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Individuals, interactions and institutions: How economic inequality affects organizations

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Abstract

Research in a number of disciplines has shown that high levels of economic inequality adversely affect individuals and societies. Surprisingly, research examining the business consequences of societal level economic inequality is virtually nonexistent. In this article, I present a framework to study how economic inequality affects organizational performance. I suggest that economic inequality indirectly affects organizational performance via human development in the society, and directly via its effects on individual employees and their workplace interactions, as well as via the institutions in which the organizations are embedded. Further, I present a brief research agenda that seeks to illuminate the relationship between economic inequality and management and conclude with an overview of this special issue.

Keywords

economic inequality, income inequality, pay dispersion, wealth inequality

Rising inequalities have entered the public consciousness following the Occupy Wall Street (OWS) protests and their framing of 1 percent versus 99 percent. Since then, increasing levels of economic inequalities have been noted by many, including government agencies (e.g. Congressional Budget Office, 2011), international economic organizations (e.g. Organisation for Economic Co-operation and Development [OECD], 2011) and researchers (Piketty, 2014). Not surprisingly, although protestors are no longer on the streets, public discourse on the depth of economic inequality continues unabated. Findings that convey the magnitude of inequality regularly capture headlines and stir a

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debate. For example, Oxfam's assertion that the 85 richest people in the world hold as much wealth as the poorest half of the world had not only made headlines, but also occupied a central stage in the discussions at the annual meeting of World Economic Forum (Oxfam, 2015).

Although public discourse on economic inequality is somewhat recent, academic research has a long tradition. The earliest article accessible through *Web of Science* was published in 1930 and discussed the effect of rural migration on urban–rural economic inequality (Rutledge, 1930). Since then, researchers in a range of disciplines have examined the relationship between economic inequality and many socioeconomic phenomena, including economic growth (Kuznets, 1955), public health (Marmot et al., 1991), socio-political instability (Alesina and Perotti, 1996), crime (Kawachi et al., 1999) and education (Benabou, 1996; Pickett and Wilkinson, 2007). However, organizational researchers have rarely examined how economic inequality in a society affects organizational performance, and vice versa.

Organizational research needs to pay attention to economic inequality for at least three major reasons. First, business organizations are at the core of economic inequalities given their preeminent position as the economic agents that create and distribute value. Accordingly, organizational practitioners have a moral imperative to understand their role in creating and maintaining economic inequality. Second, assumptions about inequality shape how organizations operate – externally in the marketplace and internally in the workplace. For example, business strategies (e.g. low-cost versus differentiation) seek to maximize performance by matching a product's utility to consumers with their ability to pay. Management within the organization aims to mobilize heterogeneous skills by paying unequally to employees, yet maintaining a sense of equality in the workplace. Therefore, organizational practitioners need to understand how inequality shapes their choices related to management and strategies. Third, organizations are embedded in societies and thus are affected – either positively or negatively – by the levels of economic inequality in them. If organizational research and practice is unaware of those effects, managers might blindly follow strategies inferior to the context, or not follow superior strategies. In short, organizational scholars need to study economic inequality because organizations are not only implicated in the generation and maintenance of inequality, but are also affected by its consequences.

Illuminating the complex and multi-faceted relationship between economic inequality and organizational performance is beyond the reach of a single article. Therefore, this article offers a simple framework to study the relationship between economic inequality and organizational performance. Specifically, I suggest that *high levels* of economic inequality can adversely affect organizational performance. I argue that high economic inequality results in low human development, which in turn affects organizational performance indirectly by imposing burdens such as healthcare costs and lost productivity. Further, economic inequality directly affects organizational performance by influencing the attitudes and behaviours of individuals, by affecting their interactions in the workplace and by shaping an organization's institutional environment. Then, I link these two lines of argument to show how economic inequality affects organizations, and vice versa.

The remainder of this article is organized into two sections. Drawing on research in business and non-business disciplines, section one presents a research framework linking economic inequality and organizational performance. Section two uses this framework to develop a research agenda and identify three specific research avenues, before concluding with an overview of the articles in this special issue.

Economic inequality, organizations and performance

Although, as noted above, the first article on economic inequality can be traced to 1930, research on the topic has witnessed an enormous growth only in the recent past. The annual number of publications on economic inequality had touched 50 for the first time only in 2000 and continued to rise since then. As a result, a vast majority of the publications on economic inequality have appeared in the last 15 years alone, with the last five years accounting for nearly half of all the published articles. The same pattern is also visible in citations to these articles. More than 7600 citations (of 13,000 total citations) to the over 1366 articles on economic inequality occurred only in the last five years.[1]

One of the first issues an economic inequality researcher encounters is the multitude of similar constructs, such as poverty, fairness, equity, justice, inequalities of various types (e.g. education, health, civil rights) and inequalities represented in economic terms (e.g. wealth inequality, income inequality). These constructs are rooted in different philosophical and disciplinary traditions and are distinct from each other (see Bapuji and Mishra [2015] for a discussion).

It is common to find economic inequality being used interchangeably with income inequality and wealth inequality; the former refers to dispersion of income received on a regular basis (e.g. salaries, rents, dividends, royalties, interests and such), while the latter refers to dispersion of accumulated wealth over a period of time (e.g. mobile and non-mobile assets, such as houses, automobiles, stocks, bonds and cash assets). Broadly, these researchers have captured economic inequality by assigning a monetary value to economic goods held by an individual or a social collective, such as a household or a neighbourhood.

Some researchers have argued that economic inequality should be concerned with equality of opportunity to do and be what one wants to, particularly considering the individual heterogeneity in capabilities, needs and preferences (Neckerman and Torche, 2007; Sen, 1997). This broader conceptualization would include related inequalities, such as inequalities in consumption (Christen and Morgan, 2005), education (Thomas et al., 2002), health (Marmot et al., 1991), social status (Durante et al., 2012) and political freedom (Hacker and Pierson, 2005). This conceptualization would also allow for examination of inequalities across regions within a country (Kanbur and Zhang, 2005) as well as inequalities between countries, rather than focusing only on inequalities within a social collective.

Integrating the focus of previous research on monetary aspects of inequality, and the averred need to expand its conceptualization, I define economic inequality as *uneven dispersion in resource endowments, access to productive resources, and rewards for labour in a social collective that limits the fulfilment of human functions*. As stated, this definition encompasses uneven dispersion in three aspects. First, it includes *dispersion in endowment of resources* (i.e. things that are of value in the production process). These resources can be either financial resources (e.g. wealth) or non-financial resources (e.g.

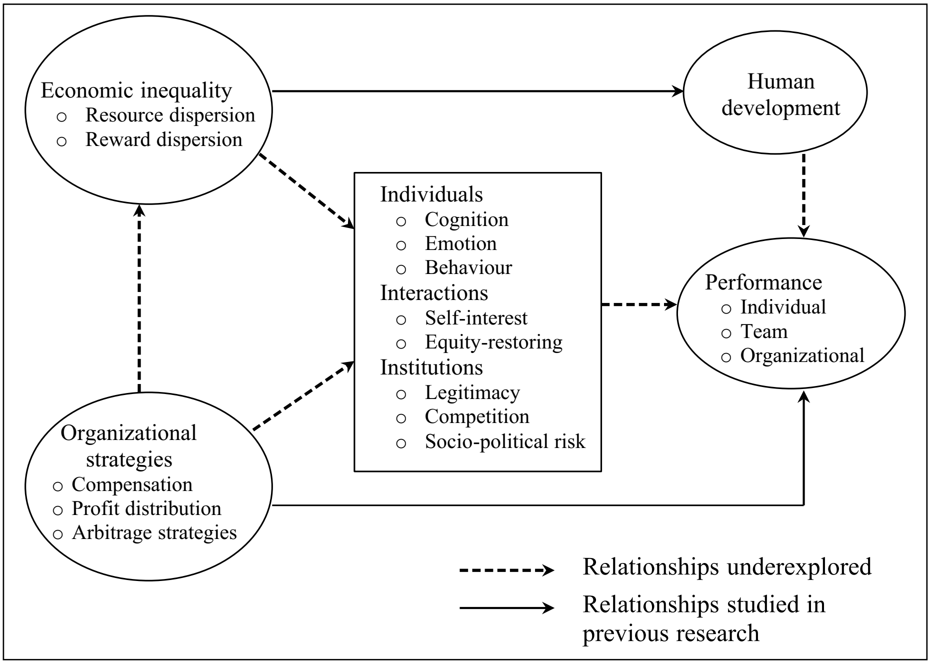

Figure 1. Economic inequality and organizational performance.

social status). Second, it includes *uneven access to productive resources*, such as education, health and nutrition. Resource endowments are unevenly distributed in every society, but having equal access to productive resources affords individuals without resource endowments to achieve social mobility and make use of productive opportunities. Third, this definition covers *unevenness in rewards for labour*. At first glance it might appear to simply refer to unevenness in rewards for same labour, but that is not adequate to understand economic inequality. Even when skills are heterogeneous and their value to the production process is apparently different, labour provided by different individuals needs to be rewarded adequately to enable individuals to fulfill their human functions. The human functions include both basic needs (e.g. good health and shelter) and social needs (e.g. achievement, self-respect and dignity; Sen, 1992). In other words, assigning excess value to some skills and little value to others is covered as economic inequality under this definition. Finally, this definition does not limit inequality to one analytical level, such as household, community or country. As a result, it provides opportunity to understand the cross-level effects of economic inequality in any social collective on individuals, and thus the organizations in which they work and the societies in which they live. In other words, when individuals experience inequality in any social collective – be it household, community, organization or country – they carry its effects to all the other social collectives they belong to.

My core argument in this article, summarized in Figure 1, is that economic inequality affects organizational performance through two pathways. First, I suggest that economic inequality indirectly affects organizational performance by lowering human development, which imposes costs on an organization (e.g. healthcare, training and lost productivity). Second, I argue that economic inequality directly affects organizational performance by influencing individuals and their interactions within an organization, as well as shaping the institutional environment of an organization. Each of these pathways is discussed below in detail.

Economic inequality and performance: Human development pathway

Human development is 'a process of enlarging people's choices' (Human Development Report [HDR], 1990: 9). While the choices themselves may be infinite and change over time, three choices can be seen as essential: to lead a long and healthy life, to acquire knowledge and to have access to resources needed for a decent standard of living. Not having these essential choices prevents people from accessing other choices, such as opportunities to be creative and productive, and enjoy rights and liberties. To capture the essential choices, the United Nations Development Program has advanced the human development index, which includes measures for longevity, educational attainment and standard of living (HDR, 1990).

Health is an important component of human development, and researchers have extensively studied the effect of economic inequality on health. This stream of research has found that, irrespective of average income levels, individuals in societies with high levels of inequality have poor health. In other words, everyone in highly unequal societies – both the rich and the rest – pay the price in the form of poor health (Wilkinson and Pickett, 2009). Not only that, these effects can be long lasting. For example, inequality experienced early in childhood is associated with poorer health in later life as adults. More importantly, this effect can last up to 85 years from the time of exposure to inequality (Lillard et al., 2015).

The relationship between income inequality and health is fairly comprehensive, ranging from physical ailments such as obesity and cardiovascular illness, to mortality, morbidity and lower life expectancy. Further, income inequality has been linked with mental ailments such as depression, anxiety, stress and a variety of other psychological issues. Moreover, inequality has also been linked with poor health behaviours such as smoking, usage of drugs and unprotected sex (reviewed in Wilkinson and Pickett, 2009).

The relationship between income inequality and health is not only robust across various ailments and over time, but is also evident at multiple analytical levels, such as city, state and country. This is not to say that this stream of research is without criticism or limitations; measures such as mortality and life expectancy have been criticized for their overarching nature. Also, failure to find the effects in some samples and contexts is not uncommon. Nevertheless, it is fair to conclude (based on over 300 peer-reviewed studies) that the relationship between high levels of income inequality and poor health has met the epidemiological criteria for causality (i.e. consistency, temporality, consideration of alternative explanations and biological plausibility; Pickett and Wilkinson, 2015).

Another highly researched relationship is between income inequality and crime. Early meta-analytic evidence found a strong relationship between income inequality and crime (Hsieh and Pugh, 1993). In a recent review that aimed to examine closely this relationship in time-series studies, it has been found that high levels of income inequality are strongly associated with property crime. This association was robust whether property crime was measured at an aggregate level (i.e. all property crime together) or specifically (e.g. shoplifting, burglary and auto theft). In contrast, the relationship between income inequality and violent crime (e.g. homicide, murder and robbery) was somewhat mixed and showed sensitivity to measures and contexts. However, the relationship between income inequality and overall crime has been found to be positive. Therefore, the authors concluded that 'a decrease in income inequality is associated with sizeable reduction in crime' (Rufrancos et al., 2013: 8).

Besides negatively affecting health and crime, income inequality also has an effect on education. Although not as extensively studied as its effects on health and crime, income inequality has been shown to affect educational attainment (Neckerman and Torche, 2007). Specifically, income inequality is associated with lower college enrolment, educational attainment, and math and literacy scores (Wilkinson and Pickett, 2009). This relationship exists because of high costs of education, as well as low willingness to invest in education by the population (Benabou, 2006). This is not surprising because returns for education have been found to be higher for the rich, in comparison with the poor (Hasanov and Izraeli, 2011). In addition, access to supportive systems helps the children of the rich to do better in education as adults, even if their cognitive abilities were lower when they were children. However, their poorer counterparts cannot catch up and continue to fare poorly in education as adults (Feinstein, 2003).

The foregoing discussion suggests that high levels of economic inequality in a society lead to poor physical and mental health in individuals, increased crime, and lower education and skills. Each of these can have an effect on organizational performance in multiple ways. First, the effect of poor health on productivity has been shown at the level of the macro economy (Tompa, 2002). The effect of environmental conditions on job stress, employee health and organizational effectiveness has been acknowledged for a long time (Beehr and Newman, 1978) and a few studies have empirically examined it. For example, Whitehall studies of British civil servants have shown that social class as well as organizational grade are related to health as well as feelings of sense of control and job security (Marmot et al., 1991). In fact, the effects of occupation status reduce after retirement, but the effects of social class continue even after retirement (Marmot and Shipley, 1996).

Some studies show that antecedents of poor health and stress, such as financial and family problems, have an effect on absenteeism (e.g. Hendrix et al., 1994). Moreover, meta-analytic reviews of health and job performance suggest that poor physical and psychological health, as well as poor health behaviours, have a negative effect on job performance of individuals (Ford et al., 2011). Given that poor health, irrespective of its origins in organization or society, causes a decline in job performance, it is reasonable to assume that income inequality that engenders poor health will result in poor job performance by employees in an organization. This relationship materializes through absenteeism, hospitalization and lack of psychological wellbeing (Greene and Nowack, 1995; Hendrix et al., 1994), as well as decreased ability to perform one's roles. In addition to affecting job performance, poor health could also substantially increase the healthcare costs for an organization and thus deteriorate financial performance of an organization.

Second, crime can affect organizational performance via its effect on employees or through organizational actions to safeguard against crime. Organizations might find it very difficult to attract talent to work in locations that are crime-ridden, and retain such talent to achieve organizational performance. Organizational employees can become victims of crime, facing its consequences such as hospitalization, absenteeism or stress owing to financial loss. Also, organizations might have to incentivize employees through higher rewards to offset such risks. In crime-ridden societies, organizations are likely to spend more on guard labour (e.g. employ more people in security related functions) aimed at protecting its physical as well as intellectual properties (Bowles and Jayadev, 2006). Personal safety of employees can have an important influence on organizational strategies and their implementation (Schotter and Beamish, 2013). For example, organizations might have to refrain from operating in, or limit their operations in, locations considered as risky and unsafe for employees to work.

Finally, the effect of poor education on organizational performance is fairly intuitive. Job performance is impeded by low cognitive skills, such as English and math composites. Specifically, reading comprehensions, vocabulary, math concepts and problem solving skills are necessary for individuals to perform their jobs. In addition, non-cognitive skills, such as discipline, organization and self-confidence, which are attained through education, also affect job performance (Farkas, 2003). To counteract such effects, organizations would have to make considerable investments to improve the skill levels of its workforce, which can have an adverse effect on their financial performance.

In sum, high levels of economic inequality affect human development in a society, particularly health, crime and education. These in turn affect organizational performance either via lower productivity of employees or higher costs to raise the levels of health, security and skill levels.

Economic inequality and performance: Organizational and institutional pathway

Social classes are endemic to any society, but under conditions of high economic inequality, two distinct social classes emerge: the rich, fewer in number, and the rest, larger in number. Inequality affects the members of these two classes differently on a variety of dimensions, such as cognition, emotion and behaviour. These differences affect individuals' behaviour in an organization, and their interactions with others. The gulf between the rich and the rest also shapes the broader institutional framework with respect to corruption, distributive policies and protectionism. All these have a direct effect on organizational performance, as explained below.

Individuals. Research has shown for a long time that poverty affects brain development and cognition, thus educational outcomes correlate with income. Recent experimental evidence, however, shows that cognition is immediately impaired for the poor, but not for the rich, when financial stress is primed. Specifically, when both rich and poor individuals were placed in a situation where they were made to think about a financial situation and then asked to perform tasks in a laboratory setting, the poor showed lower levels of logical thinking, problem solving and cognitive control (Mani et al., 2013). In other words, scarcity faced by the poor majority under conditions of high economic inequality taxes their cognitive resources and impedes their cognitive functioning (Mani et al., 2013). This research is similar to the effect that food has been shown to have on dieters' cognitive functions (Green and Rogers, 1998).

While cognitive skills are necessary for job performance, even more important are non-cognitive skills such as sense of control, effort, discipline, organization, self-confidence, self-esteem and enthusiasm (Farkas, 2003). Even for non-cognitive skills, there is a marked difference between the poor and the rich. The poor show lower sense of control, when compared with the rich, and are more likely to offer contextual, rather than dispositional, explanations for success (Kraus et al., 2009). Relying on contextual explanations and having lower sense of control, the poor tend to have fewer aspirations. Both poor and rich suffer from biases that influence their approaches to goals. But the poor face the additional burden of resource constraints imposed by their context. As a result, they tend to have lower aspirations and thus expend less effort, which results in lower achievement. In turn, the lower achievement reduces their aspirations and effort in the future, thus trapping them in a cycle of low aspiration and low effort (Dalton et al., 2014).

Given the scarcity conditions, the poor tend to develop a tunnel vision and pay more attention to the immediate. Further, they engage more with the present and neglect the future. As a result, the poor focus more on immediate consumption and borrow more to meet the demands of the present, even while recognizing that they lack the capacity to repay (Shah et al., 2012). The rich, on the other hand, are less focused and engaged on the present and are complacent about the future (Shah et al., 2012). As a result of impaired cognition and failure of aspirations, the poor do not see the value of smaller gains with higher probability and engage in risky behaviours that offer a larger payoff to escape poverty, albeit with a smaller probability (Karelis, 2007). Or, owing to failure of aspirations and lower effort, they may resort to unethical behaviours to achieve. For example, students in states with high levels of inequality were found to search for opportunities to engage in academically dishonest behaviours (Neville, 2012).

High levels of economic inequality engender socio-evaluative threats that cause stress and anxiety in individuals from lower economic status, which in turn affects their performance in work as well as affecting their everyday lives (Wilkinson and Pikett, 2009). Further, organizational performance may be affected by employees resorting to counterproductive behaviours, such as withdrawing effort or stealing as a retribution to inequality in rewards given by the organization (Greenberg, 1990).

In short, high levels of economic inequality affect cognition in individuals – both poor and rich. The poor develop a tunnel vision and attend to the present, while the rich disengage from the present. In addition, the poor suffer from a failure of aspirations and efforts and make seemingly irrational choices that perpetuate their disadvantaged state. These can translate into consequences for organizations in the form of stress-induced lower performance, withdrawal of effort or even adopting unethical means to accomplish tasks.

Interactions. The effect of inequality on individuals and their performance discussed earlier is exacerbated when people interact with others in the workplace and collaborate to complete organizational tasks. This is because the differential effects of economic inequality on the advantaged and disadvantaged clash, resulting in poor workplace interactions. Under conditions of high economic inequality, the rich feel a sense of entitlement, and engage in selfish, narcissistic and unethical behaviour (Piff, 2014). Examples of such behaviour include, cheating, lying, unethical decision making and violations of rules. In naturalistic field studies, drivers of expensive vehicles were found to jump red lights and cut off pedestrians, compared with their counterparts who drove modest vehicles (Piff et al., 2012). Similarly, individuals from high socioeconomic status took resources from those deserving, overstated their performance and lied in a negotiation. Interestingly, these effects were found for those who originally belonged to an advantaged group and also in those who were given such an advantage only in an experimental manipulation. In other words, even fleeting advantage can negatively affect how individuals conduct themselves in social interactions (Piff et al., 2012).

Individuals with high socioeconomic status tend to prioritize self-interest over welfare of others (Piff et al., 2010). They show apathy towards others and thus engage in more utilitarian judgements, such as taking resources even from those suffering owing to circumstances and sacrificing the interests of those who are losing (Côté et al., 2013). In contrast, those individuals from lower socioeconomic status tend to show higher empathy and adopt a communal approach that helps the victims and losers. Similar effects were also found in organizational contexts. For example, higher levels of pay dispersion in an organization promote aggression and selfishness in managers (Desai et al., 2009). Top managers whose salaries skyrocket relative to ordinary workers perceive a higher social distance from such workers. Consequently, they adopt policies that harm the interests of workers, such as ignoring procedures, wilfully violating safety norms and laying off workers to maintain financial performance (Desai and Yao, 2015).

While individuals of high socioeconomic status tend to behave selfishly, those who are at the lower end are not immune to it either when they experience inequality. Despite holding egalitarian values and being communal in orientation, in the presence of economic inequality the disadvantaged feel envy towards the advantaged and thus resort to behaviour aimed at hurting the wealthy (Gino and Pierce, 2009a). Interestingly, such hurting behaviour occurred even when it was against the self-interest of the perpetrator. In other words, the poor acted to hurt the wealthy even when such actions also hurt the poor themselves (Gino and Pierce, 2009b). Further, when executive compensations are high, employees tend to be cynical and engage less in organizational citizenship behaviours (Andersson and Bateman, 1997). It should be noted that these behaviours that manifest in interactions involving other individuals are different from equity-restoring behaviours such as cheating on a test or stealing that were discussed earlier.

The discussion above shows that high levels of economic inequality can harm social relationships in an organization. This happens because individuals at the two ends of the inequality spectrum engage and apply themselves differently in social settings. Further, organizations exhibit hierarchy in many ways, ranging from pay levels to financial and non-financial incentives. People at the two ends of the inequality spectrum react differently to such exhibitions, but mostly with self-interest (Côté, 2011). Specifically, interactions in an organization are harmed because high levels of inequality reduce generalized trust (i.e. the notion that all people, despite differences, share the same fate; Uslaner, 2008). With a sense of identification with others lacking, organizational members are less likely to engage in cooperative behaviours necessary for accomplishing tasks.

Organizational research on pay dispersion provides substantial evidence to point to the effect of economic inequality on workplace interactions, and thus on performance at individual, team and organizational levels. Specifically, researchers studying pay dispersion using equity theory arguments showed that pay dispersion induces feelings of unfairness and thus decreases cooperation, diminishes job satisfaction, increases turnover rates and hampers innovation (Pfeffer and Langton, 1993; Yanadori and Cui, 2013). Although researchers adopting tournament theory arguments have pointed to the performance benefits of pay dispersion (Conyon et al., 2001) and contingencies of the pay dispersion and performance relationship are still being explored, it is safe to conclude that unexplained or excessive pay dispersion has a negative effect on individual, team and organizational performance (Shaw, 2014).

In short, high levels of economic inequality affect how individuals engage themselves in social interactions. The rich exhibit entitlement, apathy and utilitarian morals. Although the poor in general tend to exhibit empathy and adopt a communal approach, in the face of inequality they too pursue self-interest. As a result, generalized trust and cooperation decrease, thus harming organizational performance.

Institutions. As discussed in the previous section, high levels of economic inequality give rise to a proliferation of self-interest and belief that violation of rules is justified. As a result, accountability mechanisms weaken and corruption levels in a society increase (You and Khagram, 2005). Corruption, in turn, can worsen inequality as the rich have more access to resources – financial, social and political – to engage in corruption and also to benefit from it. Consequently, discontent and instability increase in a society (Alesina and Perotti, 1996). Protest movements, such as the OWS movement around the world and anticorruption rallies in countries like Brazil, arise from the broad discontent with inequality and the nexus between politics and money. These protest movements can constrain and affect decision making within firms (Bapuji and Neville, 2015). For example, organization can be pressurized through actions like *Say on Pay* (i.e. shareholders having the right to vote on the pay of top executives in a company). Such pressures can affect the ability of firms to attract and retain talent.

The concentration of wealth in the hands of a few can affect the competitive dynamics in the industry. It has been argued that inequality affects the nature of entrepreneurship in a society (Lippmann et al., 2005). The rich are able to engage in opportunity entrepreneurship, which is aimed at building large corporations and generating returns from capital. The poor, on the other hand, have fewer resources and engage in necessity entrepreneurship aimed at sustenance, and build small- and medium-scale enterprises. As the large firms are viewed as greedy and unconcerned with the plight of the rest, legitimacy may be withdrawn from them and bestowed on small firms. Not only that, legitimacy may be bestowed on new business models that challenges conventional models (e.g. Airbnb, Uber, Lyft). Such new models are made possible not only through the mechanism of legitimacy, but also the availability of a large population at the fringes of formal economy ready to lend their labour and assets to make a living (Bapuji and Neville, 2015). Even if small organizations arising out of necessity entrepreneurship might not pose a viable threat, they may occupy market niches and limit the growth and performance of large corporations. However, performance of incumbent organizations is more likely to be threatened when newer business models (e.g. Airbnb and Uber) are fuelled by necessity entrepreneurship that the poor engage in.

In addition to constraining managerial action and creating competing organizations, economic inequality in a society can increase political and economic risks for firms (Bapuji and Neville, 2015). As inequality increases the distance between the rich and the rest, and decreases the distance between the middle and the poor, pressures for redistributive policies grow in society (Lupu and Pontusson, 2011). Recent legislation in the UK aimed at curbing tax avoidance through profit shifting (i.e. Diverted Profits Tax) is just one example of a growing interest taken by governments to curb concentration of wealth. Further, as income inequality increases, a number of free market principles are compromised or resisted (e.g. property rights weaken: Keefer and Knack [2002]; opposition to free labour flows increases: Bilal et al. [2003]; and anti-globalization stances strengthen: Burgoon [2013]).

International business research has shown that institutional context influences an organization in multiple ways. Decisions related to investment are related to the governance infrastructure in a country (i.e. investment is lower when infrastructure is weaker; Globerman and Shapiro, 2003). When property rights are weak, firms tend to be less transparent, which in turn affects their growth opportunities (Durnev et al., 2009). Further, when the rule of law is weaker and corruption concerns abound, firms select their partners more for their trustworthiness than for their ability (Roy and Oliver, 2009). Also, firms are likely to face pressures from stakeholders to engage with local context and respond to problems in it (Oetzel and Getz, 2012). In addition, firms would have to develop organizational systems and processes to serve in settings that are vastly different from their home markets, which can have an adverse effect on organizational performance (London and Hart, 2004).

Besides constraining organizational actions, economic inequality can also affect infrastructure necessary for economic activity. Under conditions of high inequality, firms and rich individuals resist taxation through lobbying (Richter et al., 2009), which reduces the tax revenue for the government (Gupta et al., 2002). In addition, firms seek tax arbitrage by setting operations in tax-friendly locations, making it difficult for governments to raise money through taxation (Zucman, 2014). Lower tax revenue affects the extent to which the government is able to spend on strengthening the infrastructure necessary for innovations (e.g. public institutions that fund and conduct research and development, universities that perform basic research as well as train knowledge workers, and a regulatory apparatus that enforces intellectual property rights; Lundvall, 2007).

In short, high levels of economic inequality can erode legitimacy enjoyed by large corporations, which in turn can increase stakeholder pressures, enable competition, enhance risks, constrain organizational actions and weaken economic infrastructure. Together, these changes in the institutional environment can affect performance of organizations.

Economic inequality and management: A research agenda

High levels of economic inequality in a society are associated with low human development, as discussed in the previous section and summarized in Figure 1. This link between economic inequality and human development has been well researched in disciplines ranging from economics to epidemiology, and criminology to education. Low human development in a society can impose costs on organizations and affect their performance. These costs include higher healthcare costs, lost productivity owing to absenteeism or poor health, higher costs of guard labour to protect against crime, and increased costs of training to offset lower educational attainment. Although the effect of low human development on organizational performance can be logically extrapolated, this relationship has not been studied in previous research.

The effect of economic inequality on organizational performance can be understood by considering how it affects individuals, their interactions and institutions in which organizations are embedded. As discussed in the previous section, economic inequality can affect organizational performance by differentially affecting the advantaged few and the many disadvantaged. Consequently, their cognition, emotion and behaviour are influenced, which seeps into workplace interactions and harms them. Further, economic inequality can influence the institutional environment and increase political risks for firms. Together, these can directly affect individual, team and organizational performance. These relationships, particularly the effects of economic inequality on organizational performance, have not been adequately studied in previous research and are ripe areas for future research.

Organizational research has a long tradition of studying the effect of organizational strategies on performance, as indicated in Figure 1. Nevertheless, this research has rarely touched upon how organizational strategies can influence economic inequality in a society. Although some researchers have used rising economic inequality to motivate research on pay dispersion, effect of pay dispersion on economic inequality has not been studied. Similarly, organizational stratification research has examined the distribution of rewards and status in an organization, but has rarely examined its effect on economic inequality. A few attempts have recently been made to relate organizational compensation and human resource management practices with income inequality at the societal level (e.g. Bidwell et al., 2013; Cobb, 2015). Notwithstanding these, much conceptual and empirical ground needs to be covered to better understand how organizational stratification can have an effect on economic inequality at the societal level.

Understanding the complex and multifarious relationship between economic inequality and management is a difficult task, but offers many rewarding theoretical and empirical challenges. As depicted in Figure 1, large gaps exist in our understanding of how economic inequality affects organizational performance and how organizations contribute to economic inequality. These gaps provide interested researchers with many opportunities. However, I would like to highlight three potential research areas, which together aim to enhance our understanding of economic inequality, its effect on organizations and how organizations can respond to rising economic inequalities.

Theorizing economic inequality

One of the first challenges a researcher encounters with respect to economic inequality is conceptual clarity. With a plethora of constructs rooted in different disciplines and ideologies, it is difficult to consolidate research findings and develop a coherent understanding of how economic inequality affects organizations. Further, it is undeniable that inequality in rewards is necessary to motivate effort and equitably assign rewards to inputs employees provide. This, coupled with the belief that organizations practice meritocracy, also poses an enormous challenge to theorize economic inequality, examine its organizational consequences and inform practice (Bapuji and Mishra, forthcoming).

Although the challenge of conceptual clarity is enormous, organizational research has not turned a blind eye to inequality. Instead, research on gender and racial inequalities have benefitted greatly from the studies conducted in organizational settings. By integrating previous research on various types of inequalities and related constructs, much progress can be made to better understand economic inequality. Specifically, much theoretical advancement is possible by relating economic inequality with other types of inequality, and also by comparing and contrasting economic inequality with other social issues (Bapuji and Neville, 2015).

As a first step towards generating conceptual clarity and integrating organizational research on various types of inequality, economic inequality has been conceptualized in this article as *uneven dispersion in resource endowments, access to productive resources and rewards for labour in a social collective that limits the fulfilment of human functions*. This definition encompasses uneven dispersion in endowment of resources, uneven access to productive resources and unevenness in rewards for labour. By focusing on dispersion in rewards and financial resources, this definition covers both economic stocks (wealth) and flows (income) that are commonly found in the research (i.e. financial resource endowments capture wealth, and rewards for labour capture income). This definition also covers inequality of opportunity as it encompasses endowment of non-financial resources (e.g. social status) and uneven access to productive resources (e.g. education, health and nutrition). As a result, it allows for identifying and emphasizing a range of vehicles that help in the fulfilment of human functions (even when there is a high dispersion in wealth and income).

Limiting the scope of economic inequality to dispersion in income or wealth can severely polarize the debate along ideological lines. More importantly, it can also narrow the discourse to simply describing the inequality in monetary terms and thus inhibiting the research into the consequences of economic inequality and how it can be curbed to improve wellbeing of individuals, organizations and societies. Not only that, defining inequality primarily in dispersion terms is not very useful for organizational research because dispersion is integral to management. Organizations bring together heterogeneous skills in different levels to produce goods and services of value to customers. Accordingly, it is not possible to provide equal rewards to all individuals – irrespective of skill and effort. In fact, pure equality leads to inequity in a context where heterogeneity in ability and motivation is inherent. Recognizing this, the definition of economic inequality in this article does not automatically equate dispersion in income and wealth with economic inequality. Consequently, it does not presuppose that equal distribution of income and wealth is an ideal goal to strive for. Rather, it suggests that unequal distribution is necessary to motivate effort to fulfil human functions. Alternatively, dispersion is considered to be economic inequality only when it limits the fulfilment of human functions. Therefore, a relevant research question that follows is what the optimal level of inequality in a social collective is that motivates its members to achieve their capability

(Sen, 1980). Specifically in the context of organizations, an important question to ask is what the level of optimal pay dispersion is, which motivates effort and facilitates performance but does not demotivate individuals and thus hinder organizational performance.

The definition of economic inequality used in this article can also potentially include inequalities based on demographics, such as racial inequality and gender inequality. As a result, insights from research on demographic inequalities can be gainfully employed to understand the relationship between economic inequality and management. Similarly, the definition advanced here does not specifically focus on poverty (i.e. lack of means to meet basic needs), but insights from literature on poverty can be used to understand how lack of access to resources can affect individuals and organizations. Specifically, insights can be drawn from a substantial body of literature on engaging with bottom of the pyramid consumers and entrepreneurs (London and Hart, 2004; Prahalad, 2009; Vishwanathan and Sridharan, 2012).

In short, one of the key areas for future research relates to theorizing economic inequality. This can be achieved by enhancing conceptual clarity and by expanding the scope of economic inequality to cover dispersion in resources and rewards that inhibits fulfillment of human functions. Such theorization can gainfully mobilize previous organizational research on various types of inequality to generate rich insights on consequences of economic inequality as well as organizational strategies to counter the same.

Organizational consequences of economic inequality

Although over 10,000 research articles have appeared on economic inequality, many focusing on its societal consequences, organizational researchers have rarely entered this discourse. In particular, research examining the organizational consequences of societal level economic inequality is virtually non-existent (Bapuji and Neville, 2015). Organizational researchers have either fleetingly referred to economic inequality or have used it as a contextual variable, to examine the effect of economic inequality on the relationship between organizational strategies and performance (e.g. Holburn and Zelner, 2010). In some cases, researchers have also examined how organizations contribute to economic inequality in a society (Cobb, 2015; Davis and Cobb, 2010). However, research attention has not been devoted to examining organizational consequences of economic inequality. Past research that showed the effect of economic inequality on societies and individuals, together with the recent attention to economic inequality as an urgent social issue, make this the ripe time to elevate economic inequality from the status of a moderator to a predictor variable in organizational research.

As discussed earlier, economic inequality causes low human development in a society, which can have negative consequences for organizations. While this essay extrapolated the findings at the societal level to derive organizational consequences of inequality, much needs to be done to understand how economic inequality might affect organizations. Such examination can build on previous research showing the effect of health, education and nutrition on productivity of employees as well as their psychological well-being. For example, researchers have found that hunger, even if it is temporary, can adversely affect attention and cognition in individuals (Piech et al., 2010). Similarly, hunger can make people behave in an unethical manner not only to satiate their hunger, but also make them behave unethically in general (Yam et al., 2014). If temporary hunger can affect individuals, the effect chronic hunger might have on individuals is unfathomable. Moreover, these effects can be very long lasting. For example, recent research has shown that social class experienced in formative years by CEOs has an effect on strategic risk taking of firms (Kish-Gephart and Campbell, forthcoming). In short, we know little about how economic inequality affects individuals, and know even less about how such effects might translate into consequences for management in organizations.

Previous research on social class and socioeconomic status can serve as a good vantage point for anyone interested in further examining the effect of economic inequality on individuals, specifically the way they process information around them and, thus, their emotional and behavioural responses in workplace interactions. Similarly, diversity research focused on gender and race inequalities can offer useful insights to research the effect of economic inequality on organizations and management within them. These streams of research have used relative deprivation theory (Walker and Pettigrew, 1984) and social comparison theories (Festinger, 1954) to highlight the psychosocial effects of inequality on individuals.

Yet another stream of research that can offer a useful beginning is the research on pay dispersion (see Shaw [2014] for a review). As a visible indicator of income inequality in a society, rising pay dispersion (e.g. ratio of CEO pay to average worker's pay) has received much attention in the recent past. Moreover, pay dispersion within an organization can actually increase income inequality in the society. This is evident from the high levels of wage inequality in the upper-end of the wage spectrum (Lemieux, 2006), and that the working rich are now a predominant group, compared with rentiers, among the wealthy (Piketty and Saez, 2003).

Pay dispersion research has examined both horizontal pay dispersion (i.e. variation in pay within levels and jobs) and vertical pay dispersion (i.e. variation in pay across levels), albeit a larger body of research has focused on the former rather than the latter. Some researchers in this stream have adopted tournament theory arguments to show that pay dispersion motivates employee effort and forces poor performers to quit, which in turn improves performance (Conyon et al., 2001). This line of research highlights the benefits of pay dispersion, particularly how it might motivate effort in individuals; an aspect rarely touched upon by previous researchers examining the effect of economic inequality on individuals' cognition, emotion and behaviours. Other researchers studying pay dispersion have used equity theory arguments to highlight the negative effect of pay dispersion on social interaction and thus performance. These findings underlining the potential downside of pay dispersion are in line with the research showing the effect of economic inequality on workplace interactions.

A few recent attempts have been made to explain the above contradictory findings related to pay dispersion and performance. For example, a curvilinear relationship has been shown between pay dispersion and performance, such that performance is higher at moderate levels of pay dispersion, but lower otherwise (Mahy et al., 2011). Introducing an element of time into the arguments, it has also been shown that high pay dispersion is positively related to short-term performance, but negatively related to long-term performance (Connelly et al., 2013). Further, it has been argued that the relationship between pay dispersion and performance depends on whether the work is independent and rewards can be effectively tied to performance (Shaw and Gupta, 2007; Shaw et al., 2002). Future research can generate insights into this relationship by offering nuanced theorizing and refined empirical testing (Shaw, 2014). Specifically, the psychosocial mechanisms underlying the relationship between pay dispersion and performance need to be researched (Shaw, 2014).

While pay dispersion researchers have examined the performance consequences of pay dispersion, research on organizational stratification attempted to explain the causes of pay dispersion. This research has shown that inequality in an organization is enabled by organizational practices, such as sorting of work into high and low status jobs, assignment of people and allocation of wages to those jobs, and career advancement opportunities extended to individuals in those jobs (Baron, 1984). More importantly, these practices are not always rational and follow the principles of meritocracy, but are often ridden with biases and stereotypes (see Stainback et al. [2010] for a review). When rewards dispersion in an organization is biased, it is very likely to exacerbate the negative effects of pay dispersion on performance.

In short, organizational and performance consequences of economic inequality are an important area for research. Future research in this area can benefit by integrating the insights from research on social class and diversity with those from research on pay dispersion and organizational stratification. Such efforts can explain how economic inequality affects individuals and their workplace interactions, which in turn influence individual, team and organizational performance.

Organizational responses to economic inequality

If economic inequality is damaging to societies and organizations, then efforts must be made to curb it. Prescriptions to check the rising levels of economic inequality are typically found in the public policy domain and are focused on government action. These include imposing new taxes (e.g. wealth tax and global taxation), capping compensation levels (e.g. *Say on Pay* by shareholders and disclosure of CEO pay relative to median pay) and controlling tax avoidance (e.g. Diverted Profits Tax in the UK). While these are good measures, their effectiveness will depend much on the willingness of individuals and organizations to comply with the regulations.

Past efforts at equality along several fronts (e.g. gender equality, racial equality) have succeeded not only because of legislations and other public policy measures, but also because business organizations have played an active role to serve as examples of equality. A similar effort is now needed to find how organizations can promote economic equality within their boundaries as well as outside. Research showing business consequences can help prepare the mindset by pointing to the damage economic inequality can do to organizations. However, efforts to curb inequality through organizational practices and initiatives would have to be imagined and implemented.

One of the first things an organization would have to focus on is to decrease their contribution to economic inequality at the societal level. This is necessary because organizations are the primary source of wealth creation and distribution in a society and thus play a central role in generating and maintaining inequality in a society. As indicated in Figure 1, compensation strategies are the most visible and direct ways in which organizations can reduce economic inequality in a society. But those are not the only avenues at the disposal of organizations. Besides paying wages to employees and managers, organizations distribute value through profit distribution strategies, such as dividends to shareholders, corporate philanthropy and payment of taxes. Arbitrage strategies of organizations (e.g. location of operations to gain tax advantage, offshoring to achieve efficiency) also contribute to economic inequality in society and are thus useful avenues to decrease inequality (Zucman, 2014). Future research can examine how these strategies can be tailored to reduce economic inequality in a society. More broadly, organizational research needs to take the value distribution role of firms seriously and generate prescriptions on how organizations can decrease economic inequality in a society.

In sum, research examining the relationship between economic inequality and organizational performance can generate useful insights by theorizing economic inequality, researching its consequences to organizations and identifying organizational responses to decrease economic inequality. The discussion in this article is aimed to serve as an initial foundation for understanding the relationship between economic inequality and management.

Overview of the special issue

Concerned by the rising levels of economic inequality and the potential role organizations have in generating and perpetuating economic inequality in a society, this special issue is devoted to understanding the relation between economic inequality and management in organizations. In particular, it is interested in (i) how economic inequality at the societal level affects management in organizations and (ii) how organizational practices influence economic inequality at the societal level. The call for papers was met with much enthusiasm by organizational researchers. The content we received in the form of proposals and papers was wide-ranging, spanning areas of social justice, education, food safety, immigration, diversity, discrimination, trade unions, conflict management and corporate social responsibility. The level of enthusiasm and the breadth of interest both underscored the need for this special issue and the articles in it.

Soylu and Sheehy-Skeffington (2015), in this issue, show how inequalities at the societal level manifest within an organization in the form of bullying, aimed at achieving sociocultural dominance over the weaker group and harming their economic interests. Using in-depth interviews with public and private sector workers in Turkey, they provide a rich account of bullying experienced by secularists, ranging from verbal abuse to public humiliation, and isolation to ostracization. Reflecting the framework presented in Figure 1, these accounts clearly bring to fore the consequences of inequality-induced bullying along many dimensions – psychosocial (e.g. anxiety, depression, lower self-esteem, paranoia, stress, strained family relations), economic (e.g. loss of salary, exit) and organizational (e.g. lower commitment, job satisfaction, performance, lower effort). This article breaks new ground because research examining the effect of societal level factors on employee behaviour within an organization is rare. Therefore, it not only has the potential to contribute to the literature on workplace bullying, but also serves as an example to future research that seeks to examine the effect of macro-environment variables on micro-organizational behaviour. Using a combination of qualitative and quantitative analysis, this article deftly handles the challenge of linking phenomenon at societal and organizational levels of analysis and will serve as a good example for future researchers.

Emphasizing the need to adopt an expanded view of economic inequality, Alamgir and Cairns (2015) study the economic inequality faced by *badli* workers in the state-owned jute mills in Bangladesh. Appointed as a special category of workers, but assigned work only intermittently, they are in a 'perpetually temporary' state. Maintaining workers in such a state is possible not only because of lower pay, but also because of systematic exclusion of these workers from all kinds of rights and privileges. In other words, all three norms of distributive justice – need, equity and equality (Deutsch, 1975) – are violated in respect of these workers. The authors use extensive qualitative data and an intimate knowledge of the context to present an account rarely visible in organizational research. Adopting Amartya Sen's (1980) capability view of inequality, this article provides an insightful account of stratification in an organization and its effect on employee emotions and behaviours, as well as their interactions with the privileged sections in the organization. Together, these limit the fulfilment of basic human functions by *badli* workers and perpetuate their economic inequality. Also, the empirical context and study period (post-structural adjustment program in Bangladesh) enable this article to uniquely contribute to subaltern studies.

The article by Wang et al. (2015) moves up the level of analysis to firm level and examines the effect of pay dispersion on innovation. The authors suggest that employees make social comparisons across the spectrum of levels and that high and poor performers adjust their inputs to restore equity when they perceive low and high pay distribution, respectively. Using a large-scale survey data, they show that pay dispersion is curvilinearily related to employee participation and voluntary turnover, which in turn are related to innovation. Interestingly, they also show that employee turnover owing to pay dispersion is contingent upon the industry pay dispersion. By showing the positive and negative performance effects of pay dispersion depending on its level, this article underscores the need to ask what the optimal level of pay dispersion in an organization is. Further, this article clearly shows the effect of economic inequality on innovation, a proximate variable of organizational performance. Offering a nuanced theoretical explanation based on employee responses to pay dispersion, and including a number of control variables to account for firm and industry specific idiosyncrasies, this article is an apt example of the theoretical rigour and empirical sophistication that Shaw (2014) called for to advance pay dispersion research.

In their article, Shrivastava and Ivanova (2015) present the legitimacy challenges corporations face because of protest movements in the wake of rising economic inequalities. Arguing that communication signals are the antecedents of legitimacy/illegitimacy, they examine placards, slogans and signage used by Occupy Wall Street (OWS) protesters. Using a novel aesthetic inquiry approach, they interpret the text and visuals used by the protesters to delineate the criticism against the global economic system, particular nation-states and corporations, while simultaneously urging individuals and groups to act in the interest of restoring balance. Specifically, the legitimacy of corporations was challenged along all dimensions – regulative (e.g. non-compliance with rules), normative (e.g. social role of corporations) and cultural-cognitive (e.g. unholy alliance between politics and corporations). Underscoring the multifaceted legitimacy challenge posed by OWS protesters, Shrivastava and Ivanova point to the possibility that different types of legitimacy are overlapping, rather than sequentially placed on a continuum with regulative on one end and cultural-cognitive on the other end. Using an aesthetic inquiry to highlight the intertwining of reason and emotion in response to inequality, and the delegitimation of corporations through communication signals, this article nicely illustrates how inequality can affect emotions of individuals, as well as increase political risks to an organization. The actual manifestations of legitimacy challenges might vary based on industry and firm characteristics, but this article emphatically underscores the legitimacy challenges that organizations and institutions face owing to high levels of economic inequality.

Xavier-Oliveira et al. (2015) examine the effect of resource endowments (financial and human capital) on necessity and opportunity entrepreneurships, and the contingent effect of economic inequality. Using multi-country data on income inequality and entrepreneurship, they show that individuals with higher financial and human capital are more likely to engage in opportunity entrepreneurship, but less likely to engage in necessity entrepreneurship. However, as income inequality in a society increases, individuals with financial and human capital are more likely to engage in necessity entrepreneurship; financial and human capitals do not stop them from being pushed into it. In contrast, only financial capital facilitates entry into opportunity entrepreneurship when income inequality is high. In other words, when inequality is high both human and financial capital do not matter, unless the levels of financial capital are extremely high. These findings suggest that economic inequality effectively creates two social classes – extremely rich who can thrive under all levels of inequality, and the rest who can thrive only when inequality is low. This study provides a rare insight into how inequality can affect returns from human and financial capital through entrepreneurship. Further, by considering the effect of economic inequality, this article extends entrepreneurship research beyond its typical focus on examining the effect of individual attributes on entrepreneurship.

The articles in this special issue span a range of topics from bullying to marginalization, and entrepreneurship to innovation. Together, they examine how organizational practices contribute to economic inequality in the society, which in turn affects organizational performance. It is difficult to examine the relationship between economic inequality (a variable at the level of social collective) and management (an individual and organizational level variable). However, each of the articles in this special issue admirably handled the challenge, using a variety of data sources and a range of empirical strategies. Consequently, each of them can serve as an example for future researchers interested in studying the relationship between economic inequality and management.

In conclusion, rising economic inequality has become a concern for stakeholders around the world and across ideological spectrums. Organizational researchers have been paying increased attention to the issue of economic inequality, not only because it can have adverse effects on societies, but also because inequality can fundamentally challenge the practice of management, which is predicated on the notions of meritocracy. Organizational practitioners in the past have successfully addressed gender and racial inequalities through human resource practices and continue to make much progress to create equal workplaces. Time has come once again for us to study and show the benefits of low inequality, as well as the costs of high inequality. Let us hope this special issue marks an important step in that direction.

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Note

1 The numbers presented here only refer to articles retrieved using ‘economic inequality’ because the purpose is to merely point to the growth and trends in research on the topic. Searches that include ‘income inequality’ and ‘wealth inequality’ yielded over 10,000 articles and related statistics can only be obtained via specific request to *Web of Science*.

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