

Investing at the Bottom of the Ladder
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Companies that invest in their lowest-level employees are more productive and more profitable **BY JODY HEYMANN**

WHEN WE MET LUIS MARQUEZ while conducting a multiyear study on working conditions around the world, he was a single parent raising his two children, aged 5 and 8, and working as a security guard in Massachusetts. His employer offered no paid leave, flexibility, or time off—a typical situation for lower-level workers in the United States, which has next to no legislated work protections. When his children got sick and required care, Marquez had no choice but to miss work without pay. Even before this wage loss, his earnings were barely sufficient to cover the most basic necessities of food, rent, and clothing.

Visiting Norway later in the study, we met and interviewed Lars Nilsen, a plant worker at a roofing company. His experience could not have been more different. His wages were more than enough to meet his family's needs, because Norway guarantees a higher floor of wages and benefits than the United States. Nilsen's 3-year-old son inevitably got sick from time to time. Yet because paid leave is nationally mandated in Norway, Nilsen had no trouble taking time off work to care for his son without losing pay.

For 15 years, my research team at Harvard and McGill universities has been examining what can be done to improve the working conditions faced by men and women around the world. We have looked at which countries are ahead of global norms in ensuring decent conditions for working adults and their families, which are falling behind these norms, and what the consequences are for national economies and citizens.

In countries that don't legislate decent working conditions, a question nagged at us: How much could individual companies do? It was commonly argued that if a firm were to improve labor conditions on its own, it would not be able to compete with similar businesses. When a country guarantees paid leave, all firms must follow the same laws, but when a company unilaterally improves working conditions, its employee compensation expenses may be higher than those of its closest competitor down the street.

At first glance, we found what many investigators had observed about the private sector: Companies compete for top professionals by providing exceptional compensation. The elite receive stock options, concierge services, and nearly every benefit imaginable (except, importantly, the ability to take leave without penalties). But there were not many stories about companies

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offering good benefits to employees at the bottom of the corporate ladder. Economists and pundits alike argue that the reason is clear: Top talent is scarce, so companies must compete for highly qualified professionals; low-level workers are unskilled and readily replaceable, so there is no financial return to investing in them.

Are the poor working conditions common at the bottom of the corporate ladder truly a result of irresolvable financial obstacles, or the result of habit and historical practice? To find out, we went looking across North America and around the world for companies trying to improve compensation and benefits for their lowest-level employees. We wanted to see if they were able to support improved conditions while succeeding financially.

When we started our study in 2004, the most we hoped to find were companies that provided good working conditions and maintained a strong bottom line. We hoped that good working conditions at the bottom did not preclude profitability, but we bought into the widely held belief that they were unlikely to improve it.

The firms we found taught us otherwise. We went from hoping it was possible for companies to improve their working conditions while being profitable, to being sure that this was feasible, to realizing that the companies we studied had in fact increased their profitability by investing in their employees at the bottom of the ladder. Once we saw how they were doing it, it all made sense.

Some of the approaches that linked better working conditions at the bottom with increased productivity were straightforward. As I walked through Jenkins Brick in Montgomery, Ala., with CEO Mike Jenkins, I saw three men moving newly made bricks off a conveyor belt with stunning speed. Later, speaking alone with the line workers, the reason for their efficiency was clear. They were proud of their work, and as a result of the bonuses they received based on the number of bricks moved, they made more than \$25 an hour.

In other cases, employee incentives were not directly linked to output, but the overall financial benefits of increasing compensation were every bit as palpable. Costco deserves its excellent reputation for strong service, low prices, and good products. As we

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began our study, Costco's average wage was 42 percent higher than that of its most direct competitor, Wal-Mart's Sam's Club. Yet, according to *BusinessWeek*, the company earned *more* profit per employee, not less, than Sam's Club. Annual profits per employee were 24 percent higher at Costco than at Sam's Club, a difference of more than \$2,600 per employee. Because employees receive higher compensation, Costco is able to attract and retain better employees who become more engaged in their work. As a result, Costco's service quality is better, turnover of goods on the floor is faster, sales per square foot are higher, and the company is able to attract customers willing to buy luxury goods as well as essentials and to pay membership fees—a substantial source of the company's earnings.

Many firms made money because they learned lessons from their line workers on how to produce more effectively. These workers were more motivated to problem solve with company leadership because they shared in the increased profits.

The Great Little Box Company in Vancouver, B.C., created bonuses for cost-saving ideas, enabling workers to receive a financial reward based on how much their idea saved the firm. These rewards ranged from C\$50 to C\$2,500. Moreover, the company shared 15 percent of monthly profits with workers at every level. These initiatives were combined with monthly meetings in which executives shared detailed information with all 213 employees about all aspects of the firm's performance—from finances and production to sales.

The result was that workers at every level were aware of the firm's performance and were motivated to find ways to improve productivity and reduce costs. For example, suggestions from factory workers had resulted in adaptations to machinery so that one

machine could produce different types of items, which increased flexibility in production and saved the company from purchasing new equipment. From 2005 to 2010, Great Little Box's sales grew 36 percent while other packaging manufacturers struggled.

The leadership at the firms we studied understood the real cost of underinvestment in employees. With 25 percent unemployment in South Africa, SA Metal, a recycler, would have no trouble replacing its employees. Yet as I watched Clifford Barnett, the owner, sift through piles of scrap with his employees, separating the various types of metal, it became clear how much skill is involved in doing the job accurately.

SA Metal is a rarity in South Africa: It provides an on-site clinic as well as free HIV/AIDS treatment for employees. For Barnett, investing in employee health is a no-brainer. HIV/AIDS treatment costs the firm less than 25 rand a day (approximately \$3.50), whereas the firm could incur thousands of dollars in late penalties if shipments were delayed because employees were absent.

Replacing sick scrap metal workers would have been costly and inefficient, because the job requires expertise that is gained over time.

Even for truck drivers, for whom on-the-job experience is less critical, investing in health care made financial sense: It cost 750 to 1,000 rand a day (approximately \$105 to \$140) when a truck driver was absent for health-related reasons and a truck was consequently out of commission. And replacing a truck driver with a new hire would not guarantee that the new employee would avoid illness.

As we continued our study, we found privately owned and publicly traded companies—across wide-ranging sectors and of every size—that became more profitable as they improved the conditions faced by their lowest-level employees (though the constraints placed by shortsighted Wall Street analysts made this more difficult for publicly traded firms). These companies succeeded in answering questions that many ask: How can people at the top of the corporate ladder both make money and make lives better? How can those at the bottom receive decent wages and conditions at a company that will succeed?

The way that the companies in our global study were able to address these questions is by adopting some or all of the following five approaches: 1) provide incentives so that everyone in the firm benefits when the firm succeeds; 2) engage line workers and act on their best recommendations; 3) support the health of all employees in the firm—from the bottom to the top; 4) provide training and career advancement for employees at every level, including at the bottom of the ladder; and 5) recognize that the communities in which companies are located also need to benefit from the company.

Barnett wrote to me recently about the further expansion of SA Metal's medical facilities. He concluded, "No one has ever had sleepless nights worrying about having given too much." He and the CEOs of the other companies we studied are giving more to their lowest-level employees than their competitors, and they are profiting because they do. ■