May 2016 Newsletter

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Good Jobs Strategies Can Pay Off

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Dear Colleagues,

As we chug along through what seems to me like a marathon of an election season, it is clear that a great many Americans are deeply unhappy about their employment opportunities and future prospects. With observers of the economic scene frighteningly predicting the global decline of jobs in the manufacturing sectors it's worth reflecting on how we got here.

A humble metal box created global competition in labor markets

Before the 1956 invention of the standardized shipping container by a former trucker, Malcolm McLean, shipping goods the traditional way was extremely expensive, slow, subject to theft and otherwise exceedingly inefficient. One put individual goods into non-standard containers and loaded up cargo holds manually – imagine something like a household move, with all different shapes and sizes of objects needing to be shifted and packed

sizes of objects needing to be shifted and packed. It took huge crews of dockworkers to load and unload the ships and this friction dampened international trade. While international trade agreements were signed during this period, the compelling economics of containerized shipping are what made truly global flows of goods possible. Indeed, according to the The Economist, “containers have boosted globalisation more than all trade agreements in the past 50 years put together. Not bad for a simple box.”

Investment in global shipping infrastructure – the containers themselves, the equipment to load and unload them, the ports and other supporting transportation services – skyrocketed. Costs to ship goods dropped by an order of magnitude. The immediate impact on jobs began in the ports – as one observer put it, “the effect was to make 19 out of 20 men redundant.” By the early 2000’s, there were reportedly 300 million 20 foot containers in service, with a quarter of them moving goods from China.

An unintended consequence of the rapidly declining costs of global shipping was to put unskilled and semi-skilled workers all over the world more or less in competition with one another. Employers had far more bargaining power and could relatively easily move work to where their labor costs were lower. The decline of manufacturing in higher cost areas was well underway.

Deja-Vu all over again: Enter digital

For many occupations, in jobs held by middle-skilled workers, the advent of the digital economy was a bit like the second coming of containerization, except that this time the effect was to displace knowledge workers rather than manufacturing workers. In a famous economics paper, researchers provided empirical evidence for what some have called the “hourglass economy”, in which highly skilled knowledge workers are generously compensated for their rare skills, while other kinds of workers are pushed into poorly paid service jobs. Other kinds of work, digitally enabled, travels around the world to where it can be done most cost-effectively. Jobs in call centers, data processing, financial analysis, and web design, for instance, are no longer constrained by location.

The jobs that are hard to move – in food service, healthcare, transportation and so on – tended to stick, but also tended to be poorly paid, with little opportunity for advancement. The prevailing theory among many employers in practice was that low-skilled workers can be easily replaced, pushing wages and other benefits (including even being hired as employees rather than contractors) to a bare-bones minimum. At the extreme end of this spectrum, are workers who, even with full-time schedules, earn so little that they reportedly cost American taxpayers $153 billion in subsidies every year simply to keep themselves from utter destitution.

While it is easy to be angry about this state of affairs, or to blame various institutions (the education system, failure to guarantee living wages, lack of proper worker training, trade agreements…you name it), it is worth questioning the assumptions underlying how we got to where we are and what remedies we have.

Workers as drivers of revenue growth, rather than cost.

Elsewhere, I have argued that we are conceivably entering a new era in management – one that emphasizes empathic interactions and experiences rather than material goods and production. If that is the case, then colleague Zeynep Ton's argument, that we think about labor in entirely the wrong way, makes a great deal of sense. Ton's deep insight is that loyal employees who are treated well and given the proper tools can, instead of being units of cost, enhance a company's growth and performance.

After all, think about the service providers you enjoy doing business with. Do they send you off to someone you can barely understand in a distant call center? Do they have staff with so little understanding of the products they are selling that you are figuring out the user manual together? Do your questions get handed from person to person with no one seeming to know who has the answer? Of course not! Instead, you prefer to do business with a company whose people are helpful, responsive and knowledgeable.

At this juncture, you're probably thinking, "well, that's OK if you're Nordstrom, but what about if you are in a highly price-competitive industry?" Professor Ton actually has the answer to that – in her studies of low-margin businesses such as CostCo, QuickTrip, Mercadona and Trader Joe's, she found that good jobs, coupled with excellent operations, lead these firms to outperform rivals with the workers-as-cost model.

A few examples

Let's have a look at a few organizations that are realizing the value of employees as business drivers. Altoona, PA, based convenience store chain Sheetz, Inc. is increasing the number of full-time employees it uses as a proportion of its total workforce. Full timers are less likely to leave their jobs – as reported in the Wall Street Journal the churn rate for full-time workers is 27%, versus close to 69% of part-timers. Lower turnover means less money invested in hiring and screening, and fewer chances of making an unsuitable hire. Further, just as Ton's work would suggest, the chain reports that their "customers spend more when full-timers take orders and ring up purchases."

Greek yogurt maker Chobani's CEO, Hamdi Ulukaya, is making waves by offering all of his 2,000 full-time employees equity in the startup, which is still private. In a move that is pretty unusual both for a company at this pre-public stage of growth and for the food industry, Ulukaya is recognizing the contribution made by his team and literally putting his equity behind a belief that the creation of an ownership, growth culture, will lead to a better upside for his organization.

An acolyte of the Good Jobs strategy, founder Dan Teran created a company called Managed by Q in response to his own frustration as an entrepreneur. 'Why,' he and his co-founder Saman Rahmanian wondered, 'was dealing with physical office space such a pain?' Things like ordering supplies, moving a wall, changing an electrical plug and many other such tasks were time-consuming and took away from building their businesses. They thought it would be great if a business owner could call up "Q", the technological wizard of James Bond movie fame, and everything would magically sort itself out. Thus was born their business. While the company offers a rich suite of services to building occupants, their opening to new customers is through their office-cleaning service. Teran pays his workers very well, relative to the typical wages of an office cleaner, and also offers benefits. The result? Lower turnover, better relationships with customers, less customer churn (in an industry in which half a typical firm's customers are lost each year, and 50% employee turnover is normal), and, most importantly, sticky pull-through of the firm's other service offerings. The company is expanding rapidly.

Upcoming Events

Columbia Business School is 100 years old this year! We celebrated the Centennial at the Annual Dinner in New York's Waldorf Astoria on May 2.

Beginning May 9, my Columbia course Leading Strategic Growth and Change opens.

I'll be in Sydney, Australia, for a World Business Forum keynote on May 25-26 and am hoping to visit with some of our Columbia Business School alumni.

On June 1, I am honored to be given the Theory to Practice award by the Vienna University of Economics and Business at the Vienna Strategy Forum.

In the News - Articles and Podcasts

- Will micro-payments be the salvation of news organizations? Holland's Blendle is willing to try.
- The rise of the Nomad consultant. Many consultants, most in their twenties, have opted to travel every weekend instead of returning to permanent homes. The idea is they might as well lean-in to traveling and adventures, rather than having a home they hardly see.
- North Carolina's LGBT dilemma.
- Podcast discussing EOCA - In this episode of #ThisOldMarketing, Joe and Robert discuss research on how millions of marketing jobs will slowly be replaced by machine intelligence.
- How to promote women's advancement - featured in the Economist. When it comes to gender equality in the C-suite, the gap between vision and action is wide. This article discusses what to do.

- Podcast on women's advancement - discussing the question "Who'll run the world?"

More links to recent press mentions can be found on the Press section of my website.

Yahoo's Next Chapter

Those of you who follow my newsletter know that I looked at Yahoo as a classic disengagement dilemma. As that story continues to unfold, we now see that the company has come to an agreement with Starboard Ventures to put 4 members on its board. Observers speculate that this brings the sale of the core business closer as well as the end of Marisa Mayer's tenure. To be continued!

Perhaps instead of talking about tariffs, import bans or tax rules, our leaders could benefit from some serious thinking about the creation of good jobs.

All the best,

Rita

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