HUMAN RESOURCE MANAGEMENT CONFIGURATIONS FOR LOW-WAGE WORKERS: DOES INDUSTRY MATTER?

Using a sample of 302 employers of former welfare clients, we found three configurations of HRM practices for low-wage workers. Using hierarchical linear modeling (HLM), we found that firm-level factors (having a HRM department, and for-profit or non-profit sector) and industry-level wage growth jointly influenced the adoption of HR configurations for low-wage workers.

Applying the Resource Based View of the firm to human resource management (HRM), researchers argue that an organization’s employees can be a source of competitive advantage if they are valuable, rare and inimitable (Wright & McMahan, 1992). The Strategic Human Resources Management (SHRM) perspective suggests that bundles of human resource management practices or human resource management systems that both internally fit the organizations’ situation and externally fit the environment can effectively acquire and exploit their human resources to achieve organizational effectiveness (e.g., Wright & McMahan, 1992). Some researchers who focus on internal fit suggest a differentiation approach (e.g., Becker & Huselid, 2006). Specifically, it is suggested that employers target their investments in developing, motivating, and retaining workers depending upon the relative value and uniqueness different employees bring to the firm (Lepak & Snell, 1999). Core knowledge workers whose contributions are of essential strategic importance to the firm are developed internally and incentivized to remain loyal and committed. Support workers whose skills are common and of relatively low value are externally contracted when needed and then released. By focusing investments on the group of employees providing the greatest value-added to the firm, employers can minimize labor costs while simultaneously building and maintaining the human capital necessary to compete in a dynamic global marketplace (Lepak & Snell, 2002; Lepak et al., 2007).

According to this theorizing, former welfare clients, who are predominantly low-wage workers, are unlikely to be the group of employees in whom employers would make investments. Former welfare clients are primarily women with relatively few skills, little work experience, and substantial dependent care responsibilities. For employers whose primary goal is to minimize labor costs, former welfare clients are likely to be viewed as having little human capital and not being valuable resources worthy of investment. Hence, employers are likely to develop casual or contractual relationships with this group of employees. Under this condition, moving from welfare to self-sufficiency is unattainable for low-wage workers as they have little to offer employers but require high wages and benefits to support a family.

Although keeping wages and benefits costs as low as possible generates a number of advantages (Arthur, 1992), maintaining low labor costs is only be one goal among many that HR managers must consider. Other goals, such as developing worker skills, motivating high performance, and retaining
capable employees, coexist and even conflict with the goal of labor cost minimization. The relative importance of one goal over the other may depend on the extent to which jobs require firm specific skills and knowledge for effective performance (Azfar & Danninger, 2001; Kalaitzidakis, 1997).

We argue that some of the low-wage jobs obtained by former welfare clients include firm-specific knowledge and skills. To be effective, workers in these jobs must learn things such as rules for starting, ending, and break times, where tools and supplies are kept and how the employer wants them handled, the preferences of specific customers or clients, and norms of behavior governing the specific set of interpersonal relationships in the particular work environment. Even the relatively simple firm-specific knowledge required of low-wage workers may be important for employee development and organizational effectiveness (Gamble, 2006). Furthermore, the labor pool available for these jobs is generally limited to people whose ability, motivation, and experience are on the lower end of the population's distribution. Hence, training these individuals on even simple rules and procedures might take a significant amount of time and managerial effort.

Given the difficulties inherent in working with this employee population, an organization that can motivate and retain a team of smoothly and efficiently functioning low-wage workers might be able to generate a competitive advantage. Retaining low-wage employees is likely to be especially important in industries where production processes must be kept running efficiently, where customers demand smooth, efficient service, or where clients desire longer-term relationships with service providers, such as for child care, elder care, or health care. Therefore, contrary to an intuitive thought that low cost is the only way of managing low-wage workers, organizations may adopt different human resource management systems for low-wage workers, and we attempt to identify these configurations in the current study.

The other purpose of the current study is to take into consideration the influence of contextual factors on choice of HRM system. Although both internal and external fit are important according to SHRM, research attention has been predominantly devoted to internal fit. The impact of external environments has not been thoroughly investigated (e.g. Datta, Guthrie & Wright, 2005). In the current study, we argue that the adoption of human resource configurations for low-wage workers is not only determined by workforce and firm characteristics, but also influenced by industry-level factors. The industry in which an organization operates is a critically important component of its environment. Using Hierarchical Linear Modeling (HLM), we examined the cross-level interactive effects of changes in industry conditions on the adoption of HR configurations for low-wage workers.

**HRM Configurations for Low-Wage Workers**

Consistent with the configurational approach to strategic HRM (Martín-Alcázar, Romero-Fernández & Sánchez-Gardey, 2005), we begin this research by using theory to deduce two distinct configurations of HRM practices that might be used in the low-wage labor market, which is the market in which most former welfare clients conduct their job search. Two somewhat distinctive configurations of HRM practices can be deduced from the extant literature: the low cost approach and the mutual investment approach. We follow the suggestion of Martín-Alcázar, Romero-Fernández and Sánchez-Gardey and describe HRM configurations in terms of HRM strategies, HRM policies, and HRM practices. The two configurations lead to different employment relationships with low-wage workers, and imply that workers with somewhat different characteristics will be engaged by firms with these two configurations.
Low Cost Approach

A low cost approach to the employment of low-wage workers creates many advantages for the employer. By creating routinized, unskilled jobs, employers can minimize the training and development investments they make in employees (Arthur, 1992). Limited investment in employees generates another benefit for the employer, which is the relative ease of firing such workers during business cycle troughs and times of economic decline (Head & Lucas, 2004; Mukoyama & Şahin, 2006). Flexibility for handling business cycles and economic downturns provided by low-wage workers allows the employer to protect the jobs of the core knowledge workers upon whom the organization depends for competitive advantage (Lepak & Snell, 1999).

The low cost arrangement is similar to what Arthur (1992) called a “cost reduction” industrial relations system, involving the development of narrow, highly specified, routinized jobs requiring few training investments in workers. It is also consistent with what Tsui et al. (1997) called a “quasi spot contract” where employees perform a well-defined set of job duties for which the employer offers “short-term, purely economic inducements” (p. 1091). Employers make few investments in employees, and they, in turn, are not expected to attend to the well-being of the firm outside of performing their specified tasks. The low cost arrangement is also similar to what Rousseau (1995) called a “transactional employment relationship.” Lepak and Snell (1999) suggested that a transactional relationship, where the employer neither expects nor obtains loyalty from the employee, is most appropriate for employees whose skills are neither highly valuable nor highly unique, and reasoned that such employees are those most likely to be leased, contracted out, or hired on a temporary basis.

HRM policies within a low cost framework focus on flexibility for the employer during business cycles and economic downturns (Kulkarni & Ramamootry, 2005). HRM practices would include the development of routine jobs that require little investment in worker training, combined with close supervision to control for low levels of worker motivation. These firms would pay a market wage and no more to low-wage employees, and the employment relationship would resemble a spot market with high turnover (Lambert, 2003). Such jobs are most likely to engage unskilled workers with a low level of attachment to the labor market who might willingly move in and out of the labor market for reasons of family or personal preference.

Mutual Investment Approach

As stated above, even low-wage jobs have firm-specific content, and building those firm-specific skills may take a significant amount of time and effort for unskilled employees. For instance, Gamble (2006) found that Chinese workers believed that their employment experiences in low-skill retail jobs had enhanced their work skills substantially. Those workers had received both formal and on-the-job training to become effective in their low-skill, low-wage jobs.

When jobs require investment in worker training for effectiveness, managers are likely to organize the employment relationship in a way that will motivate and retain workers who are able to keep work processes flowing smoothly. Previous authors have argued that promotion ladders are one means of enhancing worker retention when firm-specific skills are significant. As workers gain more firm-specific skills, they earn promotions up a job ladder that are linked to wage increases. Job ladders tie workers to the firm because the wage premiums linked to firm-specific skills are not likely to be offered by other employers (Pfeffer & Cohen, 1984).

Although we agree that promotions and higher earnings are valued by workers, we join other authors who argue that there are many ways of motivating and retaining workers, and a promotion ladder is just one of them (e.g., Azfar & Danninger, 2001). Especially for low skill workers, the opportunities for
promotion are likely to be limited, at least at first. HR managers have developed a wide variety of non-pecuniary benefits designed to enhance employee motivation and retention (Herman, 2005). Managers can target specific benefits to the specific workers most likely to desire and utilize them through the use of cafeteria plans or by structuring the employment relationship differently for different categories of workers. Given that promotion opportunities might be limited for former welfare clients for quite some time, management might attempt to retain these low-wage workers by offering other inducements, such as skill-building training, family friendly benefits, or a welcoming work environment. Because all employers do not offer these benefits, they have the potential to enhance employee retention. In addition, a good benefits package may have an efficiency wage effect on motivation for low-wage workers. Because former welfare clients are unable to attain a good benefits package from many employers, they are likely to exert extra effort to retain jobs with employers who do offer such benefits. The result for the employer is higher quality work and reduced supervision costs.

Why would employers offer benefits to induce retention rather than simply paying higher wages to low-wage workers? We offer two possible reasons. First, it might be less costly to the employer to offer benefits on a group basis than it would be for low-wage workers to purchase benefits individually. Low-wage workers often cannot afford to cover the costs of childcare, health benefits, and additional training for themselves without sacrificing basic food and housing needs. The wage differential allowing workers to pay for health benefits and childcare is likely to cost the employer more than providing those benefits on a group basis, especially given the fact that employees are taxed for higher wages but not for added benefits. If training, health benefits, and childcare assistance help to retain workers at the level needed for the business to run smoothly, then a rational employer might offer such benefits rather than increased wages.

Second, the cost of retention could be a relatively attractive compensation package combining somewhat higher wages with good benefits, which suggests that employers who wish to retain workers might offer both. For the population of workers coming off of welfare, the benefits of employment must be sufficient to allow the individual to remain in the labor force, which requires a living wage combined with substantial non-pecuniary support (Lambert, 1999; Perlmutter, 1997; Ranarajan & Novak, 1999; Stellmack & Wanberg, 2000). Hence, employers of former welfare clients may need to provide both high wages and good benefits in order to meet their retention needs. If providing a compensation package that is more attractive than those offered by competitors and that allows workers to stay in the labor force enhances retention, the enhanced revenues generated by a more efficient and effective workforce might pay for or exceed the added costs. Employers who fail to offer benefits might have to pay very low wages to offset the revenue costs of inefficiencies resulting from higher turnover, which would result in a negative selection effect.

Given that these employers seek to differentiate themselves from competitors on the basis of the quality of work conducted by front-line workers in the low-wage sector, they are likely to pursue what Tsui et al. (1997) called a “mutual investment” HRM strategy, which is also similar to Arthur’s (1992) “commitment maximizing industrial relations system”. HRM policies within a mutual investment framework focus on investment in employee training and development, as well as motivation / retention of trained employees (Arthur, 1992). HRM practices include training and development systems, generous benefits, and above-market compensation. In addition, these employers are likely to develop careful selection practices in order to hire the job candidates with the highest ability and motivation to maximize the potential benefits of training and development. The employment relationship is relatively long-term, with high commitment and low turnover (Tsui et al., 1997). Such jobs are most likely to engage higher quality workers within the low-wage pool who are attached to the labor market and seek career advancement and growth.
In sum, employers hiring former welfare clients might utilize one of two HRM configurations: a low cost with low productivity and high turnover, or a mutual investment model with higher productivity and low turnover. Either configuration might result in similar profits for employers, but the latter model is more likely to result in self-sufficiency for former welfare clients.

Antecedents of HRM Configurations

In addition to identifying different HRM configurations for low-wage workers, we are also interested in understanding the factors that influence organizations’ selection of these configurations. We focus on two organizational characteristics, specifically, sector (non-profit or for-profit), and the presence or absence of a HRM department. We further argue that the association between organizational characteristics and practices for managing low-wage workers varies depending on the industry in which the organization operates. The industry in which the organization operates is a critically important component of its environment that influences the formation and execution of the organization’s policies and practices (e.g., Porter, 1980). In one of the few studies which have investigated the implications of industry characteristics for HRM, Datta, Guthrie and Wright (2005) found that while the bundles of HRM practices constituting high performance work systems (Benson, Young, & Lawler, 2006) have a positive impact on productivity, the effect is contingent on industry characteristics such as industry capital intensity, growth and differentiation. In the current study, we focus on industry-level wage growth and examine how this factor interacts with organizational characteristics to influence the adoption of HRM systems for low-wage workers.

Non-profit v. For-profit Organizations

Non-profit and for-profit organizations have different goals. For non-profits, serving the community is more important than attaining high financial performance. Because profit is not an imperative for non-profit organizations, the performance evaluation of these firms is based on reputational analysis and conformity to normative values in the non-profit sector (Cutt & Murray, 2000). Moreover, processes rather than outcomes receive close scrutiny. Therefore, the behavior of non-profit organizations is consistent with the suggestions of institutional theory whereby conformity to environmental requirements to acquire legitimacy is the key to organizational survival (Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Scott, 1995).

Previous research has shown that the boards of non-profit organizations are composed to reflect different interests and/or identity groups in the community (Abzug & Galaskiewicz, 2001). Also, “hiring staff who are connected to the community” is highly valued for non-profit organizations (Cutt & Murray, 2000, p. 50). Given the institutional pressure encounterd by non-profit organizations, we argue that they are more likely than their for-profit counterparts to use human resource practices for symbolic purpose. That is, they may use certain practices to show their conformity to the normative requirements of their environments and to obtain legitimacy. Mutual investment systems, which are characterized by high levels of compensation and benefits demonstrate that the non-profit organization is a high quality employer in the community, thereby enhancing legitimacy. For-profit organizations, on the other hand, will structure their HRM practices to fit their strategy and environment. Hence, some for-profit organizations will choose a low-cost configuration, while others choose a mutual investment configuration.

H1: For-profit organizations are less likely than non-profit organizations to adopt a mutual investment HRM configuration for low-wage workers.
Presence of a HRM Department

The presence of a HRM department is likely to influence the practices used to manage low-wage workers. A HRM department is a part of the formal organizational structure. According to the classic bureaucratic dictum (Weber, 1978), the existence of a HRM department will provide HRM specialists with authority to achieve specialized goals. As a component of an organization’s entire workforce, low-wage workers will be included in the organization’s overall human resource management agenda, and their roles will be carefully analyzed and evaluated by the HRM specialists. As a result, organizational decision-makers are more likely to become aware of situations where high quality work on the part of low-wage workers is important to organizational effectiveness. In such cases, organizations are likely to use mutual investment systems for low wage workers because relatively valuable and unique workers are developed internally within a highly committed, organizationally-focused employment relationship.

Moreover, a HRM department has the personnel and resources to provide entry-level workers with the training, development, and motivation they need to perform at a high level. Without HRM staff who have both the specialized knowledge and mandate, HRM responsibilities are not accomplished as effectively. Supporting this notion, Kalev, Dobbin & Kelly (2006) authors found that the presence of a diversity committee and diversity specialists were key to diversity effectiveness in terms of increasing the representation of designated group members. Hence, making HRM part of the organizational structure is likely to facilitate the organization assuming the relevant responsibilities.

H2: Organizations with HRM departments are more likely than those without HRM departments to adopt mutual investment systems.

Industry Wage Growth

Industries vary in terms of the average wage paid to employees and the growth rate of per employee payment. A relatively high growth rate of employee wages implies either a tighter labor market with a greater demand for labor relative to supply. Under this condition, wages are more likely to be bid upwards, and for-profit organizations are pressed to achieve higher productivity per worker in order to recoup wage costs. Investments to enhance worker productivity can involve new technology, which requires employee skill development and motivation to learn. Hence, for for-profit organizations, mutual investment systems are more suitable to the fulfillment of the goal of maximizing productivity per worker in a situation of high wage costs (Arthur, 1994). Because non-profit organizations are more strongly focused on reputation and legitimacy than for-profit organizations, they are likely to adopt a mutual investment approach to low-wage workers regardless of industry environment.

H3a: Per employee industry wage growth will be more strongly positively associated with the adoption of mutual investment systems for for-profit than for non-profit organizations.

Organizations with HRM departments are better equipped to handle wage growth per employee at the industry level. The specialists in the HRM department are likely to become aware of the increase of industry-level per employee payment relatively quickly and to respond to the change more effectively with industry-level best practices. By comparison, organizations without HRM departments are likely to become aware of industry-level wage changes more slowly and respond less professionally. Given the weak understanding of the value of HRM to organizational performance in these organizations, the increase of industry-level per employee payment is less likely to be interpreted as an opportunity to make HRM innovations to enhance the value-added of low-wage workers. Lacking effective HRM departments and specialists to assume the relevant responsibilities, organizations without HR departments are likely to respond relatively slowly to industry-level wage changes and experience losses of their best employees to higher-paying competitors as a result.
**Methods**

We obtained access to the Philadelphia Workforce Development Corporation’s (PWDC) job retention database. All former welfare clients who obtained jobs with the assistance of an employment and training provider contracted by the PA Department of Public Welfare (DPW) were included in this database. The PWDC database also included employer name, address, and telephone number. This information was used for administration of our employer surveys.

**Employer Survey Development**

We consulted several sources of data for information on HRM practices employers might use to enhance job retention among former welfare clients and other entry-level workers, including academic literature, foundation reports describing case studies of successful job retention among former welfare clients, and many other documents recommending that employers adopt specific practices. We examined the Society of Human Resource Management’s (SHRM) Retention Practices survey as well as many other surveys included in their research program. We also conducted several interviews and focus groups with people experienced in the welfare to work transition to inform the development of our employer survey, including 11 employees who were former welfare clients, two members of the DPW staff responsible for implementing employment and training programs to move welfare clients to paid work, 10 staff members at several nonprofit organizations who provide employment and training services to welfare clients and/or other low income workers, and 5 HR managers at organizations with experience hiring former welfare clients. The HR managers piloted early drafts of the survey and provided suggestions for items to add/subtract as well as changes in wording.

Because theorists have argued that firms manage different types of workers with different sets of HR practices (e.g., Lepak & Snell, 1999), we focused the survey on entry-level hourly workers, specifying those earning $10 to $12/hour or less, including but not limited to those coming off of welfare. Meta-analytic research has shown that response rate declines with increased survey length (Yammarino, Skinner, & Childers, 1991), so we limited the employer survey to 4 pages. For most of the HR practices included in the survey, we offered three response options. Respondents could indicate that they conducted the practice formally, conducted it informally, or did not conduct the practice. For other practices, respondents could indicate whether they offered various benefits or opportunities to all/most, some, or none of their entry-level workers.

**Employer Survey Administration**

Every employer hiring a former welfare client in the PWDC database between July 24, 2000 and October 24, 2001 was telephoned to obtain the name of the HRM head and contact information for that person. 874 employers with usable addresses were identified and administered the Survey of Entry-Level Employment Practices. After several mailings, reminders, and telephone calls, we received 305 completed surveys, for a response rate of 34.6%, which is considerably higher than the average response rate of 17.4% to surveys of HRM practices (Datta et al., 2005). The 305 employers responding to the survey were primarily for-profit businesses (68%), with 22% non-profit organizations and 10% government or public sector organizations. 34.4% of the companies had 101-500 employees, and 28.7% had more than 500 employees. Most (83%) of the organizations reported that they had a formal HRM department.
Measures

We focused on eight categories of human resource management practices for low-wage workers. Specifically, we assessed the compensation of low-wage workers by taking the average wage recorded in the PWDC database for all former welfare clients the organization employed during the study time period of July 24, 2000 through October 24, 2001. The average number of low-wage workers per employer was 1.9 (range = 1 to 36).

At the suggestion of our interviewees and on the basis of the extant literature, the employer survey included measures of job training, feedback, financial/health benefits, family friendly benefits, supervisory training, supervisory appraisal, and development opportunities. Items in the training, supervisor training, supervisor appraisal, and development opportunities scales were coded as 1 if the employer indicated it formally conducted this activity, and 0 if not. Items in the financial/health benefit and family-friendly benefits scales were coded 1 if the employer indicated that “all or most” employees received this benefit, and 0 if not. We created the indices by taking the mean across the dummy-coded items, so that the mean score on each index indicates the proportion of the listed practices utilized by the employer. Our use of mean indices to measure HRM practices is consistent with past research (Mackey & Boxall, 2007). The feedback scale response format ranged from 1=never to 6=often.

The feedback measure asked employers how often entry-level employees received feedback on various performance dimensions (α = .91). The provision of financial/health benefits to entry-level employees was assessed in six survey items (α = .87). The employee job training measure constituted of eight items assessing a variety of training possibilities for new hires (α = .69).

Family friendly benefits was assessed with 18 items (α = .78) asking whether entry-level employees were offered a series of benefits that were intended to be comprehensive and are similar to measures used by previous authors (e.g., Goodstein, 1994; Konrad & Mangel, 2000). Supervisory training was assessed with items asking whether supervisors received formal training in nine areas (α = .82). Supervisory appraisal consisted of four items asking whether supervisors were appraised on whether they provided supportive supervision (α = .81). Development opportunities consisted of three possible avenues for employee development (α = .55).

Industry-level Wage Growth

Information on industry level characteristics was obtained from the 1997 and 2002 Economic Censuses, which are conducted by the U.S. Census Bureau every five years. The Census results contain information on number of paid employees, annual payroll, and sales/receipts/shipments by North American Industry Classification (NAICS). The information is available at the two- to six-digit levels. We used the three-digit industry codes for our sample. To measure industry wage growth per employee, we first divided annual payroll by the number of paid employees in 1997 and 2002, respectively. We then calculated growth by subtracting the 1997 wage from the 2002 wage and dividing the difference by the 1997 wage to calculate a percentage.

Analysis

Cluster analysis. Following Arthur (1992) and French (2001), we subjected employers’ scores on the eight HRM practice indices to cluster analysis to determine whether we could identify distinct HRM configurations among employers of low-wage workers (with missing data, n of employers = 302). Cluster analyses were performed following a two-stage process (e.g., Hair, Anderson, Tatham, & Black, 1995; Ketchen Jr. & Shook, 1996; Perry-Smith & Blum, 2000). First, a hierarchical cluster analysis, using standardized variables, was conducted using the between-groups linkage method with the squared
Euclidian distance as the interval measure. The purpose of this analysis was to identify the number of firm clusters suggested by the data. Large changes in the agglomeration coefficient suggest that clusters should remain separate, and inspecting the relative magnitude of the agglomeration coefficient as clusters are joined suggests the number of clusters to derive from the data (Hair et al, 1995). Hierarchical cluster results can be then combined with theory to identify the ideal number of clusters (Ketchen Jr. & Shook, 1996).

In the second stage cluster analyses, we used the nonhierarchical k-means clustering procedure. The k-means procedure calculates cluster centers for each cluster, and each variable's association with that center assists in the interpretation and labeling of the cluster, much like factor loadings help to interpret and label factors in factor analysis. Results from the k-means procedure can be sensitive to the ordering of the cases (Hair et al, 1995). To help validate our results in this respect, we conducted our analyses using three different case orderings: by an arbitrarily assigned survey number, and two orderings of the cases based on randomly generated case numbers. Results were virtually identical across analyses, indicating that our results are not significantly affected by case ordering.

Hierarchical linear modeling analysis. We used hierarchical linear modeling (HLM) to test our hypotheses concerning the antecedents of HRM configurations. We deleted industries with fewer than five organizations to maintain statistical power. We also deleted government/public sector organizations given the small number of them in our sample. The final sample included 19 industries and 213 organizations to test the antecedents of HRM configurations. Because the dependent variable is categorical, we used multinomial regression models. We developed separate models to examine the effects of the two industry characteristics. In each model, the first level predictors were a dummy variable indicating whether the organization is for-profit or not (1=yes, 0=no), and a dummy variable indicating whether the organization has a HR department or not (1=yes, 0=no). In addition, we controlled for organizational size as previous research showed that large organizations tend to have more formal human resource management practices than small organizations (e.g., Goodstein, 1994; Powell, 1991). We coded organizations with more than 500 employees as large (=1) and others as small (=0). At the second level, we used one of the measures of the industry-level characteristics as a predictor of the intercept and slopes on either the for-profit dummy or the HRM department dummy to test the hypothesized interactions (Raudenbush & Bryk, 2002).

Results

Cluster Analysis

Results from the first stage cluster analysis indicated that the three and four cluster solutions were most valid, and we proceeded to the next stage with these two different solutions. To help validate these results, we re-conducted the analysis twice using random split-samples of 50% of the cases (Ketchen Jr. & Shook, 1996). The results were virtually identical to the full sample results. We conducted second stage cluster analyses for the three and four cluster solutions. Our k-means analysis for the three cluster solution was readily interpretable in terms of assessing patterns of association between HRM practices and cluster membership for conceptual labeling. The four cluster solution was not clearly interpretable (please contact the second author for these results). Thus, we accepted the more theoretically meaningful three cluster solution.

Table 1 shows the three-cluster solution representing HRM configurations generated from our data. The first configuration, representing 122 employers (40% of the sample) showed relatively high levels of wages, financial/health benefits, and work-life flexibility and low to moderate levels on the five other HRM practices indices. We labeled this configuration “paternalistic” because it provided relatively
high levels of rewards to employees without much performance feedback or many growth and development opportunities. The second configuration, representing 93 employers (31% of the sample) showed relatively low levels on all eight HRM practices indices. This configuration was consistent with the “low cost” HRM approach. The third configuration, representing 87 employers (29% of the sample) showed moderate levels of wages, financial / health benefits, and work-life flexibility, and high levels of feedback, training, development, supervisory training and supervisory appraisal on providing a supportive work environment. We labeled this configuration the “mutual investment” approach because it provided employees with many opportunities for growth and development under highly trained supervisors and within a supportive work environment.

Table 1

Cluster Analysis of HRM Practices for Low-Wage Workers

<table>
<thead>
<tr>
<th>HRM Practice Measure</th>
<th>Cluster</th>
<th>Paternalistic</th>
<th>Low Cost</th>
<th>Mutual Investment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage</td>
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<td>-.41</td>
<td>-.23</td>
<td></td>
</tr>
<tr>
<td>Benefits</td>
<td>.76</td>
<td>-.97</td>
<td>.02</td>
<td></td>
</tr>
<tr>
<td>Work-Life Flexibility</td>
<td>.50</td>
<td>-.86</td>
<td>.24</td>
<td></td>
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<tr>
<td>Feedback</td>
<td>-.25</td>
<td>-.21</td>
<td>.57</td>
<td></td>
</tr>
<tr>
<td>Training</td>
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<td>-.50</td>
<td>1.10</td>
<td></td>
</tr>
<tr>
<td>Supervisor Training</td>
<td>-.18</td>
<td>-.54</td>
<td>.84</td>
<td></td>
</tr>
<tr>
<td>Supervisor Accountability</td>
<td>-.21</td>
<td>-.57</td>
<td>.94</td>
<td></td>
</tr>
<tr>
<td>Development</td>
<td>-.06</td>
<td>-.69</td>
<td>.81</td>
<td></td>
</tr>
<tr>
<td>N of firms</td>
<td>122</td>
<td>93</td>
<td>87</td>
<td></td>
</tr>
</tbody>
</table>

Note. N of employers = 302. Discriminant analysis indicated that 57.4% of employers were correctly classified by these variables.

ANOVAAs (not shown in Tables) comparing the characteristics of employees in these three clusters of organizations showed that employees selected by mutual investment employers had higher scores on the DPW reading test than employees at low cost firms, although reading scores for mutual investment and paternalistic firms did not differ. Employees at mutual investment employers had significantly fewer children than their counterparts at either paternalistic or low cost employers. Finally, job retention for former welfare clients averaged 130 days in paternalistic firms, which was significantly higher than the average of 109 days observed in low-cost firms and 101 days observed in mutual investment firms.

HLM Analysis

The descriptive statistics of the first level predictors showed that among 213 organizations in our sample, 73% are private for-profit, 60% are large firms, and 78% have a HRM department. For the second level predictors, the average level of industry sales growth for the 19 industries under investigation was 7.78% and the average per employee wage growth was 0.42%.

Our hypotheses regarding the predictors of HRM configurations assumed there would be two clusters of practices observed among employers, reflecting a low-cost and a mutual investment strategy, respectively. Given that the third configuration in our data, a paternalistic HRM approach, involves a relatively high wage and benefits package with relatively little performance pressure on employees, we consider it to be more similar conceptually to the mutual investment than the low cost approach. Indeed,
the paternalistic approach represents much investment on the part of the employer with little pressure on the employee to reciprocate, thereby demonstrating an overinvestment approach as termed by Tsui et al. (1997). Tsui et al. found that the mutual investment and overinvestment approaches had similar positive effects on employee task performance, citizenship behavior and work attitudes, suggesting that employees react quite similarly to these two approaches. Regarding antecedents of HRM configurations, we expect that the paternalistic approach will behave more similarly to the mutual investment approach than to the low cost approach. The one difference we predict is that the paternalistic approach is utilized more often by non-profits while the mutual investment approach is utilized more often by for-profits.

H1 predicted that for-profit organizations are less likely than non-profit organizations to adopt a mutual investment HRM configuration for low-wage workers. Given our three-cluster solution for HRM configurations, we amended this hypothesis to suggest that for-profit organizations are more likely than non-profits to adopt a low-cost HRM configuration over either a paternalistic or mutual investment system. The first-level coefficients on the for-profit dummy variable in the HLM analyses tested our modified prediction (Tables 2-3).

The modified hypothesis was supported for the most part. The significant negative coefficients of the for-profit dummy on the paternalistic system in Tables 2 and 3, Model 1 equations (low cost system as reference) as well as the positive coefficient on the low cost system in Table 2, Model 2 equation (mutual investment system as reference) and the negative coefficient on the mutual investment system in Model 1 Table 4 all were in the direction showing greater use of the low-cost system among for-profits compared to non-profits. The meaning of the effect can be interpreted by calculating the odds ratios from the regression coefficients. These estimates ranged from non-profits being 3.1 (1/exp[-1.119]) times more likely to adopt paternalistic systems over low cost systems (Table 2, Model 2) to non-profits being 10.64 (1/exp[-2.365]) times more likely than for-profits to adopt mutual investment systems over low cost systems (Table 2, Model 1).

H2 predicted that organizations with HRM departments would be more likely than those without HRM departments to adopt mutual investment systems relative to low cost systems. Given our three-cluster solution for HRM configurations, we amended this hypothesis to suggest that organizations without HRM departments are more likely to adopt a low-cost HRM configuration over either a paternalistic or mutual investment system than those with HRM departments. The first-level coefficients on the HRM department dummy in the HLM analyses tested our modified prediction (Tables 2-4).

The amended hypothesis was largely supported. In the Model 1 equations using the low cost system as the reference, the HRM dummy showed significant positive coefficients for both the paternalistic and mutual investment systems in both Tables 2 and 3 and for the mutual investment system only in Table 4. In the Model 2 equations (mutual investment system as reference), the HRM dummy showed a negative coefficient on the low cost system in Tables 2 and 3, and a non-significant coefficient on paternalistic systems. Together, these results indicate that organizations with HRM departments were less likely to adopt a low cost HRM configuration than either a paternalistic or a mutual investment system. The size of the effect ranged from an organization with an HRM department being 4.24 (exp[1.445]) times more likely to adopt a paternalistic system over a low cost system (Table 3, Model 1) to those with an HRM department being 16.81 (exp[2.822]) times more likely to adopt a mutual investment system over a low cost system (Table 4, Model 1).

Table 2

<table>
<thead>
<tr>
<th>HLM Results Comparing Non-Profits and For-Profits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Model 1: Low cost as the reference group</td>
</tr>
<tr>
<td>Model 2: Mutual investment as the reference group</td>
</tr>
</tbody>
</table>
The presence of an HRM department did not distinguish between the presence of a paternalistic or a mutual investment system. This finding was indicated by the non-significant main effect of an HRM department on the paternalistic system in Model 2 (mutual investment system as reference) in Tables 2-4.

H3a predicted that industry wage growth per employee would be more strongly positively associated with the adoption of mutual investment systems for for-profit than for non-profit organizations. We modified this hypothesis to suggest that industry wage growth would be more strongly negatively associated with low-cost HRM systems for for-profits than for non-profits. This prediction was tested by examining the impact of the second-level industry wage growth variable on the slope of the first-level for-profit dummy (Table 2).

A significant coefficients supporting the hypothesis was observed in Model 1 for the mutual investment system. Odds ratio calculation indicated that under the condition of a 10% increase in wage growth, a for-profit organization was 2.52 (1/exp[-1.19+.264] times less likely than a non-profit to adopt a mutual investment system over a low-cost system. Under the condition of zero wage growth, the odds ratio increased to 3.29 (1/exp[-1.19]). Thus, industry wage growth increased the relative odds of adopting a mutual investment system for for-profit compared to non-profit organizations, supporting our prediction.

<table>
<thead>
<tr>
<th></th>
<th>Paternalistic</th>
<th>Mutual Investment</th>
<th>Paternalistic</th>
<th>Low Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intercept</td>
<td>0.49(0.61)</td>
<td>-0.61(0.66)</td>
<td>1.13(0.59)</td>
<td>0.62(0.66)</td>
</tr>
<tr>
<td>HRM department</td>
<td>1.57**(0.50)</td>
<td>2.23*** (0.56)</td>
<td>-0.62(0.62)</td>
<td>-2.25*** (0.56)</td>
</tr>
<tr>
<td>(1=yes; 0=no) For-profit firm</td>
<td>-2.37*** (0.60)</td>
<td>-1.19(0.61)</td>
<td>-1.12*(0.46)</td>
<td>1.20* (p=.05)(0.61)</td>
</tr>
<tr>
<td>(1=yes; 0=no) Size (1=large; 0=small)</td>
<td>0.42(0.43)</td>
<td>-0.09(0.41)</td>
<td>0.64(0.39)</td>
<td>0.10(0.41)</td>
</tr>
<tr>
<td>Intercept as outcome</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry Wage Growth</td>
<td>-0.13(0.48)</td>
<td>-2.64*(1.04)</td>
<td>2.67**(0.97)</td>
<td>2.81**(1.01)</td>
</tr>
<tr>
<td>For-profit slope as outcome</td>
<td>0.29(0.48)</td>
<td>2.64*(1.05)</td>
<td>-2.55*(0.98)</td>
<td>-2.82**(1.02)</td>
</tr>
</tbody>
</table>
Table 3

<table>
<thead>
<tr>
<th></th>
<th>Model 1: Low cost as the reference group</th>
<th>Model 2: Mutual investment as the reference group</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Paternalistic</td>
<td>Mutual Investment</td>
</tr>
<tr>
<td>Intercept</td>
<td>0.49(0.61)</td>
<td>-0.83(0.70)</td>
</tr>
<tr>
<td>HRM department</td>
<td>1.45**(0.52)</td>
<td>2.06**(0.59)</td>
</tr>
<tr>
<td>(1=yes; 0=no)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>For-profit firm</td>
<td>-2.31*** (0.59)</td>
<td>-0.87(0.60)</td>
</tr>
<tr>
<td>(1=yes; 0=no)</td>
<td></td>
<td>-1.49**(0.42)</td>
</tr>
<tr>
<td>Size (1=large; 0=small)</td>
<td>0.43(0.43)</td>
<td>0.68(0.39)</td>
</tr>
<tr>
<td>Intercept as outcome</td>
<td>-0.47(0.86)</td>
<td>1.99*(0.90)</td>
</tr>
<tr>
<td>HRM department slope as outcome</td>
<td>0.75(0.87)</td>
<td>2.36*(0.90)</td>
</tr>
<tr>
<td>Industry Wage Growth</td>
<td>-2.26*(0.89)</td>
<td>-1.87*(0.91)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>-2.43**(0.88)</td>
</tr>
</tbody>
</table>

The prediction of modified H3a was similarly supported by the negative coefficient of industry wage growth on the slope of the for-profit dummy for low cost systems in Model 2 (Table 2). Odds ratio calculation indicated that under a 10% increase in wage growth, a for-profit organization was 2.50 (exp[1.20-.282]) times more likely than a non-profit to adopt a low-cost system over a mutual investment system. Under the condition of zero wage growth, the odds ratio increased to 3.32 (exp[1.20]), supporting our prediction.

Interestingly, the for-profit slope coefficient was also negative for paternalistic systems when mutual investment systems served as the reference group (Model 2, Table 2), indicating that high wage growth lead to the adoption of mutual investment systems over paternalistic systems in for-profit firms. Odds ratio calculation indicated that under a 10% increase in wage growth, a for-profit organization was 3.96 (1/exp[-1.12-2.55]) times less likely than a non-profit to adopt a paternalistic system over a mutual investment system. Under a condition of zero wage growth, the odds ratio declined to 3.06 (1/exp[-1.12]).

H3b predicted that industry wage growth would be more strongly positively associated with the adoption of mutual investment systems for organizations with HRM departments than for organizations without HRM departments. We modified this hypothesis to suggest that industry wage growth would be more strongly negatively associated with the adoption of low cost systems for organizations with HRM departments. Table 3 shows the HLM results testing this prediction, which was supported. Industry wage growth showed a significant positive coefficient on the slope of the HRM department dummy for mutual investment systems when low-cost systems served as the reference (Model 1). Odds ratio calculations
indicated that under a 10% increase in wage growth, an organization with an HRM department was 9.89 \( \exp[2.056+.236] \) times more likely than an organization without an HRM department to adopt a mutual investment system over a low-cost system. Under the condition of zero wage growth, the odds ratio declined to 7.81 \( \exp[2.056] \), supporting our prediction.

Similarly, our prediction received support from the significant negative coefficient of wage growth on the slope of the HRM department dummy for low cost systems when mutual investment systems served as the reference (Model 2). Odds ratio calculations indicated that under a 10% increase in wage growth, an organization with an HRM department was 9.81 \( 1/\exp[-2.04-.243] \) times less likely than an organization without an HRM department to choose a low cost system over a mutual investment system. Under the condition of zero wage growth, the odds ratio declined to 7.69 \( 1/\exp[-2.04] \), supporting our hypothesis.

Interestingly, the HRM slope coefficient was also negative for paternalistic systems when mutual investment systems served as the reference group (Table 3, Model 2), indicating that high wage growth lead to the adoption of mutual investment systems over paternalistic systems in organizations with HRM departments. The odds ratio under 10% wage growth indicated that organizations with HRM departments were 1.95 \( 1/\exp[-.481-.187] \) times less likely to adopt paternalistic systems over mutual investment systems than organizations without HRM departments. The odds ratio under zero wage growth declined to 1.62 \( 1/\exp[-.481] \).

**Discussion**

Previous theorizing relegates low-wage workers to casual or contract work (e.g., Lepak & Snell, 1999), and studies of broad cross-sections of employees generally support the conceptual notion that different HRM configurations are best utilized for different employee sub-populations (e.g., Lepak & Snell, 2002; Lepak et al., 2007). Adding to these findings, we identify three distinct configurations of HRM practices among employers of low-wage workers. Although one of these configurations conforms to the low cost models suggested previously, our finding of three configurations indicates greater complexity and better quality employment relationships than previously suggested. These findings are important because of their implications for the career development and life chances of the low-wage worker population. If employers can find sustainable ways of helping low-wage workers attain a living wage and career growth, then self-sufficiency and freedom from poverty may become achievable goals for both welfare clients and the working poor.

The low cost HRM configuration observed in our data is very consistent with the “cost reduction” (Arthur, 1992) and “quasi-spot-contract” (Tsui et al., 1997) models conceptualized in the literature. The low cost system we observed provided low-wage workers with market wages and few benefits or growth opportunities. Findings from our cross-level analysis suggest that having an HRM department reduces the likelihood that an organization will choose a low-cost approach. This finding is consistent with the SHRM arguments that an HRM department can play the role of strategic partner and assume the responsibility of employee development to help the organization achieve its goals. Without an HRM department, employee characteristics and their potential to add value are less likely to be systemically analyzed and recognized.

Furthermore, the probability that organizations without an HRM department will adopt a low-cost configuration increases under conditions of high industry wage growth per employee. These findings imply that the low-cost configuration fit an organization’s intention to reduce labor costs. For organizations with HRM department, increasing wage costs reduce the relative odds of adopting a low-cost HRM system. In these organizations, the presence of an HRM department allows decision-makers to
recognize that increases in wage costs can be addressed by increasing value-added per employee instead of only trying to keep wages down. Adopting a mutual investment system whereby employees receive performance feedback, training, and career development opportunities can be an effective way to leverage human resources under a condition of upward pressure on wages.

The mutual investment HRM strategy we found differs somewhat from Tsui et al.’s (1997) configurations in that job security is removed in favor of the addition of high levels of performance feedback to employees. The low turnover emphasized by Pfeffer (2005) and Tsui et al. (1997) emphasizes low voluntary turnover, in recognition of the probability that in work settings with high levels of performance feedback, involuntary turnover is likely to be a reality. In summary, the mutual investment HRM configuration for low-wage workers combines careful selection and opportunities for growth and development with high quality supervision and substantial performance feedback to ensure quality work.

Conceptual perspectives focusing on firm-specific skills and efficiency wages provide the foundation for a mutual investment HRM strategy for low-wage workers. Because low-wage workers are at the bottom of the distribution in ability, motivation and labor force attachment, building an effective team providing high quality performance in low-wage jobs is a significant management challenge. In many settings, courteous, high quality task performance by entry-level workers can differentiate a firm. Customers may be willing to pay a premium price for high entry-level worker performance, especially in personal services, such as child care, elder care, or health care settings where continuity and quality of care is an important value.

Using Lepak and Snell’s (1999) typology, low-wage workers in these jobs may be categorized as human capital that is relatively high in value and relatively unique within the low-wage sector of the labor market. Those authors suggest that relatively valuable and unique workers should be developed internally within a highly committed, organizationally-focused employment relationship. Our cross-level findings suggest that organizations with an HRM department are more likely than those without one to use a mutual investment configuration, and this likelihood further increases as wages increase in the industry. Moreover, wage growth enhances the possibility of for-profit organizations’ adoption of this configuration. These findings are consistent with our previous arguments that having a formal organizational structure to carry out the duty of HRM facilitates organizations recognizing the value added by employees and systemically developing and deploying these valuable resources. Because providing entry-level workers with the training, development, and motivation they need to perform at a high level may differentiate a firm, the mutual investment model may meet for-profit organizations’ needs for creating competitive advantage.

Besides the low cost and mutual investment patterns, we identified a third HRM configuration in our data, which we call “paternalistic” or legitimacy-based. This unexpected group of employers combined the highest levels of compensation and benefits with relatively low levels of employee selection, performance feedback, and employee growth and development opportunities. As such, this category of employers seemed to overinvest in employees according to Tsui et al.’s (1997) classification. Our findings from cross-level analysis suggest that non-profit organizations in general are more likely to adopt paternalistic systems relative to other systems. Specifically, our estimates in Table 2 showed that non-profit organizations are between 3.06 (1/exp[-1.119]) times to 10.64 (1/exp[-2.365]) times more likely than for-profit organizations to use paternalistic systems relative to low-cost systems. Given the mission of non-profit organizations to serve the community, it is not surprising that these organizations wish to help former welfare clients achieve self-sufficiency through work. The behavior of these paternalistic non-profit organizations is consistent with institutional theory’s arguments (e.g., Meyer & Rowan, 1977; DiMaggio & Powell, 1983; Scott, 1995), and may constitute symbolic activities responding to legitimacy concerns.
Importantly, for-profit organizations and organizations with HRM departments are more likely to choose a mutual investment configuration over a paternalistic system under conditions of high wage growth. From an employer standpoint, the mutual investment system is preferable because it links employee rewards to performance. In the paternalistic model, it is not clear that employees must perform well to retain their jobs, their high salaries, and their benefits. The need for employers to create value by leveraging human resources is heightened under the pressure of industry wage growth, and our findings indicate that for-profit firms and organizations with HRM departments are more likely to respond to this pressure by creating an employment relationship based on mutual investment.

Limitations of the Research

Like any piece of empirical research, this study has its limitations. For instance, we did not measure HRM strategy directly. For instance, we did not ask employers about the need for workforce flexibility to manage business cycles and/or economic downturns. Direct measures of strategy would be desirable, however, we chose to focus our survey measure on more concrete HRM practices, which because they are relatively objective, might be more accurately reported by employers. Limiting the length of our survey also enhanced our response rate, which was almost double the average response rate to strategic HRM surveys (Datta, Guthrie & Wright, 2005).

We also did not ask employers to provide information on HRM practices for other employees in the firm, and as such, we cannot make comparisons between the employment systems for low-wage workers and other workers. It is possible that the firms we identified as having mutual investment HRM systems simply extended practices designed for high value core knowledge workers to the low-wage workers on their staffs. This practice would be inconsistent with Lepak and Snell’s (1999) recommendations that different employment relationships should be developed for workers of different levels of value and uniqueness, however. Future empirical work examining the conditions under which low-wage workers are treated similarly or differently from core knowledge workers would constitute a useful extension of this line of thinking.

Conclusions and Implications

We found that the HRM systems that create the employment relationship for low-wage workers are configured in three ways representing a low-cost, paternalistic, or mutual investment strategy, respectively. The choice of HRM system was predictable from both organizational and industry-level characteristics. Consistent with institutional theory predictions that reputation as a good employer is important to non-profit organizations, non-profits were less likely than for-profits to select a low-cost HRM system and more likely to select a paternalistic HRM system that paid workers relatively high wages and provided good benefits packages while doing little to monitor or build employee performance. Consistent with the SHRM perspective that HRM departments can operate as strategic partners, organizations with HRM departments were more likely than those without them to develop a mutual investment system, which paid low wages, monitored performance, and offered good benefits, training, and career development opportunities. For-profit organizations were considerably more likely to develop mutual investment systems than paternalistic systems, which is consistent with the SHRM perspective that investments in employees must be linked to value-added from high employee performance. The paternalistic system did not assess performance of low-wage workers as rigorously as the mutual investment system, and turnover was significantly lower in paternalistic than in mutual investment organizations.
References


