative hierarchies. The middle of the twentieth century saw the emergence of an employment model, the “internal labor market” (ILM), under which internal administrative procedures played a central role in determining the allocation of jobs and rewards (Althauser & Kalleberg, 1981; Doeringer & Piore, 1971; Osterman & Burton, 2004). Researchers argued that these ILMs insulated employment from external labor markets
in a number of ways. First, in allocating jobs, ILMs strongly favored internal promotions over external hiring. Indeed, scholars argued that hiring was sometimes restricted to only a few ports of entry at lower levels of the organization (Althauser & Kalleberg, 1981; Doeringer & Piore, 1971). Second, seniority played a role in determining which workers were eligible to be promoted or transferred to other kinds of jobs (Jacoby, 1985; Slichter, Healy, & Livernash, 1960). Seniority also had a substantial impact on pay and yielded increasing wages as a worker’s tenure increased (Heneman & Werner, 2005).

The literature on ILMs emphasized that there was little movement of workers between organizations, as employees sought instead to gain and then secure the advantages of tenure. This detachment of workers from the external labor market meant that compensation systems became internally focused; in other words, their aim was to maintain appropriate pay differentials within the organization and not to balance supply and demand with respect to the external labor market (Doeringer & Piore, 1971). Many nonwage benefits provided by employers—most notably, health insurance, and old age pensions—were also structured to reward employees for loyalty and long tenure (Jacoby, 1997). As a result of these practices, Kerr (1977) argues that labor markets had become “balkanized” because workers merely competed with their fellow employees for economic rewards and not with laborers on the open market.

However, the protections stemming from ILMs were never universally available. Research on dual labor markets argues that workers populated two distinct segments (Piore, 1975). The primary (core) sector provided long-term, stable relationships with employers; the secondary (peripheral) sector, comprising mostly low-wage workers, did not afford such benefits and held little opportunity for advancement (Doeringer & Piore, 1971; Sorenson & Kalleberg, 1981). Women, racial minorities, and low-skilled workers were more apt to be located in the periphery (Kalleberg & Sorensen, 1979; Piore, 1975).

Many scholars have sought to explain the postwar prevalence of these hierarchically focused ILMs. Some accounts argue that ILMs helped the organization to manage its workforce as organizational needs for firm-specific skills increased, raising the costs of employee exit (Cappelli, 2000) and engendering disputes over the quasi-rents that firm-specific skills produced (Williamson, Wachter, & Harris, 1975). Yet, Jacoby (1985) argues that firm-specific skills were actually declining in importance during the period when ILMs were becoming established, not increasing as those explanations would require. Marxist accounts also offered a functionalist explanation for ILMs, suggesting that ILMs were established to facilitate control of workers as enterprises grew (Edwards, 1979). Although often based on widely divergent perspectives, theories of “efficiency wages” led to similar arguments (Akerlof & Yellen, 1986; Doeringer & Piore, 1971; Sorensen, 1983).

Many qualitative and historical accounts, though, indicate that ILMs arose through a compromise between the interests of management and labor. Early
descriptive work, for example, argued that the structure of ILMs was shaped by
workers’ customs and their norms about fairness (Doeringer & Piore, 1971; 
Osterman & Burton, 2004). Jacoby describes how employers adopted ILMs
in response to worker pressures to reduce the “insecurities and inequities pro-
duced by a market-oriented employment system” (1985, p. 3). When the firm
was not forced to adopt ILM structures during collective bargaining with
unions, it enacted those structures unilaterally in order to preempt unioniza-
tion. Further evidence for unions’ influence on the development of ILMs
comes from Baron, Jennings, and Dobbin (1988), who find that seniority-
based practices were initially adopted in unionized industries, and from Slich-
ter et al. (1960), who document the conflicts that occurred during collective
bargaining over the adoption of ILMs. These accounts, therefore, view the
postwar employment system as the outcome of explicit and implicit bargaining
between workers and employers. Recent years have seen substantial changes in
the compact between those groups.

What Has Changed

The postwar period witnessed the dominance of internal hierarchy in the gov-
ernance of employment relationships, but the years since the 1970s have seen a
resurgence of extra-organizational forces. A summary of these changes is pro-
vided in Table 1. Much of this change can be characterized as an increase in the
influence of external market forces on the organizational distribution of work
and rewards. Stable long-term exchanges between employers and employees
have been replaced by more flexible arrangements that allow organizations
to adapt to changing demands for their goods and services by restructuring,
downsizing, and outsourcing.

Market-based practices. One manifestation of these market-based forces is
a decline in employee tenure. Although there was initial debate as to whether the
average duration of employment relationships was actually declining (DiPrete
et al., 2002), recent studies demonstrate substantial changes in worker tenure
(Hollister, 2011). These changes have been especially large among those
groups that were previously most isolated from market conditions—namely,
men (Farber, 2008a) and employees of large organizations (Bidwell, 2013).
Although cross-country comparative research on trends in worker tenure is
scarce, related work with European data suggests a significant increase in employ-
ment insecurity over the last few decades (DiPrete, Goux, Maurin, & Quesnel-
Vallee, 2006). In contrast, studies of Japanese employment find little change in
job stability for more experienced workers (Kambayashi & Kato, 2012).

Another route by which markets have penetrated the employment relation-
ship is through firms’ use of downsizing to restructure their workforces. Rather
than seeking to retrain or redeploy workers, firms have been abandoning them
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<th>Type</th>
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<tr>
<td><strong>Increased market penetration in employment</strong></td>
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<tr>
<td>Declining tenure</td>
<td>• Average tenure of employment relationships has fallen since 1970s</td>
<td>(Farber, 2008a)</td>
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<td></td>
<td>• Changes greatest among men, in the private sector, and in large organizations</td>
<td>(Neumark, Polsky, &amp; Hansen, 1999)</td>
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<td>Increased restructuring through layoffs</td>
<td>• Layoffs more likely to take place as means of reorganization or to control costs</td>
<td>(Hallock, 2009)</td>
</tr>
<tr>
<td></td>
<td>• Mixed evidence on overall rate of layoffs</td>
<td>(Farber, 2008b)</td>
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<td>(Davis, 2008)</td>
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<td>Growing use of contingent workers</td>
<td>• Increased use of contingent workers who lack expectation of long-term employment</td>
<td>(Peck &amp; Theodore, 2007)</td>
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<td></td>
<td>• Often hired through intermediaries such as temporary service firms</td>
<td>(Pfeffer &amp; Baron, 1988)</td>
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<td></td>
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<td>(Barley &amp; Kunda, 2004)</td>
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<td>Increased outsourcing</td>
<td>• Many functions (and the employees performing them) spun off into separate firms</td>
<td>(Lamoreaux, Raff, &amp; Temin, 2003)</td>
</tr>
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<td>(Dey, Houseman, &amp; Polivka, 2009)</td>
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<tr>
<td>Increased use of variable incentive pay</td>
<td>• Pay increasingly shifting from fixed hourly wage or salary to various forms of variable, performance-linked pay</td>
<td>(Heneman &amp; Werner, 2005)</td>
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<td></td>
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<td>(Lemieux, Macleod, &amp; Parent, 2009)</td>
</tr>
<tr>
<td>Reduced employer role in benefits</td>
<td>• Declining employer provision of health and retirement benefits</td>
<td>(Chernew, Cutler, &amp; Keenan, 2005)</td>
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<td></td>
<td>• Shift of risk from employer to worker through growth of defined contribution plans</td>
<td>(Clark, Munnell, &amp; Orszag, 2006)</td>
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<td></td>
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<td>(Gruber &amp; McKnight, 2003)</td>
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<td></td>
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<td>(Briscoe &amp; Murphy, 2012)</td>
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<tr>
<td><strong>Increasing role of social movements and regulation</strong></td>
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<tr>
<td>Growing regulation of workplace practices</td>
<td>• Employment practices invented to help employers respond to Civil Rights Act; other regulations subsequently become institutionalized</td>
<td>(Edelman, Abraham, &amp; Erlanger, 1992)</td>
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<tr>
<td></td>
<td></td>
<td>(Skrentny, 2002)</td>
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<td></td>
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<td>(Edelman, Krieger, Eliason, Albiston, &amp; Mellema, 2011)</td>
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to the external labor market during reorganization (Osterman, 1999). That being said, it is not clear that the rate of layoffs has increased much in recent decades: studies drawing on different data have come to different conclusions. Layoff data from the Current Population Survey (CPS) show that, aside from a spike in downsizing during the mid-1990s, there is little evidence of a secular increase in layoffs since the 1970s (Farber, 2008b). However, Bidwell (2013) argues that there may have been a slight increase (relative to the overall unemployment rate) in layoffs for experienced men during this period. Evidence based on transitions from employment to unemployment suggests that involuntary turnover may actually have declined substantially during the 1990s (Stewart, 2002) and through the middle of the last decade (Davis, 2008). But studies based on downsizing announcements display a markedly different pattern, one that is characterized by substantial increase in downsizing at least through the 1990s (Hallock, 2009; Jung, 2011).

Although there is no consistent evidence for a substantial increase in the rate at which firms dismiss workers, researchers have posited a change in the reasons underlying those layoffs. Analyses of layoff announcements indicate that layoffs have become less likely to occur in response to declining demand or poor profitability and more likely to reflect reorganizations and attempts to control costs (Hallock, 2009; Osterman, 1999). Such evidence suggests that employers have come to see the reallocation of workers into the external labor market as a normal business practice rather than a last resort.

There have also been increasing market influences on how employees are paid. Organizations have implemented contingent-based pay practices that reward workers for their productivity. Pay-for-performance practices embody arguments from neoclassical economics that firms should pay employees at their marginal product and that incentives are needed to induce worker efforts. Performance–contingent pay systems initially gained popularity after World War II, when organizations began to implement formal evaluation systems (Baron, Dobbin, & Jennings, 1986; Mitchell, Lewin, & Lawler, 1990); however, they did not become widespread until after the 1982 recession, when firms faced enormous pressure to improve workforce efficiency. By the mid-1980s, more than 80% of US organizations had implemented

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<tr>
<td>Increased influence of social movement</td>
<td>Groups based on race, gender, sexual orientation, and family status</td>
<td>(Meyerson &amp; Scully, 1995)</td>
</tr>
<tr>
<td>organizations</td>
<td>increasingly target organizational employment practices, leading to spread of new practices</td>
<td>(Briscoe &amp; Safford, 2008)</td>
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<td>(Kelly, 1999)</td>
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performance–contingent pay plans, and this high rate continued into the twenty-first century (Heneman & Werner, 2005).

Scholars have also claimed that employees’ exposure to the market has been increased in a more subtle way: by changes in firms’ benefits practices (Fronstin, 2012; Jacoby, 2001a, 2001b; Maxwell, Briscoe, & Temin, 2000; Shuey & O’Rand, 2004). First, many organizations no longer offer any benefits to their employees. Benefit availability has declined fastest for health insurance (54% of workers under age 65 received health insurance coverage from their employer in 2009, compared with 70% in 1980) and has also declined for pensions (43% covered in 2009 versus 51% in 1980; Mishel, Bivens, Gould, & Shierholz, 2011). An even more dramatic change occurred in retiree health benefits, which are exempt from legislative protection. Although comprehensive data are lacking, one recent study estimated that only 26% of large employers provided this benefit in 2011 compared with 66% in 1988 (Kaiser Family Foundation/HRET, 2012). Hence, more employees are purchasing benefits for themselves in the open market, increasing their exposure to market forces.

Second, even for those employees who retain access to benefits through their employer, changes in benefit format have transferred market risk from employers to employees. A key change has been the shift from a “defined benefit” to “defined contribution” format. The pure form of a defined benefit plan prescribes a specific benefit (e.g. fully paid health insurance, a guaranteed retirement income) to workers with sufficient tenure. In contrast, the pure form of a defined contribution plan provides a set amount of pretax money in each year of employment, money that the employee can use toward the purchase of benefits (e.g. a health insurance product, a 401k investment). Munnell Haverstick, and Sanzenbacher (2006) report that the shift in the format of benefit plans has been relatively swift: of the workers covered by retirement plans, from 1981 to 2001, the portion with defined benefit plans fell from 60% to 23% (Cobb, 2011). Although the shift in health benefits is more complex to trace, one indicator is the amount employees must contribute toward the purchase of their own health insurance; among large US employers, this figure rose from $1543 in 1999 to $3515 in 2011 (Kaiser Family Foundation/HRET, 2011).1

Just as regular employment relationships have become more exposed to market forces, so the use of contingent work and outsourcing has also grown. Under these alternative arrangements, firms no longer enter into a traditional employment relationship with their workforce. Instead, companies are able to employ workers using arm’s-length agreements and thereby bring the flexibility of the market into their dealings with workers (Davis-Blake & Broschak, 2009; Harrison & Bluestone, 1988; Pfeffer & Baron, 1988).

One focus of the research on such market-like relationships is the use of contingent workers, who lack any implicit or explicit expectation of long-term employment (Cappelli & Keller, 2013; Polivka & Nardone, 1989).
There is a general consensus among management scholars that the use of contingent workers—including independent contractors and both on-call and direct-hire temporary workers—has grown in the recent decades (Houseman & Polivka, 2000; Kalleberg, 2000), although the lack of historical data on the contingent workforce makes it hard to substantiate that claim. A contingent work supplement to the CPS was published only from 1995 to 2005; it showed little growth in the contingent workforce during that period. Recent data from employer surveys indicate that about 8% of workers across establishments are in some sort of contingent employment relationship, and there has been a moderate (but uneven) increase in that figure over time. However, there is considerable variance across establishments (Cappelli & Keller, 2012).

Studies of the temporary help services industry provide more conclusive evidence of change, with temporary help employment increasing from less than a quarter of a million in the early 1970s to some 2.3 million at the end of the 2000s and accounting for nearly 10% of US employment growth for the period 1990–2000 (Cappelli & Keller, 2012; Luo, Mann, & Holden, 2010; Peck & Theodore, 2007). Data from Europe show similar trends. Although comparable statistics are scarce, estimates suggest that employment through temporary help agencies could account for about 2% of the labor force in the UK, 2.7% in France (Storrie, 2002), and 1.4% in Germany (Mitolacher, 2007). The contingent employment of workers through labor market intermediaries such as temporary help agencies has received particular attention in the literature. Introducing a labor market intermediary into the mix changes the nature of the employment relationship by turning it into a triadic exchange (Bidwell & Fernandez-Mateo, 2008; George & Chattopadhyay, 2005). Workers employed through an intermediary are employees of the intermediary and not of the firm where they work, so in principle, the intermediary is in charge of managing and supervising them (Davis-Blake & Broschak, 2000). Such arrangements thus turn a hierarchical, firm–employee relation into a market-based, firm-to-firm relation.

Another way in which firms have been able to make increasing use of markets to shape employment is by the outsourcing of entire functions that were previously carried out internally. Whereas contingent employment typically involves hiring small groups of short-term workers alongside regular employees, outsourcing involves the firm severing its employment relationships with an entire group of workers and then contracting with another firm to replace their output. Although there is a general belief that outsourcing has increased over the last few decades, the evidence is again somewhat fragmentary (Lamoreaux et al., 2003; Langlois, 2003; Schilling & Steensma, 2001). Some scholars have developed case studies of vertical disintegration and the outsourcing of production in industries such as electronics, banking, apparel, and automobiles (Jacobides, 2005; Jacobides & Billinger, 2006; Lamoreaux et al., 2003; Sturgeon, 2002). However, broader research finds little evidence of an overall decline in vertical integration since the 1970s (Fan & Lang, 2000; Hitt, 1999). There is
evidence that the average size of organizations has declined (Brynjolfsson, Malone, Gurbaxani, & Kambil, 1994; Davis & Cobb, 2010; Zenger & Hesterly, 1997), which may reflect in part the breakup of diversified conglomerates. Perhaps the strongest evidence of the increase in outsourcing comes from the rapid growth of the business services industry, which exists solely to provide services to other companies (Abraham, 1990; Bidwell & Fernandez-Mateo, 2008), and from the growing concentration of certain occupations (e.g. computer programmers and janitors) in the business services industry rather than in the industries that rely on their services (Dey et al., 2009).

Expanding worker rights protections. Even as firms were allowing more market-based practices into their employment relationships, an expanding collection of workers’ rights protections were evolving that shielded some workers from the full force of the market. First, the earlier passage of the federal Civil Rights Act (1964) and its amendments (1972, 1978), the Equal Pay Act (1963), and associated regulations promoting equality for women and minorities continued to have a strong influence on employment practices related to hiring, promotion, pay, benefits, and working conditions from the 1980s onward (Skrentny, 2002). At first, these programs shaped employment through regulatory compliance practices—for example, designating equal employment opportunity (EEO) compliance officers and instituting grievance and arbitration systems for resolving workplace disputes. As Edelman et al. (2011) and others have argued, many of those practices had by the 1980s and 1990s become institutionalized and accepted by courts as key ingredients for employers to demonstrate nondiscrimination in employment.

During this time period, the state also provided some limited dampening of one of the most potent market-based practices to penetrate firms. By imposing limits on the doctrine of “employment at will”, which had historically governed individual employment in the USA, some state courts introduced certain limits—and uncertainty about additional possible limits—on the firm’s discretion to terminate employees (Edelman et al., 1992; Morris, 1995). Autor, Donohue, and Schwab (2002) indicate that a majority of states now recognize the implied-contract exception to the at-will doctrine, limiting an employer’s ability to terminate without good cause when the firm’s policies or practices or even industry norms create a reasonable expectation of continued employment. Yet, employers have proved adept at circumventing these constraints, altering employment agreements to avoid exposure to this liability (Arnow-Richman, 2010).

Along with these regulatory influences, recent decades have also seen a parallel shift in the focus of worker protections inside firms—a movement toward a collection of new and mostly voluntary diversity management programs and benefits. These programs and benefits can also be viewed as an expansion of worker rights and a limiting of market forces. Yet, the influences shaping
these new rights differ from those of the earlier era, when employers made changes in response to federal legislation. The newer wave of programs and benefits instead reflects responses to pressure from social identity-based movements that directly petitioned organizational decision-makers to make changes in their firms. In response to this pressure, and often with the cooperation of human resource (HR) managers and consultants, diversity policies expanded to encompass training and mentoring programs, culture audits, and Employee Resource Groups (Briscoe & Safford, 2010; Dobbin & Kelly, 2007). This shift reflected a “soft” emphasis on addressing stereotypes and psychological bias through education and awareness in place of the earlier, “hard” approach that focused on changing organizational structures assigning responsibilities.

Beginning in the 1990s, workplace civil rights were also extended by many firms to workers based on sexual orientation. These protections, too, were adopted without major state regulatory intervention. Significant developments along these lines are (i) the inclusion of lesbian, gay, bisexual, and transgender (LGBT) nondiscrimination clauses in employment policies and (ii) the extension of health benefits to the domestic partners of employees. Prior to 1990, sexual orientation clauses were rare—and domestic partner benefits virtually absent—from the US private sector. By 2012, however, 86% of the Fortune 500 had adopted sexual orientation clauses and 60% had adopted domestic partner benefits. These figures appear to be trending upward (Human Rights Campaign, 2012).

New, family-based employee rights also emerged during the 1980s and 1990s. After a protracted battle, parental leave was legislated with the passage of the federal Family & Medical Leave Act (FMLA) in 1993. This act requires firms with 50 or more employees to provide 12 weeks of (unpaid) job-guaranteed leave for childbirth, adoption, or family medical care. Moreover, many large employers decided to exceed the federal requirement and provide paid family leave, and a few states (including California, Washington, and New Jersey) have passed legislation to enhance the benefit.

The Reasons for Change

The literature reviewed above suggests that the influence of external markets and institutional forces on employment relations has grown, at the expense of internal hierarchy. The canonical research on when activities are governed externally versus internally focuses on the characteristics of those activities (Williamson, 1985, 1991). From that perspective, recent changes in employment should be a consequence of fundamental changes in the nature and requirements of work. As we have moved from nationally based manufacturing economies to a technology-enabled and services-heavy global market, the nature of work is much different from what it used to be. As a result, its governance must also be different. Some scholars have, indeed, explored the role of
technology and globalization in changing employment practices, while others have explored the effects of demographic change. A central theme in this review, though, is that the organization of employment shapes “who gets what”, and that many stakeholders therefore try to influence employment arrangements, seeking to increase their share of the organization’s returns. Below, we discuss research on the influence of both these environmental and political forces, which are also summarized in Table 2.

The Turbulent Environment: Technology and Globalization

The era of increased market penetration into employment relationships was also an era of rapid technological change, as digital technology spread into practically every area of economic activity. By altering the ways in which activities are coordinated, both in organizations and in markets, these changes had a

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<td>Causes</td>
<td>Effects</td>
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| Technological change | • Increased layoffs (Bidwell, 2013)  
|                    | • Vertical disintegration (Brynjolfsson et al., 1994; Hitt, 1999)  
|                    | • Use of contingent workers (Sahaym, Steensma, & Schilling, 2007; Schilling & Steensma, 2001); but see Gramm and Schnell (2001)  |
| Global competition | • Increased layoffs (Bidwell, 2013)  
|                    | • More use of incentives (Guadalupe & Cuñat, 2009)  |
| Demographic change | • Increased adoption of work–family benefits (Glass & Estes, 1997; Osterman, 1995)  
|                    | • Growth of nonstandard work arrangements (Kalleberg, 2000; Wiens-Tuers & Hill, 2002)  |
| Union decline      | • Declining worker tenure (Bidwell, 2013)  
|                    | • Increases in layoffs (Bidwell, 2013)  
|                    | • Increased use of contingent work (Gramm & Schnell, 2001; Houseman, 2001); but see Davis-Blake and Uzzi (1993)  |
| Identity-based social movements | • Increased use of work–family benefits (Dobbin, 2009; Kelly, 1999)  
|                    | • Diversity management practices (Briscoe & Safford, 2008; Dobbin, 2009)  |
| Shareholder value movement | • Increased use of downsizing (Budros, 1997; Fligstein & Shin, 2007)  
|                    | • Cuts in defined benefits pensions and retiree benefits (Briscoe & Murphy, 2012; Cobb, 2012)  
|                    | • Increased use of equity compensation (Marler & Fauge`re, 2010)  |
substantial effect on employment relations. For example, some scholars have suggested that technological changes made it easier to coordinate across market interfaces, leading to a decline in the use of organizations to govern such activities as employment (Brynjolfsson et al., 1994). Other work suggests that new technologies have required firms to organize work in fundamentally different ways, drawing on new skills and new production methods (Bresnahan, Brynjolfsson, & Hitt, 2002). Such wholesale changes in the organization of work—and the skills required—may have put substantial pressure on the less responsive, organizationally based employment relationships that characterized the postwar period.

Some empirical research supports the argument that changing technology has encouraged the penetration of external markets into firms’ employment models. Bidwell (2013), for instance, finds evidence that workers are more likely to be laid off from industries with higher expenditures on information technology. There is also a significant amount of research associating technology with outsourcing and contingent work. Some studies have found that firms and industries with higher expenditures on technology are more likely to engage in vertical disintegration, shed employment, and reduce their level of “value added” (Brynjolfsson et al., 1994; Hitt, 1999). Sahaym et al. (2007) also find that industries making more IT investment per full-time worker employ a higher proportion of contract agency and temporary help workers; Schilling and Steensma (2001) find a relationship (albeit a weak one) between technological change and the use of such workers. However, Gramm and Schnell (2001) find no relationship between technology use and contingent work in their survey of Alabama employers, and Bidwell (2013) likewise finds no association between industry technology investments and declines in tenure. Overall, then, the empirical evidence relating technological change to the declining importance of internal employment arrangements is not conclusive.

Global competition is another frequently cited source of pressure on the employment system. Early commentary on changes to employment emphasized the challenges that foreign competition posed to previously stable markets, especially in manufacturing (Cappelli, 1999; Harrison & Bluestone, 1988). Such accounts suggest that rapidly declining market shares triggered a perceived need for aggressive cost cutting, prompting employers to negotiate greater flexibility from their employees. There is no doubt that foreign competition has had a devastating impact on several US industries, including some (e.g. automotive) that were once the most likely to close off their employment systems to external labor markets. There is also evidence that these forces have affected employment relationships. For instance, Guadalupe and Cunat (2009) find that greater global competition leads firms to provide stronger employee incentives. Bidwell (2013) finds little effect of import penetration on worker tenure but does find that imports are associated with higher layoff rates. Yet,
just as in the case of technological change, we lack systematic evidence on the extent to which globalization has been responsible for widespread changes in employment.

Changing Nature of the Workforce

At the same time that firms’ environments were experiencing substantial changes, the nature of the workforce was also evolving. In particular, some of the changes in employment relationships already described could be partly driven by shifts in the composition of the labor force as well as by workers’ preferences for different types of employment arrangements.

Blau, Ferber, and Winkler (2002) point out that one of the most significant trends in the last few decades has been the increase in women’s participation in the labor market—not only in the USA, but also in other industrialized countries. The growth of women’s labor force participation is associated with an increase in the number of dual-career families (Blossfeld & Drobnic, 2001). This phenomenon may also be associated with some of the changes observed in employment patterns, including the spread of work–family benefits, increased worker mobility, and the growth of nonstandard work.

There is clear evidence, for example, that the increasing number of women and dual-career workers of both sexes helps to explain firms’ offering work–family benefits (Glass & Estes, 1997; Osterman, 1995). Evidence on the relationship between women’s labor force participation and career mobility is less straightforward, though. On the one hand, some research shows that family mobility is influenced to a greater extent by men’s jobs than by women’s (Shauman, 2010; Sorenson & Dahl, 2012), and men’s careers are usually given priority over women’s within married or cohabiting couples (Bielby & Bielby, 1992; Valcour & Tolbert, 2003). If so, then a woman may quit her job and search for other employment in response to her partner’s opportunities. Similarly, Cha (2010) argues that the increased trend for working long hours in the USA increases the likelihood of women quitting their jobs. Cha finds that having a husband who works long hours increases the probability that a woman will quit her own job, but not vice versa. If men’s careers are given more priority and men are working longer hours, then women’s turnover and external mobility may increase. Yet, recent evidence suggests that, overall, married women’s work tenure has actually increased as the number of dual-career couples has grown (Farber, 2008a; Hollister, 2011).

Some authors argue that women may prefer such flexible employment arrangements as part-time work and other forms of nonstandard employment (Kalleberg, 2000; Pfeffer & Baron, 1988; Wiens-Tuers & Hill, 2002), perhaps because many women still do most of the household work (Shelton & John, 1996). Temporary and other nontraditional employment relations may also
be favored by older workers, who remain in the workforce for longer than they used to—either by choice or necessity—and may often prefer to work fewer or more flexible hours (Cappelli & Novelli, 2010). Such older workers may thus welcome transitioning to nonstandard work arrangements (Kalleberg, 2000).

These discussions of demographic shifts suggest that workers’ preferences for less traditional employment arrangements may underlie part of the growth in new forms of working. Such preferences may not be limited to women and older workers; some authors claim that younger generations may be more open to the idea of moving frequently across firms and managing their careers in a flexible way (Smola & Sutton, 2002). Research in the “boundaryless career” tradition (Arthur, 1994) emphasizes this individualistic bent, arguing that many workers currently prefer career trajectories that are not expected to unfold in a traditional manner. Rather, they expect to move relatively frequently across jobs, locations, functions, and firms. The assumption underpinning much of this literature is that individuals’ decisions are the main driver of changes in career trajectories. However, as Rodrigues and Guest (2010) suggest, there is no strong empirical evidence that macro changes in employment relationships are driven by the predilection of individuals for an independent career. So even though demographic shifts and preferences have probably contributed to some of the observed changes in employment patterns, especially in the area of benefits, they seem not to be the main driver of these transformations.

**Stakeholder Power Struggles**

Our review of the available literature leads us to argue that technological change, global competition, and demographic shifts provided a favorable context for renegotiating the terms of the employment relationship but did not shape them in a deterministic manner. Technology and globalization did offer a ready justification for the need to change that was often used by managers during the 1990s and 2000s. Yet, there is no convincing evidence that this trend fully dictated the direction, pace, or nature of changes to be made. Instead, the changes that developed can be seen as the outcomes of struggles among stakeholders seizing opportunities to advance their own agendas and interests.

**Decline in Workers’ Class-Based Collective Action**

Kalleberg (2009) argues that the long sweep of employment history in the USA can be described as a struggle between the advocates of *laissez-faire* markets and those of employment protection and social security. One side gaining the upper hand triggers a backlash, which leads to pendulum-like swings between free markets and increased protections for workers.
Arguing along these lines explains many of the changes of the last three decades. Following increased regulation during the 1960s and 1970s and the subsequent crisis in corporate profitability, employers have been more assertive in attempting to reshape the institutional landscape in ways that increase their flexibility and limit worker protections. Hacker and Pierson (2010) document the tremendous increase in resources that corporations have committed to influencing government from the late 1970s onward (see also Baumgartner, Berry, Hojnacki, Kimball, & Leech, 2009; Hula, 1999; Walker, 1991; Werner 2012; Yackee & Yackee, 2006). These authors argue that the increased power resulting from such expenditures enabled corporations to further their interests in multiple areas including taxation, corporate governance, and financial deregulation. Such efforts were also supported by the rise, in political circles during the 1980s and 1990s, of economic neoliberalism. In particular, in the 1980s the US Reagan administration and the UK Thatcher administration promoted industry and labor market deregulation by arguing that freer markets provide greater individual opportunities and freedoms. Vallas and Prener (2012) similarly argue that large-scale political and cultural shifts in expectations about work have greatly contributed to the erosion of worker protections.

Most important for our purposes, powerful corporations were able to defeat attempts to adapt industrial relations law to the changing economy and were also able to blunt the political influence of unions. Here again, corporate efforts during the 1980s were supported by elected officials who were ideologically opposed to unions—as symbolized by Reagan’s 1981 mass firing of striking federal air traffic controllers (Hurd, 2006). As workers lost power relative to other groups, their ability to demand protections from their employers also declined. Most observers conclude that political organizations allied with labor presented little in the way of countervailing force to corporate influences on federal employment policy-making during the 1980s and 1990s (Osterman, Kochan, Locke, & Piore, 2001).

Probably the starkest indicator of the shift in power from workers to employers is the decline in union membership, which has been the focus of much research in the last few decades. By providing workers with collective organization and voice, unions substantially increase worker bargaining power. Although that power is most salient in workplaces that have been unionized, there is considerable evidence that a strong union movement affects all workers because even the threat of unionization serves to discipline employers (Jacoby, 1985; Podgursky, 1986; Rosen, 1969). Although scholars show that union power is most obviously used to raise wages (Freeman & Medoff, 1981), that power has also been exercised to insulate workers from the external labor market. Recent decades have seen an accelerating decline in union membership in the private sector, falling from about 25% in the mid-1970s to just below 7% in 2012. Many explanations have been proposed
for this decline. Some scholars argue that the US union model is ill suited to modern enterprise (Hirsch, 2008; Jacoby, 1997). However, other research suggests that the decline in unionization is linked, at least in part, to increasing employer opposition in both the workplace and regulatory domains (Dubofsky, 1994; Ferguson, 2008). By requiring employees to organize workplace by workplace, US industrial relations law demands that unions organize new establishments at a high rate just to maintain their membership levels. Unions have largely failed to surmount this hurdle since the 1950s (Farber & Western, 2001), but the early 1980s witnessed a major collapse in the level of union organization (Farber & Western, 2002; Tope & Jacobs, 2009). Although there is some dispute over exactly when union organizing began to decline, the timing roughly coincides with employers’ increased push into the political arena and the election of a Republican president who was notably hostile toward unions. Dubofsky (1994) argues that union organizing always relied on the tacit support of the state. As the state withdrew its support and as employers prevented the updating of industrial relations policy to reflect the modern workplace, unions were effectively removed from the employment stage.

Some empirical evidence supports the argument that union decline has contributed to the increased penetration of external labor markets into the employment relation. Bidwell (2013) finds a strong association between industry unionization and tenure, and he posits that reduced unionization could account for much of the decline in tenure during recent years. Western and Rosenfeld (2011) also find a strong association between local industry unionization levels and wage inequality, arguing that unions impose norms of equity on the labor market. These authors argue that the decline of unionization could thereby explain from a fifth to a third of the growth in inequality. There is also evidence that unions inhibit the spread of contingent work. Both Houseman (2001) and Gramm and Schnell (2001) find that unionized firms are less likely to use contingent workers, although Davis-Blake and Uzzi (1993) report some evidence that unionized establishments are more likely to use temporary agency workers. Unionized workplaces are also more likely to stave off reductions in health insurance and pensions (Buchmueller, DiNardo, & Valletta, 2002).

Identity-Based Social Movements

Although there is evidence that the US labor movement has been in decline, research also suggests that the last few decades have seen an increase among workers in new forms of collective action based on social identity rather than social class. These new forms of action are intriguing because, at first blush, they represent a kaleidoscope of potentially conflicting identities. Despite this challenge, participation has cut across class and occupational
lines, drawing in frontline workers as well as managers, consultants, and others working in and around corporations who, have served as effective advocates for new employment practices. Recent research has demonstrated the influence of these identity-based movements in shaping specific practices related to employee benefits, work–family policies, and workforce diversity.

Piore and Safford (2006) define an identity-based social movement as a group of individuals who share a social identity (e.g. race, ethnicity, gender, age, disability, immigrant status, sexual orientation) and who are trying to change society through collective action aimed at influencing the policies of institutional actors such as governments and corporations. The initial waves of civil rights activism were aimed mainly at the state during the 1960 and 1970s. Since then, however, identity-based social movements have become more active in influencing corporate employment practices by applying direct pressure to firms and their leaders. Moreover, research by Meyerson and Scully (1995), Raeburn (2004), Briscoe and Safford (2008), Dobbin (2009), and others indicates that—although advocacy groups were historically based on organizations positioned outside the corporate sector—the web of actors involved in employment-related social advocacy during the 1990s and 2000s included many allies from within the corporation and its environs. Prominent corporate executives, HR professionals, management consultants, industry lawyers, union representatives, and government officials were all involved in advocacy efforts championing diversity-based policies and new workplace rights for families (Bailyn, Drago, & Kochan, 2001; Raeburn, 2004; Thomas, 2004).

In the area of work–family benefits, a diverse set of social identity-based groups during the 1990s and 2000s worked with companies to implement new employment practices while advocating for legislative changes. Groups such as the National Partnership for Women and Families, Work Family Directions, Catalyst, and the Families and Work Institute partnered with companies to promote work–family benefits, acting effectively as both public issue advocates and industry consultants as they helped to craft new work–family benefits adopted by large firms. In the policy arena, these same groups helped to push the FMLA legislation through Congress; they also helped to influence a few states (e.g. California and New Jersey) to legislate paid family leave, a major goal of the movement. As Kelly (2003) and Dobbin (2009) show, these groups collaborated extensively with allies inside the companies—most notably, with HR departments—to shape the work–family benefits (part-time work, flexible working hours, paid family leave, telecommuting, etc.) that many companies have recently extended to employees.

Advocates for LGBT worker rights emerged from a similarly cross-cutting set of stakeholders. National LGBT rights groups, including the Human Rights Campaign and Out & Equal, advocated for nondiscrimination clauses and domestic partner benefits by directly lobbying firms to change their
employment practices. These groups grew out of (and alongside) the advocacy efforts of company-specific LGBT employee groups that began advocating for policy changes in the early 1990s and that helped to spread changes through networks extending across industry (Briscoe & Safford, 2008; Raeburn, 2004). Unlike the work–family advocates, who found that employer opposition was largely based on concerns over associated costs, LGBT rights advocates were enmeshed in a wider and more contentious struggle over the legitimacy of homosexuality. Hence, the participation of senior managers and corporate board members as allies in the movement was important for conveying the political legitimacy of these new employment practices (Gunther, 2006). As the new practices took hold, consulting firms also participated in further diffusing them across companies.

Some employment-related movements have sought to blend social identity and economic class. For example, the Industrial Areas Foundation (IAF) and allied community organizations pushed employers in several cities to adopt “living wage” higher local minimum wage ordinances, and the Service Employees International Union (SEIU)-affiliated Justice for Janitors organization used innovative advocacy tactics to achieve agreements with commercial cleaning contractors for better wages, health benefits, and working conditions for low-wage workers. Research by Erickson (2002), Osterman (2003), and others suggests that IAF mobilization efforts benefited from being rooted in earlier community organizing traditions and from maintaining close connections to local immigrant communities. In the company environment, these blended or hybrid social movements occupy a place similar to that of other, identity-based social movements, and together they represent an increasingly powerful external influence on corporations shaping their employment arrangements. That being said, research to date indicates that their impact has so far been limited to narrow geographic regions and industry sectors.

Shareholder Value Movement

Corporate shareholders constitute another group that is known to influence the employment relationship. Davis and Thompson (1994) argue that investors as a class consolidated their influence on a wide range of corporate practices during the 1980s, mobilizing through shareholders associations such as Institutional Shareholder Services and uniting around concerns that managers and directors were insufficiently responsive to shareholder interests. Mobilization efforts gained traction after American corporations performed poorly during the 1970s, which opened the door to arguments from agency theorists about the market for corporate control (Fama & Jensen 1983; Jensen & Meckling, 1976). Governance structures emphasizing shareholder value were implemented during the 1980s and spread most rapidly after the 1987 stock market crash that preceded the longest “bull” run in history. Shareholders
took this as a sign that governance mandates on shareholder value were a catalyst for growth. Shareholders have been able to maintain their influence in large part due to the concentration of ownership of American corporations. Historically, the individual investor owned a large portion of the common shares of stock in publicly traded companies in the USA. Today, institutional investors hold approximately 60% of corporate equity, outpacing stock ownership by individual investors (Westphal & Bednar, 2008).

Extant research suggests that the shareholder value movement legitimized many of the changes to the employment relationship discussed in the previous section. Because firms concentrated on a single metric of performance—the return on corporate stock—no consideration was given to the possible negative ramifications for workers of changes in the employment relationship. A “retain and reinvest” approach, which kept employees and profits internal to the organization, was replaced by a “downsize and distribute” approach (Lazonick & O’Sullivan, 2000). An important line of work confirms an association between the importance of shareholder control of corporations and an increase in downsizing (Budros, 1997; Fligstein & Shin, 2007; Useem, 1993). Indeed, shareholder pressures are often cited by firms as a reason for laying off workers (Budros, 1999). Studies have also linked the presence of active financial investors to the decline of defined benefit pensions (Cobb, 2012) and to an increase in the use of equity compensation for incentivizing middle managers (Marler & Faugère, 2010). Briscoe and Murphy (2012) find that financial analysts can affect a company’s decision to reduce retiree health benefits simply by downgrading their expectations for the firm’s future share performance.

**HR Managers**

As various collective actors have pursued their interests in shaping the employment relationship, their efforts have been reflected in changes within the corporate HR function and its associated field-level professional associations and consulting firms. When financial investors increased their influence on senior management during the 1980s, HR professionals began to articulate a shifting view of their role in the firm—namely, as a partner in the company-wide goal of creating financial wealth for investors. In broad strokes, the guiding ethos of the profession transitioned from “manage or avoid relations with unions” and “balance worker and firm interests” to “become a strategic corporate partner in creating shareholder value” (Foulkes, 1980; Jacoby, 2001a, 2001b; Kochan, 1999). This transition has itself been claimed to reflect the rise of a financial logic within firms (Fligstein, 1993) and the decline of union strength (Kochan, 1999). Scholars suggest that the HR professionals of large firms were increasingly called upon to implement the market-oriented employment practices discussed previously, such as establishing incentive pay, using outside contractors, and shifting from defined benefit to defined contribution plans.
(Briscoe, Maxwell, & Temin, 2005; Cappelli et al., 1997). These changes were supported by influential HR researchers and consultants who argued that a shift toward market-oriented employment practices would increase shareholder value (Huselid, Jackson, & Schuler, 1997; Ulrich, 1999).

At the same time, the HR profession from the 1980s to 2000s also became involved with social identity-based movements in the advancement of diversity employment practices. Indeed, as pressure to advance financial investors’ interests increased during the 1990s and 2000s, and as HR managers gained fluency in the language and logic of shareholder value creation, the latter became well-positioned to reframe diversity and work–family practices in terms of the former’s interests. This gave HR currency among top organizational decision-makers. Whereas HR managers in the 1980s crafted key employment practices (e.g. formal hiring guidelines, due process, centralized HR, and job descriptions) as required for compliance with the Civil Rights Act, the focus shifted during the 1990s and 2000s. In this later era, with the rise of investor capitalism, HR managers reinvented many employment practices under the concept of “diversity management”—a rational, business case-oriented focus justified by corporate effectiveness, not societal fairness (Creed, Scully, & Austin, 2002; Dobbin, 2009). HR managers used this portfolio of ideas to develop work–family programs and LGBT benefits that were motivated by hiring and retaining talented employees who would contribute to firm performance (Briscoe & Safford, 2008; Kelly, 1999). HR professionals also reinterpreted existing diversity programs aimed at racial and gender equality, away from a basis in compliance with government regulations, and toward the business case for diversity’s contribution to firm performance (Kelly & Dobbin, 1999).

Scholars have shown how these efforts to theorize and institutionalize diversity practices played out at the level of the HR profession within and across corporations. HR and management consulting firms helped to develop and spread new market-based employment practices such as performance-based pay, outsourcing, and benefit reforms. Kelly (2003) documents how consultants shaped and disseminated work–family benefits, and Briscoe and Murphy (2012) find that benefit consultants invented and then spread potent techniques for reforming corporate retiree health benefits. Not surprisingly, professional associations were also active in shaping these changes. By the early 1990s, prominent HR organizations—for instance, the American Society for Training & Development and the Society for HR Management—were actively promoting training and certification programs in diversity management (Dobbin, 2009). Dobbin also points out that diversity within the HR occupation itself may have supported interest in these changes; HR counted 70% females and 12% African Americans and Latinos within its ranks in 1990, when other managerial groups remained less diverse.
A related line of research has argued that the scope for HR to shape these new practices was facilitated by the tendency of relevant US federal laws to be enacted with ambiguous language. This ambiguity creates an opportunity for professional experts to devise practices that they believe fulfill regulatory compliance requirements and will stand up in court. Edelman, Sutton, Dobbin, and colleagues argue that—throughout the postwar decades—HR managers, employment consultants, and employment lawyers together invented and then disseminated employment practices that (they argued) would ensure companies of compliance. This argument has been applied to practices ranging from the earlier establishment of personnel offices, centralized hiring, ILMs, and due process (Baron et al., 1986; Dobbin, Sutton, Meyer, & Scott, 1993; Edelman, 1990; Sutton, Dobbin, Meyer, & Scott, 1994) to the later spread of diversity and sexual harassment training programs, family leave policies, and dependent care support (Kelly, 2003; Kelly & Dobbin, 1999). One effect of this legal ambiguity was to enable the remarkable flexibility exhibited by HR professionals as they shifted to a profit-maximizing “business case” rationale for practices that were maintained, instigated, or changed since the 1980s.

Our review of the reasons for the change in employment relations that occurred during the 1990s and 2000s has underscored shifts in the power held by key stakeholder groups. Although macro trends associated with globalization, technology, and workforce demographics clearly set the stage for change in employment practices, we argue that the shift in power from unions to shareholders is also an important explanatory factor. In addition, we have highlighted the emerging role of new social identity movements that have affected employment practices related to targeted groups of workers. Other firm-related institutional actors, such as the HR profession, have weathered these changes by adapting their rhetoric and activity.

Impacts of Change on the Distribution of Rewards

Within organizations, changes in employment relationships have affected the two sets of processes that affect how rewards are distributed: how pay and benefits are allocated within jobs; and the selection of different kinds of workers into jobs that are more- versus less-rewarding. These changes have reshaped the determinants of success in the labor market, introducing, for example, new cleavages around how jobs are entered and whether workers are in regular or non-standard employment. The research emphasizes, in particular, the challenges that the changing employment relationship has created for less-privileged workers, such as those with lower skills or who come from traditionally disadvantaged groups such as women and ethnic minorities. Although some of these disadvantaged groups may have simultaneously benefited from institutional pressures on firms to adopt
protective practices, it is unclear that those pressures have effectively counterbalanced the market.

The New Employment Relationship and the Distribution of Rewards within Organizations

Changes in how pay and benefits are allocated within jobs. Table 3 summarizes research on how changes in the employment relationship have shaped the way that workers are rewarded once employed. The literature suggests that the move away from organizationally based governance has weakened the link between employment rewards and workers’ relationship with their employer; organizational characteristics and worker tenure appear to play a reduced role in setting pay and other benefits, while performance has become more important. Research also describes how the relative balance of organizations and markets in governing employment has also become an important determinant of rewards in its own right, with pay levels reflecting whether workers entered their jobs through external hiring or internal mobility and also whether they are employed directly by organizations or through arm’s-length contracts.

The original literature on ILMs argued that compensation within firms aimed to balance demands for equity across different jobs by establishing appropriate pay differentials that would maintain incentives within the organization (Doeringer & Piore, 1971). There is evidence that an ILM’s use of formalized processes helps to reduce inequality by minimizing the psychological biases that tend to reproduce inequality among groups (Reskin & McBrier, 2000; Stainback, Tomaskovic-Devy, & Skaggs, 2010) so that, for example, the pay of women who make it into the firm’s core management is commensurate with equivalent men (Anderson & Tomaskovic-Devey, 1995; Elvira & Graham, 2002). Compensation within the ILM was also partly shaped by the employer’s profitability, as workers leveraged their power to gain a share of the firm’s rents (Hildreth & Oswald, 1997; Hodson & Kaufman, 1982). The move toward more market-based employment has reduced the influence of these organizational attributes on pay. Instead, compensation is more likely to reflect assessments of workers’ performance in addition to how they entered the organization and how they are employed by it.

A key consequence of more fluid employment relationships should be a decline in the rewards to seniority. As firms value long-term loyalty less, we should see lower returns to staying with the same firm over time. There is, unfortunately, no detailed evidence on this score. DiPrete et al. (2002) do find that the returns to tenure declined from 1983 to 1998 and that the returns to external experience increased—but only among younger and more educated workers, whom they argued were more likely to work in “post-Fordist” organizations. Perhaps the largest changes to the rewards for seniority
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<th>Employment change</th>
<th>Effects on rewards within job</th>
<th>Effects on allocation to jobs</th>
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<tr>
<td>Declining emphasis on organizational membership</td>
<td>• Declining returns to tenure for younger educated workers (DiPrete, Goux, &amp; Maurin, 2002)</td>
<td>• Easier access to jobs for workers with more visible credentials (Bidwell, 2011) and stronger social networks (Bridges &amp; Villemez, 1986)</td>
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<td>• Reduced returns to employment by large firms (Hollister, 2004)</td>
<td>• Increased potential for discrimination in access to jobs (Petersen &amp; Saporta, 2004); but see Fernandez and Abraham (2010, 2011)</td>
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<td>Increased use of performance pay</td>
<td>• Increasing relationship between pay and ability (Lemieux et al., 2009)</td>
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<td>• Increased ascriptive bias (Castilla, 2008; Elvira &amp; Graham, 2002)</td>
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<td>• Growth in overall pay inequality (Lemieux et al., 2009)</td>
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<td>Increased cross-firm mobility</td>
<td>• Increased pay for workers hired into jobs versus promoted (Bidwell, 2011)</td>
<td>• Relationships with intermediaries help determine access to jobs (Bidwell &amp; Fernandez-Mateo, 2010)</td>
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<td>• Interorganizational mobility allows increased wage growth among higher-skilled workers (Brett &amp; Stroh, 1997; Dreher &amp; Cox, 2000)</td>
<td>• Preemptive screening by intermediaries reinforces gender segregation (Fernandez-Mateo &amp; King, 2011)</td>
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<td>• Job instability harms ability of younger, less educated workers to achieve sustained wage growth (Bernhardt, Morris, Handcock, &amp; Scott, 2001)</td>
<td>• Low-skilled workers sorted into contingent jobs (Autor &amp; Houseman, 2010; Kalleberg et al., 2000)</td>
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<td>• Women more likely to enter contingent work (Kalleberg et al., 2000; Prokos, Padavic, &amp; Schmidt, 2009)</td>
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<td>Growth of contingent work</td>
<td>• Contingent workers earn less than regular employees in low-skill occupations (Kalleberg, Reskin, &amp; Hudson, 2000; Segal &amp; Sullivan, 1997)</td>
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<td>• High-skill independent contractors earn more than regular employees (Houseman, Kalleberg, &amp; Erickcek, 2003; Kunda, Barley, &amp; Evans, 2003)</td>
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<td>• Higher within-individual variation in pay rates (Bidwell &amp; Fernandez-Mateo, 2010)</td>
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<td>Growth of outsourcing</td>
<td>• Outsourced workers in low-skill occupations earn less than their regular counterparts (Dube &amp; Kaplan, 2010; Van Jaarsveld &amp; Yanadori, 2011)</td>
<td>• Relationships with intermediaries help determine access to jobs (Bidwell &amp; Fernandez-Mateo, 2010)</td>
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are manifested in firms’ benefit policies. With defined benefit pensions, final benefits were usually linked to (a) the ultimate salary a worker achieved while employed by the organization, and (b) years of service. Because salary normally increases later in a worker’s career, such systems gave substantially higher pensions to those who had spent most of their career with a single employer. The move away from defined benefit plans has eliminated those rewards to long-term organizational membership (Cobb, 2012).

There is some evidence that, with increased penetration of market forces, organizational characteristics have also become less important in setting pay. One such characteristic that affects pay is organizational size: workers in large organizations receive systematically higher pay (Brown & Medoff, 1989). Hollister (2004) argues that the dismantling of ILMs should have reduced that premium, since large firms no longer offer advantages to their employees. In line with this argument, Hollister finds that the premium associated with employment in a large firm declined by nearly a third from 1988 to 2003.

There is stronger evidence that ability and performance have become more important for setting pay. Although research in the early 1980s highlighted the weak relationship between productivity and pay (see, e.g., Medoff & Abraham, 1981), the growth of performance-based pay has helped to close this gap. Case studies show how the implementation of performance pay leads to a much tighter link between productivity assessments and pay (Lazear, 2000; Shearer, 2004). Longitudinal data from the Panel Study of Income Dynamics

<table>
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<th>Employment change</th>
<th>Effects on rewards within job</th>
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<td>Declining benefit provision</td>
<td>• Loss of benefits reinforces existing wage inequality (Farber &amp; Levy, 2000; Pierce, 2001)</td>
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<td>Shift from Legal/EEO compliance to diversity management</td>
<td>• Use of work–family benefits linked to lower wages (Briscoe &amp; Kellogg 2011; Glass, 2004; Kalleberg, 1996)</td>
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<td>Growth of work family benefits</td>
<td>• Workers using work–family benefits less likely to be promoted (Dau-Schmidt, Galanter, Mukhopadhay, &amp; Hull, 2009; Kalleberg &amp; Reskin, 1995)</td>
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(PSID) has been used to show that performance pay leads wages to track ability more closely whether ability is proxied by education or individual fixed effects (Lemieux et al., 2009).

Effects on inequality across groups of workers. The employment changes described here have had consequences for several kinds of between-group inequality. On the one hand, changes in how pay is determined have altered various forms of already-existing ascriptive inequality, as gender and race shape pay through different routes. On the other hand, changes in employment relationships have created new distinctions between groups of workers. Where once all workers might have entered higher-level jobs through promotion and held regular employment contracts, now we see distinctions between workers who were promoted versus hired into their jobs and between regular versus contingent workers.

There are good reasons to believe that the new, market-influenced employment relationship places less emphasis on such ascribed characteristics (e.g. race and gender) when setting pay, since organizations are now more focused on achievement (McNamee & Miller, 2004). In practice, however, a number of studies suggest that merit-based pay can increase ascriptive bias—especially, when pay plans have not been formalized. For example, Elvira and Graham (2002) study a financial corporation and find that women received bonuses that were 25% lower than men’s even though their salaries were only about 1% lower. These authors argue that the reported difference reflects the less formalized nature of the bonus-setting process. Castilla’s (2008) examination of pay and performance data from another firm finds similar evidence of gender bias in the allocation of bonuses. In a follow-up study, Castilla and Benard (2010) demonstrate that the promotion of a meritocratic culture within organizations can increase bias in pay allocation. It is paradoxical that an emphasis on meritocracy would promote bias, which underscores the need for future research on why this occurs.

The increasing likelihood that a worker will enter employment via external mobility also has consequences for the distribution of rewards across workers. For instance, studies show that workers entering their jobs through hiring earn more than those entering similar jobs through promotion. Comparing workers who entered similar jobs within a firm by different routes, Bidwell (2011) finds that hires earned substantially more than those internally promoted or transferred. Harris and Helfat (1997) similarly find that CEOs hired from outside command higher pay than internally promoted CEOs. Most studies that follow individuals as they move sequentially among firms find faster pay growth for workers who voluntarily change organizations (Brett & Stroh, 1997; Dreher & Cox, 2000; Fuller, 2008). However, other evidence suggests that this pay growth may partly reflect the lower initial pay of such workers; thus, pay growth helps them to catch up with others but does not provide a
route to much higher pay levels (Flinn, 1986; Light & McGarry, 1998). Some research also suggests that the benefits of mobility may vary across demographic groups, although they reach different conclusions about which groups are advantaged. Some studies show that white men benefit disproportionately from moving firms (Brett & Stroh, 1997; Dreher & Cox, 2000). Kronberg’s (2010) analysis of the PSID, in contrast, finds that the benefits from changing jobs are more pronounced for black men.

As employment relationships have become more diverse, there is more evidence suggesting that the terms of a worker’s employment matters. Workers doing similar work under different employment arrangements may end up being paid very differently, depending on whether they are regular employees, contractors, or outsourced workers. One reason that pay often differs in this way (i.e. as a function of employment status) is that firms outsource work mainly to reduce their payroll expense. If organizations tend to standardize pay across jobs in order to reduce social comparison and political problems, then outsourcing (or using contingent workers) provides a means to reduce the effects of that standardization by placing certain classes of jobs outside the ILM. Firms can then reduce the pay of less rewarded functions to external market rates or increase the pay of the most rewarded functions (Abraham, 1990; Baron & Pfeffer, 1994; Nickerson & Zenger, 2008). The lack of a formal employment relationship with workers can also allow firms to withhold other benefits from certain sections of the workforce.

Research on contingent work bears out these arguments. Much of the initial research examined whether contingent work represented “bad jobs” that provided lower pay and fewer benefits than regular work (Kalleberg et al., 2000) and focused on the problems faced by temporary agency workers (Peck & Theodore, 2007). Studies of contingent work in Europe have called attention to the lower pay and training opportunities often associated with these positions (Albert, Garcia-Serrano, & Hernanz, 2005; Mitlacher, 2009). However, several authors emphasize that outcomes for contingent workers need not be bad and instead tend to be polarized: low-skill contingent workers usually do worse than regular employees but higher-skill contingent workers often do better (Barley & Kunda, 2004; Marler, Barringer, & Milkovich, 2002). Thus, Segal and Sullivan (1997) find that temporary workers earn significantly less than similar regular employees in blue-collar and pink-collar occupations but that the gap is small for white-collar employees (see also Kalleberg et al., 2000). At the high end of the labor market, independent contractors report choosing contingent work because they are paid more than their regular counterparts (Kunda et al., 2002), and Houseman et al. (2003) find that high-skill temp workers make more than regular employees while low-skill temps make less.

Similar findings apply to outsourced workers. Abraham and Taylor (1996), for instance, find that manufacturing firms with higher average wages are more
likely to outsource janitorial services, whereas firms with lower average pay levels are more likely to outsource accounting. Studies of less-skilled work have consistently found lower wages among outsourced workers. For example, Van Jaarsveld and Yanadori (2011) compare outsourced versus internal call center workers using establishment-level data, and Dube and Kaplan (2010) examine the pay of janitors and security guards using CPS. Both studies find that outsourced workers received lower pay than workers employed by the end users of their services.

Less research has explored whether contingent or outsourced workers are rewarded for attributes that differ from regular employees. As noted previously, formalized pay processes within ILMs tend to reduce disparities across different demographic groups. As workers are taken out of those formalized systems, there is concern that discriminatory processes may creep back into pay setting. There is scant available evidence on this question. A study of data from a staffing firm (Fernandez-Mateo, 2009) finds lower wage growth for female versus male high-skill contractors, although those differences partly reflect differences in contractors’ rates of mobility across clients. Contingent workers may also experience greater gender-based pay differences because of the frequency with which pay and conditions are renegotiated as they change assignments. If women are less inclined to negotiate their wage upward (Babcock & Laschever, 2003), then their wages may suffer more when negotiations are more frequent.

Effects on income inequality. There is some evidence that, by altering the basis of rewards within organizations, changes to the employment relationship have also affected the overall level of wage inequality in the USA. Perhaps the clearest evidence for such an effect comes from research on performance-related pay. Because such pay differentiates the compensation of different individuals doing similar jobs, it can reduce the standardizing effects of organizations on employment. Lemieux et al. (2009) use data from the PSID to estimate that the growth of incentive pay could account for about 20% of the increased dispersion in (log) pay between 1976 and 1993 and for nearly all of the increase in inequality within the upper half of the income distribution.

External hiring appears to have contributed less to overall inequality. Although the growth of external hiring could reduce the ability of organizations to standardize pay levels, Mouw and Kalleberg (2010a) find no evidence of such an effect. Their analysis of male workers in the PSID suggests that most of the increase in inequality between 1977 and 2005 occurred among men who remained within their organizations, not among those who moved.

Much less has been written about the direct effect of outsourcing and contingent work on inequality. The more volatile and variable nature of arm’s-length relationships typical of contingent work may increase overall pay variation. For example, Bidwell and Fernandez-Mateo (2008, 2010) demonstrate
substantial variation in wages for temporary agency work, even for the same worker, with pay frequently increasing or decreasing from assignment to assignment. Furthermore, there is every reason to believe that the reduced standardization of wages along the value chain—a consequence of firms outsourcing work—has contributed to increasing inequality, as evidenced by the lower pay of low-skilled outsourced workers. Davis and Cobb (2010) also provide important suggestive evidence that the decline in size of the largest employers, a result of vertical and horizontal disintegration, has contributed to increasing inequality; they report a striking correlation over time between the proportion of workers employed by the 10 largest US employers and the country’s overall level of wage inequality.

A number of studies also suggest that the decline in employer-provided health and welfare benefits contributed to the rise of inequality during the 1980s and 1990s (Farber & Levy, 2000; Pierce, 2001). Employer costs associated with health and pension benefits rose for upper-income earners but fell dramatically for low-income earners, which reinforced existing wage inequality (Keene & Prokos, 2007; Little 1995; Slottje, Woodbury, & Anderson, 2000).

Changes in how workers are allocated to jobs. The distribution of rewards within organizations depends not only on how people are paid within jobs, but also on how they are matched to those jobs in the first place (Granovetter, 1981). Pay and other rewards have always varied radically across different jobs within and between organizations, and increasing inequality has further sharpened those differences as occupations have become even more polarized (Autor, Katz, & Kearney, 2006; Mouw & Kalleberg, 2010b; Weeden, Kim, Di Carlo, & Grusky, 2007).

The literature identifies many ways in which the increased penetration of markets and institutional forces into the governance of the employment relationship has affected the processes by which people are allocated to jobs. Most obviously, more people are entering their jobs through hiring rather than promotions. In addition, the processes that allocate workers to regular employment versus contingent or outsourced employment are becoming a substantial determinant of rewards. At the same time, institutional pressures to protect the rights of minorities and families have led firms to develop practices aimed at increasing the access of disadvantaged groups to jobs.

The changing basis of access to jobs within organizations. Research suggests that the growing use of external hiring to fill higher-level jobs advantages different workers with respect to internal mobility. In particular, external hiring tends to favor workers with more visible credentials. Employers have more information about their own employees than they do about potential hires (Doeringer & Piore, 1971; Williamson et al., 1975), which leads them to require stronger visible credentials from outside hires than from those
promoted from within the firm. Studies by Baker, Gibbs, and Holmstrom (1994), Bidwell (2011), and Oyer (2007) all show that workers hired into jobs have stronger visible credentials than the workers promoted into similar positions.

At the same time, some scholars have argued that external hiring may increase discrimination on certain salient characteristics, such as gender. Petersen and Saporta (2004), for example, argue that discrimination should be more likely during hiring than promotions because it is harder for external candidates to detect and challenge discrimination. Hence, these authors argue that it should be easier for women to find higher-level jobs by promotion than by hiring. In accordance with this hypothesis, Petersen and Saporta find—in their study of a large regulated employer—that women were more likely than men to be hired into lower levels but were promoted more rapidly than men. Other research has challenged these findings, however. For instance, two papers by Fernandez and Abraham (2010, 2011) examine hiring throughout a hierarchy in a retail bank and a biotech company. Although they find that a declining proportion of women are hired into higher levels, they show that this simply reflects declines in the numbers of female applicants for higher level jobs. In fact, they present evidence that women who applied were more likely to be offered jobs than men. In a study of lawyers, Gorman and Kmec (2009) find that women are more likely to enter partnership positions by lateral hiring than by promotion. More work is needed to understand the contingencies that shape how gender affects workers’ ability to access jobs by promotion versus hiring.

In addition to emphasizing certain visible characteristics of applicants, scholars have also pointed out that external hiring processes make heavy use of candidates’ social networks when allocating them to jobs (Bridges & Villemeze, 1986; Campbell & Rosenfeld, 1985; De Graaf, Dirk, & Flap, 1988; Lin, Vaughn, & Ensel, 1981; Marsden & Hurlbert, 1988). There is some evidence that the use of such networks in hiring has grown more important over time, as the decline in unions has reduced pressures on firms to enact formal recruitment procedures (Moss & Tilly, 2001). These findings may have important implications not just for hiring, but for post-entry social structure and careers. Sterling (2012) shows that individuals that enter organizations with social ties in place go on to see their networks improve more than those that enter without such relationships.

There are many studies exploring which workers are most likely to be advantaged by strong social networks, and these studies indicate that the availability of social contacts varies by race, gender, and socioeconomic background (Briggs, 1998; Korenman & Turner, 1996; Marx & Leicht, 1992; Smith, 2005; Wilson, 1987). It has been shown, for example, that the use of social networks to hire generates differences in men and women’s access to jobs, and that network-based hiring favors the persistence of gender inequality (Bielby,
2000; Drentea, 1998; Fernandez & Sosa, 2005; Hanson & Pratt, 1991; Kmec, 2005; Padavic & Reskin, 2002; Reskin, McBrier, & Kmec, 1999). Other studies show how racial minorities’ lack of access to certain kinds of social networks reduces their job prospects (Elliott, 2001; Moss & Tilly, 2001; Mouw, 2002; Petersen, Saporta, & Seidel, 2000; Smith, 2005). However, the lack of minorities’ access to jobs due to network-based hiring is not universal: Fernandez and Fernandez-Mateo (2006) find that minorities face little difficulty being hired through networks when there are already minorities in the organization.

A third way in which the greater penetration of external markets into organizations has altered access to jobs is through the increased use of third-party intermediaries to place people in jobs. Many hiring decisions are made through intermediaries, which include recruiters, headhunters, and staffing firms (Finlay & Coverdill, 2002). For both business and legal reasons, the hiring of contingent workers often takes place through a third party (Barley & Kunda, 2004; Bidwell & Fernandez-Mateo, 2008; Smith, 2001). An important question for researchers is how the use of those intermediaries might affect the ability of different kinds of workers to access jobs. Bidwell and Fernandez-Mateo (2010) find evidence that having a longer-term relationship with an intermediary improves a worker’s chances of being placed in a higher-paying job. Fernandez-Mateo and King (2011) show how intermediaries can also shape gender differences in pay in their study of how a staffing agency allocated male and female technology contractors to different assignments. They find that the agency was more likely to sort women into lower-paid positions—though partly as a result of the agency’s attempts to anticipate its clients’ preferences.

**Sorting into contingent work.** Beyond the effects of labor market intermediaries, the general question of which workers are allocated to contingent work arrangements is also important. We have already noted the evidence that those who hold contingent positions are paid differently than regular workers even when the tasks are similar. Therefore, how workers are sorted into contingent work arrangements has significant implications for inequality.

Much research suggests that contingent jobs are often occupied by the least-skilled workers, both across and within occupations. For example, Kalleberg et al. (2000) show that contingent work is disproportionately performed by workers with lower skills, who have less negotiation power and fewer alternatives than high-skill workers. Other studies show that US temporary help firms employ a disproportionate share of low-skilled and minority workers (Autor & Houseman, 2010). Among a higher-skilled sample of graduates of engineering and technology programs, Bidwell and Briscoe (2009) find that the least experienced workers were more likely to take contingent positions, as were those who had recently been laid off.
Even so, there is also evidence that contingent work attracts some of the most skilled workers in the labor market. Qualitative studies emphasize how experts can take control of their careers through contingent work, and an increasing number of temporary help agencies cater to this highly skilled population (Barley & Kunda, 2004; Kunda et al., 2002; Osnowitz, 2010). Among their sample of technology graduates, Bidwell and Briscoe (2009) also find evidence that contracting is associated with extremely high levels of skill and experience.

In addition, there is evidence that women are at particular risk of working in contingent jobs. Some studies show that employment in nonstandard work differentially exposes women to the risks of being allocated to “bad jobs”—that is, jobs with lower wages and benefits and with worse career prospects (Kalleberg et al., 2000; Segal & Sullivan, 1997). Such effects are not restricted to low-wage work. For instance, in a study of female scientists and engineers, Prokos et al. (2009) find that women are more likely to be overrepresented in nonstandard work arrangements and especially in positions characterized by lower pay and/or fewer benefits.

Notwithstanding these concerns, longer-term studies offer a slightly less bleak picture of the role of contingent work in the labor market. The effects of allocation to contingent positions depend in part on how long workers remain in contingent work; in other words, using such positions as steppingstones to better jobs has far different implications from remaining in temporary jobs that offer little scope for advancement (Benner, Leete, & Pastor, 2007; Davis-Blake & Broschak, 2000). This issue is an especially salient one for low-skill workers, who are more likely to have entered temporary employment involuntarily and would prefer a permanent job. The evidence concerning the long-term career effects on low-skill workers of their affiliation with temporary help firms is not definitive, but a few studies find some positive long-term effects. Autor (2001), for example, shows that companies often use temporary help firms to screen workers for permanent positions. Cappelli and Keller (2012) also find that over 90% of surveyed establishments converted some temporary agency workers into permanent employees. Andersson, Holzer, and Lane (2005) find that low-skill workers affiliated with temporary help firms do well more than three years afterward, even though they began with lower earnings. Similar results based on European data (García-Pérez & Muñoz-Bullón, 2005) also indicate that affiliation with temporary help firms may be a stepping-stone to more permanent employment (see also Amuedo-Dorantes, Malo, & Muñoz-Bullón, 2008).

The effects of new rights in the workplace. Although extant research suggests that the growth of market-based practices has often served to disadvantage women and ethnic minorities, recent decades have also seen firms implement practices aimed at reducing the historic barriers that those
groups have faced when their members seek to access rewarding jobs. However, despite the growing interest in how firms have adopted those practices, little is known about how they have actually affected workers’ access to jobs. This lacuna in our knowledge is surprising when one considers the historical association of these diversity practices with civil rights legislation intended to limit discrimination associated with between-group inequality. Some studies have considered the effects of different employment practice changes on between-group wage inequality. Kalev and Dobbin (2006) and Kalev et al. (2006) compare the effects of different corporate affirmative action and diversity management policies on race and gender inequality. They find that diversity management practices such as training or mentoring are seldom effective; the most effective efforts involve “establishing responsibility” by assigning affirmative action officers, establishing diversity managers or departments, and/or setting up a committee or task force. Some work also suggests that LGBT diversity practices have been effective in reducing discrimination. For instance, Tilcsik (2011) finds that hiring discrimination against openly gay men varies as a function of state antidiscrimination employment laws; this finding indicates that LGBT diversity practices do influence access to jobs in organizations (see also Rubenstein, 2002).

Some research has also addressed the effects of work–family benefits on inequality. In principle, such benefits should help improve mothers’ ability to access and retain jobs. In practice, however, the research to date finds that work–family benefits are underutilized (presumably for fear of retaliation) and that using the benefits can have negative consequences for the worker. Thus, although work–family benefits have spread widely, utilization rates tend to be low (Glass & Estes, 1997); employees often prefer forgoing the benefits in order to preclude retaliation or bias (Bailyn, 2006; Blair-Loy & Wharton, 2002, 2004; Eaton, 2003; Epstein, Seron, Oglensky, & Säute, 1999; Kellogg, 2009; Perlow, 1997; Williams, 2000). Kelly and Kalev (2006) explain low utilization this way: although the polices are formalized (in the sense of being written into employment policy handbooks), they are crafted to give supervisors discretion in granting or denying requests. Hence, the benefits fall short of providing legal rights or protections, and employees who perceive this deficiency are therefore wary of negative consequences associated with utilization.

Research on the consequences of work–family benefits use is largely consistent with this negative view, as it finds such use to be associated with subsequent pay and retention deficits. Work–family program users appear to suffer from fewer promotions (Dau-Schmidt, Galanter, Mukhopadhay, & Hull, 2009; Kalleberg & Reskin, 1995) and lower wages (Kalleberg, 1996), although studies vary in their ability to address the methodological challenges created by workers’ selection into work–family benefit usage. After controlling for many confounding variables, Glass (2004) shows that the use of such
policies after childbirth is associated with lower earnings growth over time. Similarly, Briscoe and Kellogg (2011) find that workers who take advantage of a reduced-hours policy tend to receive lower bonuses and be at greater risk of exit, although the mean levels masked a great deal of variance across reduced-hours program users. The authors also find that program users with better outcomes are those who benefited from earlier ties to powerful supervisors. Employees who use federally mandated FMLA programs also tend to suffer lower wages (Jacobsen & Levin, 1995), fewer promotions (Hagan & Kay, 1995; Judiesch & Lyness, 1999), and higher turnover (Lyness & Judiesch, 2001). There is one bright spot, however: recent research by Appelbaum and Milkman (2011) shows that employees in California who used mandated paid family leave benefits were more likely to retain their jobs.

The New Employment Relationship and the Distribution of Rewards across Stakeholders

In addition to affecting the distribution of rewards within organizations as just described, changing employment practices have also affected inequality by changing the relative share of wealth received by the firm’s various stakeholders. Certainly, there is considerable and varied evidence that shareholders and their agents have received an increasing share of national wealth since the 1980s. For example, Levy and Temin (2007) point out that median wages have not kept pace with productivity growth since the 1970s and argue that this dynamic reflects the declining bargaining power of workers. Although the decoupling of median wages from productivity could be due in part to an increasingly skewed distribution of income among workers, other evidence supports the idea that shareholders have gained at the expense of employees. The share of workers’ wages in GDP fell from 60.1% in 1980 to 55.2% in 2011, while corporate profits increased from 6.1% to 9.2% (Bureau of Economic Analysis, 2012). The same period also saw a spectacular growth in the level of both profits and wages in the financial sector, the industry that most closely represents shareholders (Davis, 2009; Tomaskovic-Devey & Lin, 2011).

What is less clear, though, is whether the growing income share of corporations relative to employees is a consequence of the practices documented here or, instead, a manifestation of the overall shift in power from workers to shareholders. It is possible, for instance, that the declining power of unions has increased corporate profitability irrespective of any other changes in the nature of the employment relationship. To our knowledge, no work has directly explored how employment practices have affected the distribution of wealth between shareholders and employees. Still, some research has explored the association between employment practices and employer profitability. Issues of causality are especially thorny in such work: Do more profitable
employers adopt particular practices, or do some practices increase profitability? Such studies do, however, provide some basic evidence on the question of how certain practices might have benefited shareholders.

For example, an important body of studies has explored the effects of layoffs on profitability and share prices (Blackwell, Marr, & Spivey, 1990; Cascio, 1993; Farber & Hallock, 2009; Fligstein & Shin, 2007; Hallock, 1998). Although results vary depending on both the time period in which the layoffs took place and the reasons for the layoffs, these studies tend not to demonstrate substantial shareholder benefits from layoffs. In fact, announcements of layoffs are usually met with declines in share prices (although the declines have been smaller in recent years; Farber & Hallock, 2009). Firms engaging in layoffs have also shown lower profitability than others in their industry. There is some evidence that profitability improves after layoffs, although this is mostly accounted for by the recovery from poor prior performance (Blackwell et al., 1990; Kalra, Henderson, & Walker, 1994). Cascio, Young, and Morris (1997) also find evidence of increased profitability for firms that make more reductions in their assets than in their workforce. In short, it is difficult to find sustained evidence that layoffs have benefited shareholders.

There is also little evidence that firms’ increased willingness to hire at all levels has benefited employers and shareholders. To the contrary, evidence continues to accumulate that turnover—the corollary of such hiring—has damaging effects on business performance (Glebbeek & Bax, 2004; Morrow & McElroy, 2007; Shaw, 2011; Shaw, Gupta, & Delery, 2005; Siebert & Zubanov, 2009; Ton & Huckman, 2008). More directly, Bidwell (2011) finds that external hires are paid more than workers promoted into similar jobs but perform worse, casting further doubt on the value to employers of dismantling ILMs. Of course, it is possible that these studies understate the dynamic benefits to employers of more market-based employment systems. For instance, the ability to replace existing employees with new workers may help organizations seeking to enter new markets. It is also possible that the increased competition for opportunities implied by the threat of external hiring helps the organization suppress wages. To our knowledge, no research has explored these topics systematically.

There is stronger (albeit preliminary) evidence that the use of outsourcing and contingent work has benefited employers. In their survey of publicly traded firms, Lepak, Takeuchi, and Snell (2003) find that firms relying more heavily on external contract workers exhibit higher profitability. Drawing on information from annual reports, Nayar and Willinger (2001) find that companies disclosing a high reliance on nonstandard workers report higher subsequent profits and increased stock returns. Using data from Canadian firms, He (2012) also finds that firms with higher proportions of nonpermanent workers earn higher profits.
Finally, there is modest evidence that the greater use of incentive pay has increased employer profitability. Single-firm case studies find evidence that incentive pay raises productivity more than it raises wage costs (Lazear, 2000) and that it can increase establishment profitability (Banker, Lee, Gordon, & Srinivasan, 1996). Cross-firm research using data from compensation consultants also finds that firms making greater use of incentive pay are more profitable (Gerhart & Milkovich, 1990).

While it is clear that employers have driven many of the changes that we have seen in employment relationships over the last 30 years, how much they have directly benefited from those practices therefore remains unclear.

Discussion

Recent changes in US employment relationships have substantially redrawn the social contract between workers, employers, investors, and other stakeholders. There are strong grounds to believe that these changes partly reflect the outcome of contests among those groups and that the changes have altered the distribution of rewards within organizations. We have pursued those themes in this review, synthesizing the state of current knowledge on (a) why employment relationships have changed and (b) what those changes have meant for who gets what within firms and in society as a whole.

A reasonable summary of our efforts is that our knowledge remains thin. Relatively few studies have directly explored either why the employment relationship has changed or the implications of those changes for inequality. Nonetheless, the first outlines of a narrative are beginning to emerge from what has been found so far.

First, the evidence points to a combination of environmental changes and political action in shaping changes to employment. Although we still lack a clear consensus, a number of studies have implicated technological change and globalization in driving layoffs, the use of contingent workers, and the growth of incentive-based pay. Other studies suggest that union decline is behind the decreases in tenure and the increase in use of contingent workers. Even less research has examined the role of shareholder activism in reshaping employment relationships, but early evidence links such activism to more layoffs, declines in defined benefit pensions, and increasing use of equity incentives. There is fairly robust evidence on the success of identity-based social movements in securing new benefits for specific groups.

One useful way to frame these influences is to consider how the effects of such environmental changes as technological advancement, globalization, and demographic shifts have been channeled by conflicts among different social interest groups and political actors. Although there has always been conflict among groups, the changing environment creates new possibilities for action and leads to shifts in negotiating power within and among those
groups. How they choose to act, though, reflects their interests and strategic choices.

Second, the increased influence of markets on the employment relationship seems likely not only to have increased inequality, but also to have accentuated the difficulties faced by such traditionally disadvantaged groups as women and minorities. The greater use of incentive pay has increased inequality among workers doing similar jobs, and the growth of both contingent work and outsourcing has depressed the wages of workers in low-skill occupations. There is evidence that women and minorities suffer disproportionately from these changes.

As we have emphasized, the increased penetration of market forces into the employment relationship has been accompanied by increased pressure on organizations to implement diversity-oriented practices that should, in principle, benefit previously disadvantaged minorities. But even though we know much about the spread of such practices, we know little about their effectiveness. Furthermore, those practices are unlikely to address challenges faced by less skilled workers who are not members of traditionally disadvantaged groups. Hence, we cannot say how much social identity movements have been able to cushion the effects of growing market forces. Our review also highlights the frequently unintended consequences of many of the newer employment practices. Attempts to increase meritocracy can accentuate intergroup differences. Programs intended to benefit disadvantaged groups may sometimes create new opportunities for cognitive bias to penalize members of those groups and otherwise complicate efforts to reduce inequality within organizations.

Future Research

This review demonstrates that much has been accomplished, but we believe that further clarification of why employment relationships have changed—and with what consequences—is of paramount importance. What strategies employers, workers, shareholders, and other social stakeholders should pursue to manage future employment relationships depends in large part on whether changes are viewed as an inevitable consequence of environmental forces or as the outcome of strategic action. If employment relationships are passively inherited, then this suggests a muted role for organizations in shaping the link between employment and inequality. If, in contrast, employment relationships within organizations are actively constructed in response to environmental changes, then the implication is that organizations play a dominant role in shaping inequality within their own boundaries and, by extension, across society. Although current research points the way to answering these questions, much more work is needed before we can be confident in our knowledge.
A systems perspective. Before listing several specific topics on which more research is needed, we offer a few overarching comments on broad directions for future research. We believe there is a need to reinvigorate a “systems” perspective on the study of the evolving employment relationship. A systems approach to research considers the holistic set of environmental influences and internal components that characterize and shape the firm’s employment policies. This was an important characteristic of earlier research on the employment relationship—especially, in the tradition of John Dunlop, Clark Kerr, and others, who described the employment relationship patterns found in industry after World War II. It was also the approach carried forward in the work on ILMs by Doeringer and Piore (1971) and Osterman (1987) and by Kochan, Katz, and McKersie (1994) in their work characterizing the later emergence of a strategic choice model of the employment relationship. The virtue of a systems perspective is that it draws attention to the critical connections across levels of analysis. Employment practices are understood both as the consequences of interactions among social actors outside the organization and also as the determinants of outcomes within the organizations, outcomes that play an important part in shaping the goals of the external actors.

In promoting a systems perspective, we do not mean to suggest that the employment relationship should be seen in strictly functionalist terms—that is, as a set of interconnected forces that always operate together to produce a coherent whole. Indeed, a systems perspective should also identify points of conflict and dysfunctional effects produced by the different forces coming to bear on the employment relationship and by interactions among the different internal employment practices. Understanding employment requires that we draw systematically on these multiple influences.

A systems perspective draws attention to the multiple levels of action and actors involved in the employment relationship. Outside the firm, collective actors (e.g. unions, social identity groups, shareholders) attempt to influence the employment relationship and typically operate at a field or industry level. Within the firm, organizational structures associated with employment decision-making are important filters: factors that mediate how those environmental influences shape the employment relationship. The firm’s employment relationship can be characterized using a set of comparable practices such as career ladders, promotion rates, external hiring ratios, outsourcing policies, pay system features, benefit policies, and diversity practices. We anticipate that a systems perspective would contribute to the identification of several archetypal patterns of employment relations—in other words, clusters of employment practices that are often observed together and that may be observed in frequent association with certain combinations of environmental forces. For example, flexible commuting policies may accompany pay-for-performance work practices in certain types of organizations or jobs. Hence, the
result of taking a systems perspective would not be the portrait of a single, monolithic system but rather a collection of clustered patterns. In line with our focus on the production of inequality in this review paper, we believe that research should investigate the role such patterned employment systems play in the allocation of jobs and rewards that produce inequality in society at large.

The adoption of a systems perspective seems to have declined in the recent decades, perhaps because scholars have focused more on contributing to theoretical traditions in their studies of employment practices. We view those as valuable contributions and encourage more of them. However, we observe that such theory-oriented scholarship does not necessarily scale up or come together easily to produce a coherent larger portrait of what transpires in the actual employment relationship.

**Stakeholder influences on employment.** To build out a systems-level understanding of the new employment relationship, we first need to understand each of the different links between the environment, organizational practices, and individual outcomes. Our review of the literature reveals that we are beginning to develop knowledge about some of these connections, but much remains to be done. In particular, we must answer several important questions about how different stakeholders affect organizational employment practices—especially as regards the influence of investors and HR professionals. Despite the great attention paid to the growing influence of shareholders over corporate policy and even though shareholders have evidently sought to reduce organizational obligations to employees (Shleifer & Vishny, 1991), we know very little about what goals investors have pursued in reshaping employment or how effective they have been in influencing employment relationships and affecting inequality. Given the extensive evidence that the influence of investors has grown in the recent decades, a clear priority is to unpack their effects on employment practices at all levels of the organization (Tosi & Gomez-Mejia, 1989).

There are similarly important questions about the role of HR professionals, who play a pivotal role in administering the employment relationship as they devise and execute employment strategies. We know that HR professionals were instrumental in the development and diffusion of ILMs (Baron et al., 1986; Jacoby, 1985). We cannot fully understand the subsequent evolution of the new employment relationship without understanding the agenda of these professionals and the strategies they adopt to pursue it. Prior research suggests that HR professionals have played a complex role in shaping employment change (Dobbin, 2009). On the one hand, they seem to have carried out change on behalf of financial investors seeking to drive up productivity and shareholder returns (Kochan, 1999); on the other hand, they have served as a key ally for social identity groups seeking to institute practices that help
traditionally disadvantaged groups. Any research that unpacks how these professionals view their role in the current environment, the constraints they face, and the opportunities they represent for strategic action would further our understanding of how organizational practices respond to environmental pressures.

Social identity movements have become an increasingly prominent part of the firm’s environment. As the role of unions has declined, social identity movements have become a stronger influence on organizations’ practices. Yet, it would probably be misleading to view such movements as a substitute for unions. They typically focus on relatively narrow issues, and they have not sought to challenge the employer’s power in the way that unions do—aiming instead to work with employers. Nor have social identity movements had anything like the impact of unions on pay and working conditions. Nonetheless, they represent an important player in shaping modern employment, and their role needs to be understood more clearly. For instance, there is still much to learn about the tactics used by social movements to effect change. We believe that there is much promise in adopting political perspectives when exploring the effects of social movement groups on organizational practices. Prior work suggests that a group’s power and success in influencing the organization’s dominant coalition is critical to its claims being heeded (Fligstein, 1993; Nelson & Bridges, 1999; Stainback et al., 2010). Yet we do not know what tactics are more likely to work or how groups leverage relationships to affect change. For example: When do social movement organizations use hard targeting tactics versus soft collaboration tactics to change employment practices? How important are powerful allies within management? It is noteworthy that many diversity employment practices have been repackaged by social identity groups as market-oriented behaviors that improve organizational performance and increase shareholder value. What are the consequences of conflicting interests among different identity groups vying for influence? What happens when movements become co-opted by managerial interests, as appears to have occurred in the case of corporate-sponsored diversity Employee Resource Groups? More research on how these groups affect the distribution of power is key to understanding some of the most important environmental influences on modern employment relationships.

Relationships among employment practices. Developing a clearer, systems-level perspective on the new employment relationship also suggests an increased focus on how the various employment practices that organizations adopt might relate to one another. For example, do organizations that make more use of performance-based pay tend to offer more or less job security to their employees or to make more or less use of contingent workers? Are family-friendly policies most often accompanied by more or fewer market-based practices? Work on other organizational practices (Bresnahan et al.,
2002) and earlier work on ILMs (Osterman, 1987) suggests that groups of different practices are often linked by a common logic, so that organizations are likely to adopt whole clusters of related practices rather than choosing piecemeal from a menu of different options. Similarly, that research finds different practices often having complementary effects; thus, the effect that a practice has on workers depends on what other practices are in place. Although some research has explored whether the use of contingent workers is correlated with greater job security for regular employees (Cappelli & Neumark, 2004; Kalleberg, 2001), such systems-level thinking has been largely absent from research on the new employment relationship.

Effects of practices on income distribution. There is likewise a clear need to extend our understanding of how the various employment practices reviewed here affect the distribution of income within organizations and across stakeholders. We have documented preliminary evidence on the effects of many of these practices, but we lack anything that approaches a solid body of evidence. In pursuing knowledge of how practices affect inequality, it would be useful to untangle intended and unintended consequences. Many of the effects of new employment practices seem intended to affect distributions—either by increasing returns to shareholders or by more sharply differentiating returns across workers of varied productivity. Some effects, however, seem unintentional. For example, studies suggest that an increasing use of merit-based pay practices can increase ascriptive inequality (Castilla, 2008). Hence, another important area for future study is how the effects of different practices might vary. Although current research often treats practices as having uniform effects across workers, the reality is almost certainly more complex. We should, therefore, ask whether contingent workers are rewarded for different attributes than regular employees, and we should investigate whether the kinds of strategies that the former must pursue to advance in their careers differ from those of their regular counterparts. Given that diversity-oriented programs have mixed outcomes for the groups they target, we need to understand how workers who do use these employee rights programs can still attain success or at least avoid negative outcomes. For instance, how can mothers use part-time employment programs without being penalized in their careers? Similar questions exist in connection with programs targeting racial and ethnic minorities, LGBT employees, immigrants, and disabled workers.

Meeting methodological challenges. Our goal to increase understanding of the effects of the new employment relationship involves many methodological challenges. For example, determining how stakeholders affect employment practices across organizations requires that researchers collect detailed, firm-specific information on those practices. Studies of that nature tend to be extremely resource intensive (Briscoe & Safford, 2008; Kalev et al., 2006; Kalleberg,
Knoke, Marsden, & Spaeth, 1996). For this reason, it may be that research is best advanced by pursuing a variety of approaches: linking variations in stakeholder power across time, industries, and organizations to employment outcomes (cf. Bidwell, 2013; Cobb, 2012); assembling detailed, single-firm case studies of changes in employment relationships (Dencker, 2008, 2009); and performing more qualitative analyses of the goals and strategies of different stakeholders. Comparing the effects of multiple groups in unison would be especially valuable, though challenging. Briscoe and Murphy (2012) provide an example of such an approach in their study of cuts in retiree health benefits.

In carrying out such work, scholars must carefully consider selection issues because some types of individuals and/or organizations are more likely to be associated with employment changes, which make it harder to isolate the effects of the changes themselves. In examining the effects of employment practices on individuals, familiar approaches to this issue include two-stage models, matched samples, and instrumental variables; access to pre- and post-implementation data is also quite helpful. At the organizational level, there may be exogenous sources of variation to exploit—for example, when states adopt new employment regulations at different times and compel organizations to change practices in the absence of voluntary compliance. A second challenge is to understand the micro mechanisms that underlie patterns observed at the organizational or field level. To address this challenge, recent individual-level studies have used personnel records from employers and employment intermediaries; when combined with site visits, this detailed longitudinal data offer the potential for a more complete understanding of the intermediate mechanisms involved in producing differences in outcomes.

Work that is sorely needed includes careful methodological approaches capable of reaping greater insights into the causal mechanisms that generate inequality. Although an increasing number of studies document associations between employment practices and the allocation and distribution of rewards, much less is known about the underlying causes of such associations. Without a fuller understanding of how such associations come about, we are limited in our ability to address the root causes of disparities. An example of a mechanism relevant to employment-based inequality is cumulative advantage, whereby initial differences in skills or other endowments translate into widening gaps between individuals and groups as workers experience differing employment practices. The power gained by pinpointing such mechanisms as cumulative advantage is that doing so expands our understanding of the processes through which employment relationships and inequality are linked, allowing for broader generalization across employment settings.

**Comparative approaches.** Of particular importance is attaining a deeper knowledge of how linkages between changes in relationships and inequality compare across settings. Our review suggests that such comparative research
is still rare. Nonetheless, we believe that much progress can be made in studying how some of the processes reviewed here operate in different national contexts and different types of firms. With regard to the former, scholars have begun to make headway on the questions addressed in this review (Gautie & Schmitt, 2010; Lee & Kofman, 2012). As for the latter, there is still much to be learned about important issues such as the differences among traditional corporations, entrepreneurial firms, and family-owned companies. Studying these variations is a promising avenue for future research.

Conclusion
Sweeping changes in employment relationships are reshaping the way resources are distributed in society. We believe that organizational and management researchers should be at the forefront of understanding such change, equipped as they are with a rich set of theoretical frameworks that can be used to understand the causes of these organizational changes and their complex effects on the material resources of individuals. Work in this area holds the potential of resolving several important empirical puzzles, as discussed in this paper, and of contributing to general social theory on the evolving processes that shape behavior in organizations and market contexts.

Endnotes
1. This trend is also evident for private pension schemes in the UK. In most other developed countries, however, voluntary private coverage for health insurance and pensions is less significant because of compulsory participation in public health and pension systems (Clark et al., 2006, pp. 374–376).
2. Other major laws during the earlier era, including the Occupational Safety & Health Act (1970) and the Employee Retirement and Income Security Act (1974), also included provisions designed to ensure equal treatment for employees.
3. These struggles vary depending on the institutional context, and may have different effects in different countries. For example, Mitlacher (2007) summarizes differences between the USA and Germany with respect to the reasons for using contingent employment. A full comparison of these institutional systems is beyond the scope of this review.
4. This occurred even though research on the beneficial impact of diversity remains largely equivocal and contradictory (Kochan et al., 2003).

References


