

PROFIT AT THE BOTTOM OF THE LADDER

CREATING VALUE :

BY

INVESTING *IN* YOUR WORKFORCE



JODY HEYMAN

WITH MAGDA BARRERA

HARVARD BUSINESS PRESS

Profit at the Bottom of the Ladder

*Creating Value by Investing
in Your Workforce*

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with Magda Barrera

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Profit at the
Bottom of
the Ladder

*To people on every rung of the ladder
who still believe the private sector
can help us profit together*

Acknowledgments

No global study can be successfully conducted without an enormous collective effort. *Profit at the Bottom of the Ladder* is no exception. The book is the result of the combined commitment of exceptional companies, a remarkable team of researchers, the belief and substantial support of foundations, and the generous insights of colleagues and students, family and friends.

Each of the companies profiled in *Profit at the Bottom of the Ladder* took an important leap of faith. They allowed my research team to come to factories and warehouses, to conduct interviews without restrictions, and to meet with everyone from line workers to chief executives. They were generous with their time, open and candid about their experiences, and willing for us to hear the perspective of the full range of players in their organization.

This project was made possible by the vision of Helen Neuborne and Wendy Chun-Hoon and the generous support of the Ford Foundation and Annie E. Casey Foundation. Strongly committed to finding ways to improve the conditions faced by low-skilled and low-wage workers, the two foundations wanted to learn what the private sector as well as the public sector could do. As the project became global in scope and deepened in nature, they brought an extraordinary combination of patient understanding of how long a project of this magnitude can take with the sense of urgency that the topic deserves. When we added Canadian companies to the

study, support from Allan Northcott, Ralph Strother, and the Max Bell Foundation was indispensable.

Each company we selected went through several phases of research. First, research staff members carried out a field visit, conducting on-site interviews of entry-level employees—from factory operator to warehouse stocker, from baker to concrete mixer—and of middle management and top executives, including CEOs and CFOs for most companies. Second, I conducted field visits to all the companies, which included observation of worksites and follow-up interviews with people at all levels of the company. Third, interview data was rigorously analyzed. Fourth, financial information, annual reports, and other public information about the companies were examined.

I was fortunate to have support from an exceptional team in carrying out the interviews. For just over half of the companies, Stephanie Simmons conducted the first-round interviews and the initial analysis of interview data. A gifted research assistant, Stephanie was extraordinarily skilled at finding companies around the world that have led the way in showing how investing in employees can lead to better profits for employees and companies alike. Her efforts were an invaluable asset in setting in place the case studies and left an indelible mark on this project. Stephanie conducted interviews in the United States, Norway, Ireland, and Australia. The research in South Africa and China could not have been carried out without the outstanding contributions of Eliza Petrow. Her experience working with health issues contributed substantially to our understanding of the South Africa case where the company was grappling with AIDS, and her knowledge of China likewise enriched the Chinese case study. Baijayanta Mukhopadhyay's similarly deep understanding of the Indian context as well as his profound research skills greatly enriched our study in India. Carmen Mandic-Gomez brought a wealth of knowledge of disability issues that contributed to her exceptional work in Peru on the interaction with the bank around disability issues. As part of our Institute's policy fellowships, Adrienne Gibson ensured that this series would include a strong Canadian company as well as companies from every other region in the world.

A team of business students from McGill made important contributions. They researched company earnings, examined companies' social as well as financial profiles, and conducted in-depth background research on health care for low-income workers, training and advancement opportunities for

workers with limited formal education, values management across the supply chain, involvement of entry-level workers in decision making, financial incentives for workers at every rung of the ladder, and incentives for companies to embrace corporate social responsibility. The work of these business students—Mauricio Guerrero Cabarcas, Melissa Hui, Jackie Lemaitre, George Milonakis, Sabina Saeed, Sungchul Shin, Carlos Beltran Velazquez, and Grayden Wagner—together with law and political science students Alexandra Lesnikowski and Susanne Greisbach, was indispensable.

In the middle of this massive research endeavor, I was recruited to McGill to found a new university-wide Institute for Health and Social Policy that would span all faculties from Medicine to Management, from Arts and Sciences to Law, from Education to Dentistry. We initiated training programs that in the first three years have taken students to 18 countries and a policy initiative that has examined social and economic policies in 192 countries. Launching this Institute together with colleagues at McGill and around the world has been an immense joy. Inevitably, it also took away from the time I had for writing. Four years into this initiative, it became clear that the amount of time I had for completing the book was far more limited than I had hoped. Magdalena Barrera, an immensely thoughtful and insightful researcher who had been working with me since the Institute's inception, joined the project at the writing phase to work together with me. Throughout the writing, we worked as a true team. For the chapters that had not been written, we outlined, revised, and wrote together. While Magda had not been with the project since its inception or carried out the interviews with me at the companies, she dove deeply into all of the company material, the transcribed interviews of hundreds of employees and managers, and the in-depth data we had on every company. Experienced with the issues at the core of the book but fresh to the companies, she brought new and important questions to the endeavor. The book would not have come out in anywhere near as timely a way nor as well without her.

Getting the ideas on paper is essential but not enough. We were fortunate to have a gifted language editor, Melanie Benard, edit the entire book. Where the prose is clear and the book is readily readable, it owes a great debt to Melanie and to Kristen McNeill, who edited several final chapters. *Profit at the Bottom of the Ladder*, like other books in this vein, seeks to both be accessible to a broad audience and display the rigor academics demand. The research and staff assistance required for double-checking facts,

figures, and references is immense. In these endeavors, I am particularly indebted to Parama Sigurdson and Kristen, who went through the entire book with great care and commitment to ensuring the accuracy of the details.

We are deeply grateful to Kirsten Sandberg, who ushered this project into Harvard Business Press and shepherded its growth, and to Jacque Murphy, who brought it to fruition with such great skill. Ania Wieckowski followed up with care on countless editorial aspects, and Jen Waring, with extraordinary ability and responsiveness, managed the book through production.

This book, like all global work, required a great deal of travel. It also required late nights, early mornings, and long weekends researching, analyzing, and writing. My family's belief in and support for the project made it a joy. Their own questions prompted me to ask new questions in turn. As my older son began to study international organizations and financial institutions, he made me ask why they are not set up in ways to make it easier for companies to "do the right thing." As my younger son thought about studying business himself someday, he queried, "Why don't all companies improve their working conditions? Don't they realize they can make more money that way?"

Profit at the Bottom of the Ladder is dedicated to all students—those in school and those who continue to learn all their lives—who are still asking how we can make businesses work better for those at the bottom of the ladder as well as the top.

JH

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Introduction

Raising Productivity and Profitability by Creating Better Working Conditions for the Worst Off

PROFIT AT THE BOTTOM OF THE LADDER answers three fundamental questions. First and foremost, the book answers the question C-level executives and other senior managers are asking themselves: Are there additional ways to increase my company's success? The case studies answer young business leaders who are wondering: Can I spend a career profiting in the private sector while bringing benefits to others? At the same time, this research answers the questions raised by labor representatives and all levels of employees: Isn't there a way for the company and its employees to succeed together?

The answers to these three questions are central to the lives of everyone from senior managers in the largest companies to entry-level employees in the smallest firms. CEOs, CFOs, COOs, and other leaders have always had to worry about profitability. The shareholders and board members to whom they report measure success in this nearly singular way. Wall Street has frequently evaluated firms' prospects as rising when leaders cut jobs, wages, and benefits. At the same time, top managers' personal satisfaction has long stemmed from being able to achieve more than profit at the cost of their employees. Moreover, while employees have always cared about their company's competitiveness because it assures the long-term stability of their jobs, they clearly also care about the quality of their working conditions, compensation, and daily lives.

While the answers are of fundamental importance in strong economic times, the financial crisis that began in 2008 has crystallized the urgency of being able to answer them. As the meltdown over executive bonuses made clear, corporations faced both an economic crisis and a crisis of confidence. The questions raised by the economic crisis are clear: When will firms be profitable? When will we have economic security? Will the United States, Europe, and other advanced economies fully repair themselves? Will China, India, and other emerging economies rebound or leap ahead? All of these concerns surround economic success. But as demonstrated by the political outcry, demonstrations, and rapidly written legislation, the crisis in confidence has been equally critical and has presented a different set of questions: How “greedy” is Wall Street? Are leaders of the private sector just out to ensure their own personal financial success, and are they willing to risk the financial security of everyone else in the world? Is there any reason to believe that average taxpayers stand to gain by bailing out companies or by ensuring corporate success? All of these questions come down to the fundamental one: Will there be a link between the success experienced by those at the top of the corporate ladder and those on all of the other rungs?

Profit at the Bottom of the Ladder tells the story of companies around the world who have found ways to answer both sets of questions simultaneously. These companies have been profitable for their owners and shareholders not only *while* being profitable for their employees, but *because* they have been profitable for their employees.

Working Conditions That Matter

These firms have been able to do this for a simple reason. How work is structured, how it is rewarded, and how workplaces encourage employee engagement are all central to the profitability of firms and to the quality of the daily lives of working men and women. Employees determine 90 percent of most businesses’ profitability.

Often underrecognized is the fact that the most potent impact can come from employees at the bottom of the corporate ladder. In call centers, it is the employees answering the phones who determine the quality, pace, and effectiveness of the company’s responses to customers. In maintenance and repair industries, it is the men and women who take the calls and carry out the services who again determine customers’ satisfaction,

patronage, and loyalty and whether they recommend the company to others. In manufacturing, workers on the factory line leave their fingerprints on the quality of the products and determine the error rate in production. Even in wholesale and retail, success fundamentally relies on the quality of the work carried out in the warehouses and of the interactions between employees and customers.

The caliber of the employees that a company can attract and retain and the quality of their performance are affected by the company's working conditions, including wages, benefits, work schedules, flexibility and leave, support for health, and policies surrounding participation in planning and work design. These policies simultaneously have implications for the company's bottom line in terms of costs and benefits. In evaluating publicly traded companies, Wall Street analysts for years have treated providing decent working conditions as purely a cost, not an investment. CEOs have been pressured to cut compensation, giving little consideration to the long-term consequences of doing so.

Not only is job quality essential to a firm's success, it also plays a fundamental role in determining the quality of the lives of working men and women. Working conditions influence everything from the most pragmatic issues—determining whether a worker loses his job when he has to take time off after a heart attack, if a father loses pay when he stays home to care for a sick child, whether a daughter loses wages when she misses work to care for an aging parent—to the harder to measure, but equally fundamental concerns, such as determining whether employees find their work meaningful and are eager to do their best at their jobs.

While the questions of how much to invest in employees and what kind of investment to make are always essential to companies, they are particularly important now. With intense global competition and declines in consumer spending, firms are particularly concerned about finding ways to cut expenses without losing business. It is natural for companies to wonder whether they can cut costs by lowering wages, decreasing health and other benefits, and limiting support for pensions. As firms restructure in response to economic threats, it is not surprising that employee engagement is sometimes the last thing on their minds. Yet the role of employees is more important than ever in ensuring companies' survival. Companies are dependent on employees to be particularly flexible as firms restructure, to cover for laid-off employees, and to find new ways to cut costs and increase productivity. At the same time, the bursting housing bubble and the dramatic drops

in the stock market have made it all the more important to employees to have a secure job with a living wage and adequate benefits. Moreover, even in strong economic periods, people need good working conditions and protections such as those that prevent income loss due to illness or the birth of a child.

This book addresses the fundamental question: Is it truly financially beneficial for companies to cut wages and benefits and limit flexibility, or is there a path forward from which companies can profit financially alongside their employees?

Our Research Program

For over a decade and a half, I have led a research program, first at Harvard University and then also at McGill University, examining working conditions around the world. For the first eight years of this program, my team's research focused on understanding how the conditions faced by men and women varied across political, social, and economic contexts. While analyzing the differences across countries, we also examined the differences within countries across classes and sociodemographic groups. In the United States, we studied the experiences of over ten thousand working Americans, including men and women in every state, across all income levels, and in every sector of the economy. These studies included looking at the impact of working conditions on the employees, their families, and their communities. We carried out large national studies; studies that focused on the lowest-wage workers; studies that compared the experiences of workers with limited formal education to those of professionals; studies that included in-depth interviews of multiple family members; and studies in which individuals were contacted daily to inquire about the relationships among the conditions they faced, the work they performed, their daily lives, and their personal health and welfare as well as that of their families.

We then carried out similar studies around the world: we interviewed working adults in the largest city and in a small rural town in Mexico; examined the experiences of immigrant families split across the Mexican-U.S. border; researched working conditions in Botswana, a particularly strong democracy and economy in Africa that has been hit hard by the AIDS pandemic; spoke with workers in Russia about the conditions they faced as the country moved from a centralized to a market economy; carried out research in Vietnam as the Vietnamese economy opened up under

Doi Moi to the international market, and in both Vietnam and Cambodia as these countries walked the long road of economic recovery after the devastation of wars. We learned how working conditions influenced the experiences of Honduran individuals and communities that had survived a major natural disaster, Hurricane Mitch, which destroyed many neighborhoods in the capital, Tegucigalpa. In the end, our studies of working conditions included analyses of surveys of over fifty-five thousand households, and over 2,000 in-depth interviews of employees from entry level to top C-level executives living on all six inhabited continents.

These studies brought to light the many dimensions of disadvantage at work around the world. Those with the least amount of formal education not only received the lowest wages, but their jobs also offered the least flexibility. These workers were the most likely to be fired if they were sick, to lose their meager yet crucial income surrounding the birth or adoption of a child, and to face untenable choices between caring for a sick family member and earning enough money to survive. They were also the least likely to have any autonomy at work, to participate in planning or design, or to have their voices heard within the company. These initial studies delineated the conditions workers faced around the world. Our findings on the impact of poor conditions at work and limited social supports for men and women at the bottom of the ladder have been reported in detail in *Forgotten Families: Ending the Growing Crisis Confronting Children and Working Parents in the Global Economy* as well as a series of articles and reports.¹

Since 2001, we have increasingly focused on finding and understanding solutions for reducing these disparities, and for five years we have been studying initiatives in the private sector. The findings from the studies of companies in nine countries are detailed in this volume. Findings from our research on public sector solutions and economic competitiveness in 192 nations are reported in *Raising the Global Floor: Dismantling the Myth That We Can't Afford Good Working Conditions for Everyone* as well as in a series of reports and articles.²

Research on Business Strategy

While drawing on findings from many studies I have led over the past decade, *Profit at the Bottom of the Ladder* focuses on findings from over five hundred interviews carried out at a dozen companies around the world between 2005 and 2009. In carrying out the research that forms the foundation

for this book, we sought out companies that were both finding solutions to the problems working adults faced and succeeding by the financial standards by which all firms are measured. We used a wide range of tools to identify these companies: we solicited the recommendations of company CEOs and other leaders in the business community as well as civic leaders who focused on labor issues and we analyzed a series of published lists of the “Best Companies to Work For” to see how many of them managed to have good working conditions for *all* of their employees, as opposed to only for the professionals or highest-paid employees. We then analyzed the companies that were generated by expert recommendations, awards, and systematic reviews to see if their good working conditions permeated all levels of employees, and we assessed their financial profitability.

Many companies were eliminated from our original list. The majority of the firms that were lauded as being among the “Best Companies to Work For” focused their efforts only on the employees at the high end of their corporate ladder; their policies were either unaffordable or unavailable to their line workers. Among the companies recommended by experts as being particularly innovative, some fell off our list because they were new and had yet to turn a profit, although they showed great promise. After winnowing down a list of hundreds of potential companies, we selected a final group that represented diversity in geography, size, and sector, and that included both publicly traded and privately owned companies. Geographic diversity was one of our main concerns, given that we wanted to assess whether the financial advantages of offering good working conditions and benefits translated throughout a globalized economy, in which companies had to compete with firms around the world. We therefore wished to study companies in diverse geographic locations that managed to ensure good jobs for all their employees. We also wanted to include businesses of every size, since companies of different sizes face very different challenges and constraints in seeking to establish good working conditions. The companies we selected represent small, medium, and large firms employing between 27 and 126,000 men and women. While compiling the list of companies, it became clear that most of the firms featured were privately held. Many publicly held companies do have good working conditions, but they often employ mostly high-wage workers or offer different levels of working conditions and benefits to management employees than to workers at the bottom of the ladder. To ensure that the study included both publicly traded and privately held companies, we made extra efforts to locate