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More Than a Paycheck

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Fifty years ago Americans knew exactly what constituted a good job for a blue-collar worker: a position with a large manufacturer such as General Motors or Goodyear or U.S. Steel. Often unionized, it paid well and offered good benefits. It was also secure. Even if you were laid off during a downturn, you would probably be called back when business picked up. This was true not only in the United States but also in most other developed economies at the time.

We now live with the legacy of that era: Many people still believe that what blue-collar workers need most are more jobs on the factory floor. But the possibility of returning to that earlier time is remote. To begin with, manufacturing employment has steadily declined, from about 25% of the U.S. labor force in 1970 to less than 10% today. Most new plants are likely to have more robots than human beings, and the few workers who do manage to land manufacturing jobs are often paid on a lower scale than veteran factory workers. Tomorrow's blue-collar jobs will be largely in services.

That means the good jobs of the future are going to look rather different from those of the past. What we mean by “good” is well understood: The jobs provide a decent living. But we’ve come to realize that a decent living in the new economy entails more than a generous wage; it involves sharing the company’s success with employees. It’s also about more than money: People want to learn new skills and to understand how their work contributes to that success. Those insights have generally taken hold in high-end, knowledge-work settings. But a healthy free-enterprise society must offer promising employment opportunities for all its citizens, not just the well educated and highly skilled—and that means figuring out how to make blue-collar jobs more engaging as well as better paid. Otherwise the toxic combination of anger, demoralization, and cynicism that we already see among many Americans will spread.

So what should blue-collar jobs in the 21st century look like? Let’s begin by considering compensation. Arguably, we’ve already figured out that we ought to change the way we pay—even if relatively few companies are doing so yet. But as we’ll see, no benefits of progress on compensation will be fully realized or sustained unless we also make blue-collar jobs more engaging. In this respect, much remains to be done.

From Cogs to Owners

The good manufacturing jobs in the mid 20th century were the result of particular economic circumstances. A handful of large, profitable companies dominated most industries. They competed in oligopolistic markets, jostling with one another for a point or two of share, and often passed additional costs on to their customers. They could pay their workers well—and powerful unions helped ensure that they did.

Those circumstances have changed. Many companies can’t afford to pay their employees much above market rates, and few are under any pressure from unions. Nor can they easily pass higher labor costs on to their customers. In this environment, companies have had to find a different way to provide their workers with a decent living.

Increasingly, the solution has been to offer employees a direct stake in the company's performance through stock, a share in profits, or both. Such measures can put substantial amounts of money into workers' pockets or retirement accounts without adding to an employer's fixed costs—and without putting companies at a competitive disadvantage. Indeed, they are likely to help companies attract and retain a talented workforce—a competitive edge.

The idea of sharing ownership and profits with a broad base of employees is hardly radical. Procter & Gamble has long had an employee profit-sharing and stock ownership program; an estimated 10% to 20% of its shares are in the hands of its workers. About 13% of Southwest Airlines stock is owned by employees, and in 2016 the company paid $586 million in profit-sharing bonuses, increasing every employee's annual compensation by 13.2%. More and more companies are finding it helpful to distribute stock, profits, or both —and many of them are not high-wage, knowledge-work companies. H-E-B, a Texas-based supermarket chain, handed out 15% of its shares to its 55,000 employees in late 2015. Chobani, the fast-growing yogurt company, gave workers shares worth up to 10% of the company's valuation in 2016. Meanwhile, several thousand privately held companies are significantly or completely owned by their workers through employee stock ownership plans, or ESOPs. Companies with ESOPs (including a relative handful that are publicly traded) now employ roughly 11 million Americans, or about 9% of private-sector workers.

Even the private equity firm KKR, once known for its bruising takeover battles, has begun sharing equity with workers in some of its portfolio companies in the industrial sector. Thanks to KKR, employees of Gardner Denver, a Milwaukee-based manufacturer, received shares worth about $100 million just prior to its IPO, in May 2017. Every eligible employee got stock worth 40% of his or her base pay. Employees of C.H.I. Overhead Doors, who got stock options when KKR bought the company, in 2015, received a dividend this year that put as much as $4,000 apiece into blue-collar workers' pockets. "To me, it's common sense," KKR's industrial practice head, Peter Stavros, told a reporter. “Private equity is all about alignment. You put the right incentives in place and do the broader engagement work to show people you actually care, and the results start to pour out.”

The performance of companies with ESOPs has been studied in some detail, and the research indicates that they typically outperform their peers. For example, data from the nonprofit National Center for Employee Ownership (NCEO) shows that ESOP companies register 25% greater job growth over a 10-year period than similar companies with conventional ownership; they also see an average yearly increase in return on assets of 2.7 percentage points. Productivity improves by 4% to 5% in just the first year after adoption of an ESOP.

Many academic studies support the NCEO’s conclusions. Joseph Blasi, Douglas Kruse, and Dan Weltmann, of Rutgers University, examined more than 300 privately held companies that set up ESOPs from 1988 to 1994, comparing each one with a similar, conventionally owned company in the same industry. They found that the ESOP companies reported significantly higher sales growth and higher revenue per employee than did the control group. More recently Kruse and Fidan Ana Kurtulus, of the University of Massachusetts at Amherst, found that companies with a high level of employee ownership were substantially less likely than others to lay people off and considerably more likely to survive downturns.

Other Approaches

Two of the authors of this article, John Case and Bill Fotsch, have long been involved with the business philosophy known as open-book management, which systematically applies many of the principles outlined in this article. Others have taken different approaches to the problem of creating good jobs, but all are largely complementary to our perspective. Those approaches include:

Best Companies to Work For
The Great Place to Work Institute, based in San Francisco, has developed a rigorous methodology for assessing jobs, working conditions, and employees’ attitudes toward their work and their employers. It

collaborates with *Fortune* magazine to produce the annual list “100 Best Companies to Work For.” Although many of the listed companies employ well-educated and highly skilled workers—think Google, Genentech, Intuit—some have large numbers of non–college graduates on the payroll. The latter include retailers such as Wegmans Food Markets and manufacturers such as W.L. Gore & Associates (which is 100% employee owned).

Net Promoter System
The Net Promoter Score, a tool for measuring customer attitudes developed by Fred Reichheld, of Bain & Company, has evolved over the years into a comprehensive management philosophy that defines and promotes good jobs for frontline employees. In Reichheld’s view, most workers derive deep job satisfaction from knowing they have helped to delight a customer; experienced Net Promoter companies place responsibility for customer delight squarely in the hands of frontline teams, which track their performance through customer feedback and then figure out how to improve it. Over time they become what Rob Markey, a partner at Bain, calls a “self-directing, self-correcting workforce,” learning as they go.

The Good Jobs Strategy

By definition, companies with high levels of employee ownership put more money in the pockets of their blue-collar workers. Employees who let their shares accumulate—as ESOP participants must do until they retire or leave the company—can build sizable nest eggs for retirement, often amounting to hundreds of thousands of dollars. According to NCEO data, ESOP participants have 2.2 times as much in retirement plans as other, similar workers, and 20% more assets overall.

In addition, thanks to their higher productivity, employee-owned companies can offer better wages and benefits than similar but conventional enterprises—and they do not have to worry about outside investors’ urging cost cuts. Research suggests that the wage differential between the two groups ranges from 5% to 12%. However, a new study of workers aged 28 to 34 by Nancy Wiefek, of the NCEO, found much bigger differences. Respondents to a Bureau of Labor Statistics survey who said that their employer had an employee ownership plan reported 33% more income from wages and a median household wealth 92% higher than that of comparable workers with no such

Zeynep Ton, of MIT, argues in *The Good Jobs Strategy* that companies have a choice about what kinds of jobs they provide. Some choose to pay rock-bottom wages and tolerate the high turnover and lack of motivation that result. Others pay well, cross-train, and empower their employees to take on a variety of responsibilities—the good jobs strategy in practice. Ton analyzes how retailers such as Costco and Trader Joe's make specific operational choices that alter the economics of retailing so that the good jobs strategy pays off.

plan. Not surprisingly, the employee ownership group also reported a 53% longer average job tenure.

But giving employees a stake is not sufficient. If blue-collar jobs are to count as good in the 21st century, they must also engage employees and offer them opportunities to acquire transferable skills.

Making Ownership Matter

The aggregate performance numbers of companies with significant employee ownership are certainly impressive. But a dig into the data reveals that these companies divide quite neatly into two groups. Those that, like Southwest, create some sort of ownership culture—by building in structures of participative management and helping employees learn to think and act like owners—realize virtually all the gains to be had. Those that rely on ownership alone are disappointed, because the payoff is small or nonexistent.

This finding dates back to a seminal article by Corey Rosen and Michael Quarrey ("How Well Is Employee Ownership Working?" HBR, September 1987), and it has been replicated by virtually every study since. "The positive effects," write Blasi, Kruse, and Harvard's Richard Freeman in a recent paper, "appear to depend on workplace policies and norms that support cooperation and higher effort, such as employee involvement in decisions, participation in company training, and job security."

In the modern economy, companies are limited in their ability to offer the degree of security that was possible five decades ago. To compensate for that, a good blue-collar job must now also provide substantial learning so that workers can easily move on if need be to a different job, a different company, or even a different industry. With learning comes flexibility, and with flexibility comes security. Learning was notably absent from the good blue-collar jobs of the past, as evidenced by the fact that so many laid-off factory workers have found it difficult or impossible to locate new employment.

In our view, an ownership culture and learning opportunities are closely entwined. Looking at the experience of companies that have created good blue-collar jobs in the modern era, we see that most apply three basic principles.

Make the company's economics clear.

Every business has economics that reflect what its customers value. Company owners and senior executives generally understand those economics; they track the relevant numbers and use the information to make decisions.

Forward-thinking organizations realize that although frontline employees may not have the same perspective and business experience that senior leaders do, they are nevertheless in a good position to track one or two key numbers that reflect the economics. The relevant metric might be sales at a retailer, the average tab in a restaurant, shipments or rework rates in a plant, or occupancy rates in a hotel. Smart companies identify and focus on just one or two such numbers for each department and share them with the whole workforce.

This approach is quite different from the way companies traditionally think about key performance indicators. For one thing, many companies that track KPIs overdo it, identifying different ones for each business unit and creating confusion in the process.

One Company's Transformation

A few years ago a global travel-management company decided to conduct a controlled experiment. At the time, the company operated through 27 branches in North America, each one responsible for clients in its region and accountable to the parent company for certain profit targets. The company decided to launch an initiative based on the principles outlined in this article at three of its branches while leaving the other 24 operating as before. (One of the authors, Bill Fotsch, was directly involved in this work.)

At each of the experimental branches, the company established a formal process to gather information from employees, management, and customers along with financial data. Employee input included answers to questions that are rarely posed to frontline workers, such as "What should the branch do to improve relationships with customers?" and "What is the biggest opportunity for improvement in the branch?" The branches then developed a consensus regarding the key issues they faced during the next six to 12 months and a metric—direct profitability, or revenue minus direct costs—that would indicate whether they were "winning the game." They created targets and scoreboards and integrated team incentive plans with quarterly bonuses, funded by the targets, for improving results.

Soon employees were brainstorming about how to improve performance. At

Some years ago we studied the Australian iron ore division of a large mining company. The division at the time had 7,000 employees and 203 KPIs, each linked to its own incentive plan. This pitted employees and departments against one another. The parts department's KPI, for instance, was minimizing the money tied up in spare-parts inventory. The production department's was throughput. When a machine went down, the parts required for repair were frequently unavailable, stalling production and souring relationships between the departments. Taking a broader approach, the division's managers implemented a new system in which everyone tracked the same key number: safe tons of ore shipped per month. This metric was easy for all employees to understand and it directly affected the division's income statement.

Companies can compensate for a loss of security with substantial learning.

weekly meetings, results were shared and forecasts were updated for the coming three months. Quarterly performance figures were recognized, learned from, and celebrated when they were on target. Individuals began taking initiative for specific improvements. One customer relations rep, for instance, started contacting vendors to recover money lost owing to hotel no-shows, canceled flights, and the like. She collected close to $200,000 in the first several months.

After a year the outcome could scarcely have been clearer. The three experimental branches exceeded their annual profit targets by 10%, 17%, and 20% after incentive payments. None of the other 24 branches achieved its profit target that year. Not surprisingly, corporate management decided to roll the program out to all its branches—a process made more efficient by lessons taken from the three experiments. The experiments also created a kind of partnership mindset, something that is missing from many workplaces. One travel counselor said, "I feel that the

Some companies deliberately change the key numbers as the business's economics change. Doing so enables them to concentrate everyone's efforts on eliminating specific weaknesses. Right now, for instance, Gardner Denver is focusing on reducing its net working capital, which is higher than that of many of its peers. The company is training 150 leaders in the basics of lowering it. Those leaders will then train the company's 6,000-plus employees and help them figure out how in their various positions they can affect the working-capital level—for example, by coming up with ideas for reducing parts or work-in-process inventories. Meanwhile, a scoreboard will track progress, and the company will publicize short-term innovations (quick wins) that begin to put dents in the number. When net working capital hits an appropriate level, the company can move on to its next challenge.

This one-number-at-a-time approach has another advantage: It broadens employees' understanding of the economics of the business. At Gourmet Events Hawaii, a catering company, employees initially focused on increasing gross profit (revenue minus direct costs). The following year they began tracking net profit (gross profit minus operating expenses).

Learning is dynamic, and employees' knowledge of business fundamentals will most likely be deeper and more sustainable with this approach. Furthermore, because the company's employees are motivated to improve its economics, they require less supervision—lowering costs associated with it. And what they have learned is a valuable capability that they can take with them to future jobs.

Encourage employees to follow and improve the metrics.

Once people understand the economics, they can make better decisions and manage to the numbers they're tracking. Sometimes all it takes is sharing the data. A fast-food franchisee began posting simplified weekly income statements—sales, cost of goods sold, and gross profit—on the wall where his employees could see them. The workers, mostly teenagers, quickly made a game of figuring out how to boost revenue while keeping costs low. Along the way they got a practical lesson in the basics of running a business.

Other companies employ more-formal processes. At Trinity Products, a midsize steel fabricator based in Missouri, employees propose improvement initiatives to management and then serve on teams charged with addressing the highest-priority issues. "We took coil splices from 25 minutes to 15," Robert Griggs, the founder and president, told us. "Changeovers from one size to the next size went from eight hours to five and then to three or three and a half." Every such improvement has a positive effect on Trinity's income statement, which the company shares with employees.

An essential part of managing to the metrics is forecasting the numbers from one period to the next. This is a key discipline of business-unit management. It reinforces proactive thought and behavior, enabling the organization to anticipate opportunities and difficulties and to take appropriate action. But accurate forecasting is also challenging, and involving themselves in the process may seem like an impossible task for employees.

In our experience, it's not. We find that managers at good job companies willingly share what they know—sales forecasts or economic conditions, for instance—at weekly meetings. For their part, frontline team representatives are often keen to offer input, such as what customer service reps are hearing on the phone or what store clerks have noticed about foot-traffic trends. As with any discipline, forecasting skills improve with practice. People identify what they don't know and figure out ways to fill the gaps. Comparing forecasts with budgets and, eventually, with actual results indicates which parts of the business are under control and which could use some additional coaching. Just as students learn from thoughtful grading, employees learn from studying variances.

Share the results of improved performance.

The learning and individual initiative required in an ownership culture are new to many companies and their workers. The culture asks employees to stretch themselves and to take on new responsibilities. This naturally raises the time-honored question that has caused so many well-intentioned initiatives to founder: What's in it for me?

Obviously, stock ownership and yearly profit sharing provide part of the answer, but both can seem remote from the daily ups and downs of the workplace. So we think a generous short-term incentive plan tied to improvement in the key metrics is an essential element of a good blue-collar job in the new economy.

Under such a plan, management and employees typically agree at the beginning of the year on targets related to the key numbers. The company establishes a payment schedule: so much extra pay for hitting the targets, so much additional for exceeding them. Companies often find it useful to describe the potential bonus in terms of extra days or (usually) extra weeks of pay, and to track it publicly from week to week. That allows employees to see at a glance exactly where they stand on the incentive and how it relates to the current forecast.

Ideally, the plan should have no cap. If the bonus is determined by gross profit performance, for example, and the results are particularly good, employees can earn substantial amounts of money. We have seen companies give as much as 30 weeks' worth of extra pay to their employees—a nice reward by anyone's standards, and an impressive supplement to a blue-collar worker's wage. At the same time, the plan should cost the company nothing. Bonus payments should always be fully funded by the improved performance, and companies may realize two to four times the amount of the bonus in incremental gains. Thus these plans reinforce the idea that management and labor are on the same side, working together to improve the business.

> A good blue-collar job today involves thinking like a business owner.

Put all these things together and you essentially redefine the notion of a good job. No longer does it mean simply assembling parts, serving customers, or driving a forklift. It involves thinking like a business owner—someone responsible for tracking and managing the key numbers and figuring out how to improve performance. It also involves sharing in the rewards of success rather than just collecting an hourly wage. That definition seems fitting in our knowledge economy—and makes for more-engaging work for employees at every level of the organization.

The Opportunity

Ninety years ago the chairman and CEO of General Electric, Owen D. Young, gave the dedication speech at a ceremony for Harvard Business School's new campus, across the Charles River from the rest of the university. What he said must have surprised his listeners: "I hope the day may come when these great business organizations will truly belong to the men who are giving their lives and their efforts to them, I care not in what capacity....Then an idle machine will mean to every man in the plant who sees it an unproductive charge against himself. Then every piece of material not in motion will mean to the man who sees it an unproductive charge against himself....Then we shall dispose, once and for all, of the charge that in industry organizations are autocratic and not democratic. Then we shall have all the opportunities for a cultural wage which the business can provide. Then, in a word, men will be as free in cooperative undertakings and subject only to the same limitations and chances as men in individual businesses. Then we shall have no hired men."

In keeping with his times, Young spoke of men only, and he focused on manufacturing enterprises, which were the largest employers of his day. No matter: It's easy to translate his vision to today's economy, where most people in the private sector work for service companies. It's pretty clear that he envisioned creating good jobs in much the same way we do. But we have an advantage that Young lacked: decades of experience with shared profits and shared ownership programs (including ESOPs), along with a growing understanding of how to help employees think and act like businesspeople rather than like hired hands.

American business finds itself in an unusual position today. The decline in the good blue-collar jobs of an earlier era has contributed to stagnating wages among the bottom 80% of U.S. households, feeding growing levels of discontent. Governments have for the most part been unable or unwilling to address this situation. Many voters don't even believe that they should. But here is an arena where business can take the lead. Almost any company can set up some kind of system that encourages employee ownership, profit sharing, or both. Most can create a culture that helps employees learn the business and improve its results and that puts more money in their pockets right away. Executives who adopt such a system will find that they are pioneers in addressing one of America's most pressing problems—and, most likely, that their company performs better than it did before.

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