

Heymann on Profit at the Bottom of the Ladder

When McKinsey wrote *The War for Talent* they were not thinking about the average worker—they were thinking about the top cadre of managers. Similarly when we talk about talent management we are almost always talking about professionals and managers. Yet surely getting the best performance out of the largest group of employees, the workers at the bottom of the ladder, should matter. Why has this group escaped our notice? Jody Heymann director of the McGill Institute for Health and Social Policy says:

Both business schools and corporations have operated under the assumption that there is not a lot of skill at the lower levels. As a result, retaining bottom of the ladder workers has not been a priority. But in almost all jobs, the workers have skills and knowledge that can help the organization function better. The firms that have figured this out are reaping the benefits.

Heymann is author of *Profit at the Bottom of the Ladder*, a global study of companies that have raised profitability by investing in workers. The cases include very small companies with less than 50 workers up to a Fortune 50 firm employing more than 120,000 people. One of the companies she studied was a little bakery in Boston which employed a largely immigrant workforce with limited formal education; exactly the sort of workforce we would normally think of as readily replaceable. But the bakery thought its workers were important and Heymann found they did some interesting things.

They gave the bakery workers stock options. Once the employees felt invested in the firm they started coming up with ideas to make it more profitable. They thought of ways to run the production more effectively and how to make products more attractive to customers. It really shouldn't come as a surprise that the people doing the work have knowledge about how to do it better.

HR pros will recognize that this was not just a clever compensation tactic. What was important was that management valued employees' insights, sought them out, and allowed them to be put into practice. The incentive compensation is a useful part of this approach, but it's not the magic bullet on its own.

A belief that front line workers matter has proven itself in large companies as well. Costco has much higher wages than most of its competitors; a cashier with four years of experience can be earning \$43,000 per year. This flies in the face of what most managers have been taught about maximizing profits by cutting costs. How can it work? Heymann says,

The employees are very loyal; they make sure the customer has a better experience. As a result, Costco makes much more per employee

than similar retailers. They find it easier to attract talent. They have lower turnover. They have less shrinkage. Admittedly, it is easier for privately held firms to invest in the bottom of the ladder than it is for publicly traded firms. Wall Street analysts didn't get it at first and there was a period when Costco was being penalized for having good working conditions.

What caught my attention in Heymann's book was how companies made a serious effort to create the conditions where they could capture the benefits of having a superior bottom of the ladder workforce. The changes are not driven by HR attempting to increase satisfaction, the changes are driven by management attempting to improve both satisfaction and profits. Heymann explains how management at a manufacturing company go the extra mile so that their employee suggestion scheme is truly effective.

The Great Little Box company, based in British Columbia, gives bonuses to employees who have cost saving ideas. If it is small saving it might be a \$50 bonus; if it saves the company a lot of money it could be a \$2500 bonus. How can the company afford this? Well it's a \$25,000 savings and you pay a \$2,500 bonus it's pretty easy to do the math.

But this is not just a bonus scheme. Every single month, everyone in factory meets with the CEO, CFO & senior managers to go over revenue, costs and profitability. If big changes are being considered they get presented to the workers on the factory floor who give feedback; and come up with practical ideas, such as ways to get things running more quickly, or to avoid buying new equipment and so on.

Employees have the information they need to make informed suggestions, the opportunity to make them and managers who are paying attention.

Another good example comes from Australia where automotive parts manufacturer Autoliv recognized they needed to retain excellent employees to deliver high quality. They learned that employees really wanted flexibility in scheduling, especially around the time they started work. That's usually pretty easy to offer in an office environment but can seem impossible when you are in a factory. However, where there is a will there is a way.

To allow people to start at different times (6, 7, or 8 a.m. in the morning) they needed to be able to staff each of the shifts with the right mix of skills. The only practical way to do that was through cross-training. They invested in making this work and that made the flexibility that employees wanted possible. They went from 15-20% annual turnover to around 3%. They also allowed employees to take 4 weeks instead of 2 weeks vacation by taking a slightly lower weekly salary. This was easier to offer because of the cross-training and it didn't cost the company anything in direct expenditures.

When it comes to the bottom of the ladder workforce, the common wisdom is these workers don't matter. That is wrong. Firms that have invested in the workforce have profited from that investment. HR needs to bring to the attention of management that one of the main overlooked sources of improved profitability lies in paying more attention to the people who do the work.

Heymann's book is full of good research and cases studies. It's a book your CEO should read. It's available at Amazon: [Profit at the Bottom of the Ladder](#).

David Creelman writes and speaks on human capital management
(www.creelmanresearch.com)