Great Companies, Great Jobs: Building a Sustainable Economy
An Action lab hosted by MIT and The Hitachi Foundation, May 20-21, 2013

This paper provides background on issues to be discussed by participants from business, labor, government, academia, philanthropy and civil society during an Action Lab, hosted by The MIT Sloan School’s Institute for Work and Employment Research (IWER) and The Hitachi Foundation. We start with a simple premise: the U.S. economy is at its best when there is a growing number of financially successful companies; society does best when there is a growing number of good quality jobs and capable workers; and the two are mutually reinforcing. In fact, we have firms of all sizes and structures that are financially successful and creating good jobs. But we also have successful firms that are not great places to work. When we gather in May we will consider this question: What would it take to expand the number of U.S. businesses that achieve financial success while supporting high-quality jobs? In exploring the answer, we hope to better understand the elements of the “eco-system” that most influence workforce practices, and the most effective levers for change—and how to exercise them.

Context

Rebounding real estate markets. Record stock markets and corporate profits. Slow but steady job creation. It would be easy to take comfort from these recent events as signs of America’s long overdue emergence from the Great Recession of 2007-2009. In truth, the U.S. economy continues to severely strain against the undertow of competitive pressures over the last three decades. Precipitated by globalization, firms and whole industries have migrated around the globe seeking advantage. Many that remain have dramatically restructured their organizations, shed jobs and contracted with outside agencies to perform core functions. Exacerbated by ever demanding financial markets seeking short-term gains, firms have looked for every means to achieve efficiency and lower costs as they attempt to meet expectations of their shareholders and stakeholders. One critical stakeholder – the American employee – has been caught in the crossfire. The decline of unions and collective bargaining over this same period has compounded the average worker’s ordeal to navigate a tough economy—making it nearly impossible to gain a leg-up.

The underlying crisis has both a quantity and a quality dimension. More than three years since the end of the last recession, the economy has experienced a slower recovery from steep job losses than in any recession since 1980—with 3.6 million fewer jobs than before the downturn began. Worse, unless the economy does considerably better than the rate of job growth achieved over the past six months, we will still be 5 million jobs short at the end of the decade to make up the difference and absorb growth in the labor force.

Yet the losses in terms of job quality are arguably even more severe. Between 1980 and 2011, while productivity grew 86%, family income grew only 12% (despite the significant gains made by women in the workforce) and real hourly wages by a mere 7%. In the last decade, real wages have lost more

1Support for this initiative and for the Action Lab is provided by the Thomas W. Haas Foundation, The Hitachi Foundation, and the MIT Sloan Institute for Work and Employment Research.
serious ground—actually declining for all educational groups except those with the most advanced professional or PhD degrees—leading to the greatest income inequality in the economy since 1928.²

Moreover, the broad-scale stagnation in wages has been compounded by a persistent problem of low wage levels, particularly in many industries that account for recent and likely future job growth such as retail, non-hospital segments of health care, and hospitality. Indeed, low-wage jobs—those that put a family of four under the poverty line—accounted for 21% of the jobs lost during the Great Recession, but a staggering 58% of those created since the downturn bottomed out.³ The bottom line: Unlike previous generations that enjoyed upward mobility as the norm, a vast portion of today’s American adults will remain trapped in low-wage jobs over the course of their working lives. This will threaten the sustainability of the U.S. economy for the foreseeable future.

*Slow job growth and mounting pressure on low-wage workers and their employers is the new normal. But does it have to be?*

**The Workforce-Centered Model**

Many U.S. businesses, in fact, demonstrate a big part of the solution. Over the past few decades a cadre of resourceful companies has put in place strategies and practices that advance the interests of the firm as well as the workforce. They view their front-line workers as assets worth investing in. They create opportunities for economic advancement through workplace education and training, gain sharing, and building empowered teams to create new products, raise quality, open new markets and increase productivity. For these companies, this workforce-centered model has led to remarkable growth in revenue, profits and market share—even during the recent recession.

Through their efforts, thousands of employees bordering on poverty have become better trained, more motivated by higher-value skills, and able to earn higher incomes to provide for their families and communities. For example, at Pridgeon & Clay, a tier-one auto supplier in Grand Rapids, MI, competitive pressures led management to invest in new product research and development. As innovation drove sales, production and job growth, the company also needed more workers with expanded skills. As a result, it instituted a number of mutually reinforcing programs. These included aggressive in-house training, new career tracks, lean manufacturing, meaningful pay raises, and profit-sharing. The result has been stellar revenue growth and record-high income -- and a confidently upwardly mobile workforce.

Pioneers like Pridgeon and Clay are not just idiosyncratic do-gooders, but innovators whose business models could inspire a renaissance in workforce and human capital development. Such high-performance work strategies, designed to match state-of-the-art production, technology and service delivery strategies, have been evident for nearly two decades, across industries as diverse as steel, autos, airlines, telecommunications, apparel, health care, computers, and semiconductors⁴. As a

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recent study by The Hitachi Foundation of over 90 so-called “Pioneer Employers”\(^5\) found, their practices vary but typically include: heavy investment in training and development (often in partnership with educational institutions), gain-sharing compensation systems, labor-management partnerships, a significant benefits package including tuition reimbursement, and sometimes task-shifting, continuous-improvement and other productivity-enhancing practices. These are often privately held small and mid-sized firms, but not exclusively—Southwest Airlines, Costco and Kaiser Permanente, for example, share similar attributes.

While the number of these firms is not insignificant, they remain exceptions to the rule.

**Why are there not more of these employers, and why don’t their fruitful employment practices migrate more readily across industries and regions?**

**Pressures Reinforcing the Status Quo**

Despite the evident success of workforce-centered models, U.S. firms must respond to an intense array of forces that influence the way they structure their workforces. Publically traded firms, which account for one-third of all employment in U.S. private business, face relentless pressure from shareholders to maximize short-term value. Privately held firms face challenges accessing capital and are also subject to short-term pressures from investors. Here are just some of the elements in the larger environment that have bearing on firm strategy in general and on workforce practices more specifically:

- **Financial Capitalism:** Since the 1980s major innovations in capital markets and a revision of the accepted nature and purpose of public corporations to maximize shareholder value has led to increasing pressure for faster and bigger financial returns. Significant increases in the acceptable level of corporate debt, combined with the increasing linkage of executive compensation to share price, have added to the pressures, increased risk, and dominated management models and measures of efficiency that bear down on labor costs.

- **Financial Deregulation:** Deregulation of financial institutions (e.g., repeal of the Glass-Steagall Act in the late 1990s) significantly increased their power and market scope. With their engineering of new financial products, use of junk bonds, leveraged buyouts and support of hostile takeovers, U.S. companies increasingly became treated as bundles of assets that could be restructured to maximize short-term financial returns, thereby putting more pressure on managements to cut costs—at the sake of workers and other stakeholders.

- **Globalization:** The increasing economic interdependence of national economies across the world, for all its benefits, has highlighted the phenomenon of off-shoring of U.S. manufacturing—and increasingly service and white-collar—jobs to low-cost labor markets overseas. This has put pressure not only on the affected workers, families and communities, but also on U.S. educational, training and other institutions struggling to re-equip U.S. workers with higher-value skills. As cost gaps with China and elsewhere moderate, it is unclear if, and how quickly, any of the displaced jobs might return.

- **Decline of Labor:** A 30-year stalemate in labor policy has escalated into an acute polarization between management and unions, and has increasingly spread from the private sector to state

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and local governments as well. The power of collective bargaining by unions, a critical force in sustaining upward mobility of workers during the 20th Century, has shrunk to negligible levels. This is due partly because unions have been slow to adjust to changes in the economy and workforce, and in part to outdated and failed labor laws in the face of employer opposition. The decline of labor power has produced an institutional vacuum; no alternative means has yet emerged for providing workers a voice in economic decisions that affect their livelihoods. By some accounts, union decline accounts for approximately one-third of the increase in income inequality experienced since the 1980s.

- System Disconnect: Employers and workers are both under-utilizing training assistance available to them, and government policies are misaligned with their needs. A recent study of opportunities for advancement of low-wage workers revealed very low worker uptake of federally funded financial aid (e.g., 18% for student Pell grants and less than 10% for 10 similar government programs), while 86% of employers have never taken part in a government-funded program—despite half of whom say they are unlikely to be able to invest in training current lower-wage workers to keep up with new technologies and skill requirements. Smarter policies are needed that invest in on-the-job training leading to credentials, as they provide the highest return on investment, the study concludes.

What can we, as leaders in business, labor, academia, and civil society, do individually and together to reverse these trends, and build successful businesses and labor market institutions that create and sustain good jobs in America?

Levers for Change

One thing is clear: There is no silver bullet. The actions needed to foster high-productivity, higher-wage work practices as the new normal are varied and complex. During the Action Lab on May 21, we will break into work groups to identify an actionable agenda for the three actors in this challenge with the greatest potential for realizing immediate change—Business, Labor, and intermediary organizations that bridge gaps and forge connections in our decentralized workforce system. We hope the Action Lab will generate an array of ideas worth pursuing going forward. Following are a few key issues for each group to consider:

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1. Business

If the workforce-centered practices described above are well understood, the reasons they are not more widely diffused across the economy are not. There are several hypotheses for their minimal deployment:

- Business executives are not convinced that the benefits to the firm would outweigh the costs of change.
- Business executives lack information about how to implement and manage these practices.
- Startup costs can be high and benefits often delayed, sometimes requiring businesses to endure periods when “things will get worse before they get better.”
- External pressures from financial markets, as well as environmental and consumer activists, are either not focused on, or run counter to, creating quality jobs.
- Labor unions, the primary force for job quality, have been in decline.

During the 1990s the Alfred P. Sloan Foundation developed more than 20 industry-specific academic-practitioner learning networks to help spread knowledge about production systems and workplace practices associated with high performance in each industry\(^9\). The Hitachi Foundation has recently taken a similar approach, focusing on smaller manufacturing and health care firms\(^10\), to embed this learning across industries, as well as in business schools, engineering, community college, and continuing education programs. Should these efforts and others like them be supported and accelerated?

It is in the interest of all firms to have a strong U.S. economy but perhaps not in the interest of an individual firm to be a first mover in workforce-centered strategies if others don’t follow. This begs the question: How can we incite collective, coordinated actions among employers, along with other stakeholders, to take up high-performance, higher-wage strategies that would help to sustain the economy?

Several alternative models of governance, which have gained prominence in recent years, also help to mitigate the negative forces above:

- **Employee-owned firms** give greater voice to workers through Employee Stock Ownership Plans (ESOPs).
- **B (Benefit) Corporations** attempt to reassert corporate responsibility to employees and communities in addition to shareholders.
- **Social Enterprises** (whether they be for-profit, non-profit or hybrids) apply commercial strategies to maximize improvements in human and environmental well-being, while also sometimes providing shareholders with financial return.
- **Shared Value models** of management recognize that the competitiveness of a company and the health of the communities it serves are mutually dependent.
- **Socially Responsible Investment Funds**, a mechanism that supports the models above, market portfolios of companies that promote social good as well as financial return—thereby helping turn financial markets from “foe to friend.”

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Which of these models, or others, support workforce-centered strategies, and have momentum to scale for significant impact on the U.S. economy? What can be done to accelerate their growth?

Finally, if the cost gap with offshore facilities declines as labor costs rise in China and other host countries, as some predict\textsuperscript{11}, there is an unprecedented opportunity for the United States to recapture some number of manufacturing jobs lost during the last 30 years. If indeed this should be a national priority, what structures and practices must be put in place to assure these jobs are both sustainable and increase incomes of workers? What changes to the “eco-system” are necessary -- e.g., to assure adequate sources of risk capital, technical training, competitive supply chains, etc. -- to generate the “next generation” of manufacturing jobs?

2. Labor and Worker Activism

Without fundamental changes in strategies, the era of union-led advances in jobs, working conditions and the economic interests of families will not return. The current challenge lies in defining and fueling the union’s 21\textsuperscript{st} Century equivalent. If labor unions are indeed to play a role in the future, their source of power will most likely derive from their ability to drive new knowledge and skills among their memberships, and sustain their contributions to innovation. In that endeavor, there is much common ground with corporate owners and managers on which to build enduring partnerships. Joint union-management apprenticeship and training programs are a classic, long-standing example. Other union-supported strategies include joint investments in workforce development, and frontline worker participation in continuous improvement and lean manufacturing efforts. How can unions rebuild their roles to support these and other drivers of workforce-centered businesses?

The long-term decline of traditional unions has given rise to several new community-based and other models of worker advocacy. Among them are worker centers, immigrant advocacy groups, occupational/sector programs such as the Restaurant Opportunities Centers, and organizations such as the Freelancers’ Union that represent workers without having formal collective bargaining status. Some of these work independently of traditional unions and some work in coalition with unions on specific issues or campaigns. Are any of these models powerful enough to help workers achieve the higher skills, wages and benefits they need to sustain their families, communities and the economy? How can the more effective models be propagated to larger numbers of industries and workers?

Other interested entities, such as professional associations, also have a role in supporting worker development. Professional associations can serve as “one-stop” career centers for their members--by establishing professional standards and certifications, providing on-going education and training programs, sharing information on changes in technologies and skill requirements, and serving as a clearinghouse for job openings. Are these associations sufficiently rising to this challenge? Could/should they transform into new-style unions with a mandate of advocating for broader worker rights?

Clearly new models of worker representation, outside of the stalemate over current labor law, are in process of experimentation and testing. The challenge lies in fostering financial models that can scale these large enough to fill the current void, with enough market power to regain some balance with

corporate owners and managers. *Are there entrepreneurial experiments or innovations that might produce other useful models, and how can they be encouraged?*12

3. Workforce Development Intermediaries

For business and labor to undertake workforce-centered approaches that put frontline workers in more strategic and thus higher-paid positions, the premise is that employees are highly educated and skill-ready—or at least capable and ready for training. To that end, active consortia such as the National Fund for Workforce Solutions,13 involving business, education, labor and civil-society intermediaries at local, regional and national levels are essential to ensure the workforce is prepared for the skills and jobs of the future.

There is an active debate about the size and seriousness of the so-called “skills gap” in the U.S. Most of this debate focuses on “middle skills”—those obtained in post-high school vocational or technical training, and technical skills that require college-level competencies in science, engineering and math. To meet any current or future skills shortage, research has shown the most successful training programs incorporate one or more of the following features:

- strong linkages and cooperation between employers and educational facilities in the design, funding, enrollment and subsequent employment of graduates;
- work-based learning that allows students to apply their new knowledge and skills at their workplace;
- career pathways that support worker movement from entry level jobs;
- multi-employer consortia sometimes in partnership with local unions.14

These features are common elements of success in the known cases of workforce-centered “pioneer employers,” and they are the key to the success of efforts such as the National Fund for Workforce Solutions but, once again, are not adopted and applied widely enough. *How can these best practices in training be nurtured and scaled to achieve macro-economic impact? How can businesses and community colleges, regional training institutes and similar resources be incentivized to collaborate on these practices? How can more unions and managements support apprenticeships and other jointly funded and administered training programs? And how can all of these opportunities better help job seekers to obtain the skills they need to fill current shortages—especially the mid-skill job openings that are predicted as Baby Boomers retire?*

As noted above, low-wage workers and employers have been less than enthusiastic participants in federally funded aid and training programs. Indeed, a large portion of employers are not familiar with available programs, particularly partnerships with publicly funded education and training institutions. And while most employers (83%) consider ongoing job training as important for low-wage workers’ career advancement, a far lower portion of their employees (49%) feel strongly that

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13 National Fund for Workforce Solutions, [http://www.nfwsolutions.org/](http://www.nfwsolutions.org/) Regional collaboratives across the U.S. organize employers, create workforce partnerships, and advocate for public policies and private practices that make businesses more competitive and workers more likely to earn family-sustaining wages.

training is important to them\textsuperscript{15}. \textit{What explains this gap in the perception of the importance of skills training, and how can employees be motivated to seek higher-level skills? And how can both employers’ and employees’ utilization of training resources available to them be raised?}

The Longer-Term Policy Agenda

This paper—and the upcoming Action Lab—focus mainly on the role of business, labor and social institutions as the greatest potential agents of change in workforce practices because, frankly, political gridlock in Washington in this domain does not offer much immediate hope. It also recognizes that national policy innovations have historically been built on successful private sector and local/state government “experiments” that have proven their value. Thus, the workforce-centered innovations and opportunities described above for business, labor and workforce intermediaries, if actively pursued and proven successful, may lay the foundation for eventually updating national policies in ways needed to catch up with workforce practices.

\textit{Are the workforce-centered ideas above desirable and viable? Are there examples of their implementation in state or local government? Is there potential to incorporate them into future national labor policies and regulations? How should they be advocated, and how might they best get accomplished?}