

Study: Merit-based employment practices contribute to gender pay gap

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Meritocratic employment practices such as performance bonuses often fail to reduce gender-based pay inequality and may actually exacerbate it by allowing the status quo to remain intact at firms, says new research co-written by Eunmi Mun, a professor of labor and employment relations at Illinois. Credit: School of Labor and Employment Relations

Rather than reducing gender-based pay inequality by limiting managers' reliance on factors such as gender bias and favoritism, a shift to performance bonuses and other meritocratic employment practices may actually widen the gap by preserving the status quo, according to research co-written by a University of Illinois Urbana-Champaign expert who studies labor market institutions.

In a [longitudinal study](#) of almost 400,000 employees from nearly 400 Japanese firms over 12 years, the gender gap in bonus pay was found to be greater in workplaces with a merit-based system than in workplaces without it, said Eunmi Mun, a professor of labor and employment relations at Illinois.

"We're all very familiar with the idea of merit pay at work, that workers get paid based on individual performance and not on other nonperformance-related factors," she said. "But our paper shows that the opposite can be true, that merit-based pay can actually increase inequality. The findings are, in a sense, counterintuitive to the premise of a merit- or performance-based pay system."

Mun and co-author Naomi Kodama of Meiji Gakuin University in Japan attempted to overcome the limitations of previous research on merit pay by analyzing data that spanned many organizations and provided historical compensation information about the employees who work there.

"One of the reasons why we don't know that much about the impact of wage inequality is because data are pretty scarce," she said. "It's really hard to collect the kind of wage census data that reflects a shift to merit-based pay and the employee's wage history. We need to have both levels of information to trace the changes in the impact and perform this massive-scale analysis."

"As part of a broader employment trend to increase productivity and fair treatment by adopting liberal-market practices, Japanese firms also changed from a seniority-based to a merit-based reward system. So in that sense, Japan was a good test case—one that wouldn't have been possible in the U.S."

Using the data from Japan, the researchers tested the impact of merit-based systems on three types of compensation: base wage, [bonus pay](#) and annual earnings. Findings from the analysis show that the gender bonus gap was higher at companies with merit-based systems, but there was no significant increase in the gender gap in total annual earnings, which includes all types of monetary compensation.

"The more pronounced effect of the merit-based system on bonuses can be attributed to bonus compensation being more directly tied to individual merit and performance than base pay," Mun said.

Overall, the findings suggest greater variation in the impact of merit-based reward systems on the gender pay gap than previously thought, with differing impacts on compensation types and different employee groups, the researchers said.

"Given the high level of gender inequality produced under the traditional employment system, many expected that the reforms pushing meritocracy would help decrease workplace gender inequality," Mun said. "But we didn't find strong evidence of an increase in the meritocratic distribution of rewards between men and women. Rather, we find that in most cases, rewards were distributed in a more, not less, biased way in workplaces that adopted a new merit-based reward system.

"What the reforms seem to have achieved is the preservation of the status quo—that is, a very large gender pay gap instead of the intended goal of increasing productivity by rewarding individual merit and

performance."

The research contributes to understanding [gender](#) inequality in times of shifting employment relations and the strong cultural belief in meritocracy across various aspects of society, including education and employment, Mun said.

"Japan is a country whose work culture still has a pretty strong seniority payment system in place and is known for lifetime employment for employees—they get a job when they're fresh out of college and stay with the same company for a long time, often until they retire," Mun said. "So it really helps us see what kind of changes that employees experienced during its transition from seniority-based pay to merit pay."

The meritocracy paradox observed in Japan likely exists in other countries, particularly in countries with a long history of implementing merit-based systems, Mun said.

"Even as it's become one of the dominant ideologies of our era, there are plenty of warning signs about meritocracy," she said. "Our study shows that the promises of meritocracy may be illusory and that a healthy skepticism of policies driven by meritocracy is warranted."

The paper was published in the journal *Social Forces*.

More information: Eunmi Mun et al, Meritocracy at Work?: Merit-Based Reward Systems and Gender Wage Inequality, *Social Forces* (2021). [DOI: 10.1093/sf/soab083](https://doi.org/10.1093/sf/soab083)

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