BUILDING FROM THE BOTTOM UP

What business can do to strengthen the bottom line by investing in front-line workers

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Executive summary

A significant number of American workers—44%—are employed in low-wage jobs at the front line of industries. Despite undertaking some of the most tedious, dirtiest, and most dangerous jobs, low-wage workers are—and have long been—the most likely to be overlooked by employers and by society. Business leaders express growing anxiety about their ability to fill the low-level positions that are at the foundation of their operating models, yet relatively few actually respond to that threat. Managements do little to understand or address the reasons why low-wage jobs are hard to fill and low-wage workers hard to retain. Most employers show little engagement in workers' lives, provide minimal support for skill building, give infrequent or unclear feedback, and offer almost no guidance on career pathways. In doing so, employers have ignored the high price their organizations pay: unfilled positions that reduce output and increase overtime, direct and indirect costs caused by constant churn, and the "soft" costs of eroding morale. (See "The low-wage, high-turnover trap.")

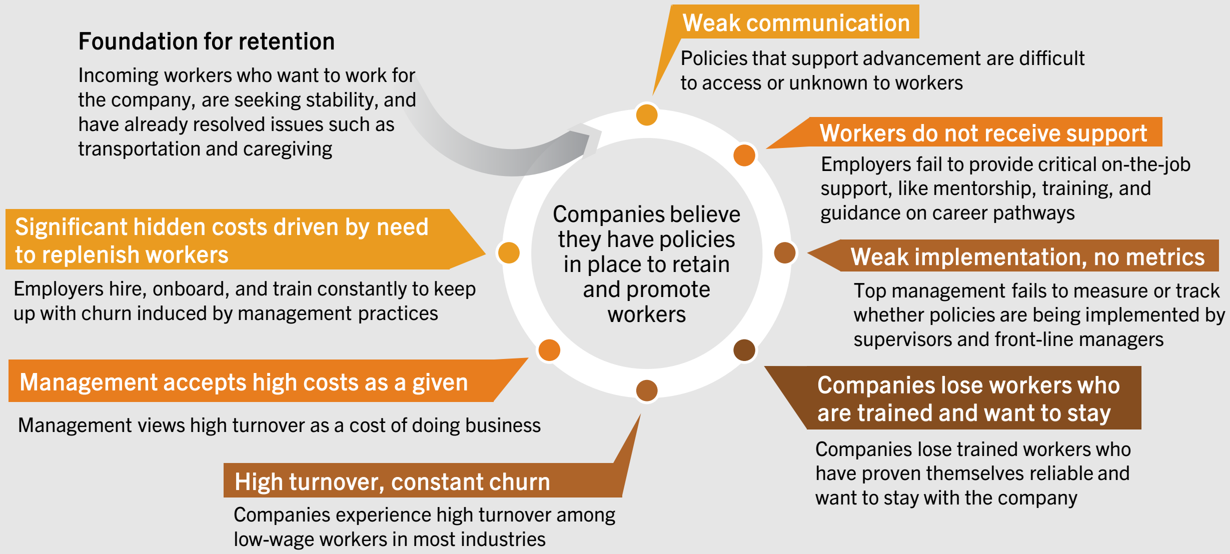
As a result, millions of Americans in low-wage jobs—many, disproportionately, women and people of color—work hard but remain caught in a poverty trap, even as thousands of U.S. businesses, big and small, struggle to fill positions. To address this challenge, the Bill & Melinda Gates Foundation approached Harvard Business School's Project on Managing the Future of Work in 2019 just months before Covid-19 forced global lockdowns. The mandate: to understand what employers can do to improve the prospects of their lowest-paid workers—those who earn less than 200% of the poverty line—and set them on a path to greater prosperity, while simultaneously advancing their own competitiveness.

The labor market for low-wage workers

For the purpose of this research, a low-wage worker is defined as an individual who lives in a household of three with an annual household income of or below $39,970, or an individual earning roughly $20 per hour or less. Analysis of the Emsi Burning Glass database of 181,891 worker resumes covering 292 occupations, as well as the Emsi Burning Glass database of 20 million job postings, provided a bleak picture of the labor market for low-wage workers between 2012–2017.

- Many workers in low-wage jobs are unable to escape poverty, despite having years of work experience. Between 2012–2017, for instance, 60% of individuals who started in a low-wage job failed to move to a job with a median salary above the low-wage threshold in five years.
- Thus, only four in 10 low-wage workers escaped low-wage jobs within five years. For those who were able to break out of the trap, the wage difference was substantial.
- Low-wage entry-level jobs are often a revolving door. Even the "best" performing industries experienced a churn of over 50%. In most industries, three-quarters or more of workers in low-wage occupations moved to another industry within five years.
- Some industries were chronic low-wage traps for workers. Workers who started in accommodation and food services, administrative and support and waste management and remediation services, and retail trade experienced the lowest salary increases over the five years. Many workers who moved out of poverty by switching jobs between 2012–2017 did so by switching industries.
- Women were overrepresented in jobs below the poverty threshold and less likely to move up in most industries.
- Employers seldom highlighted opportunities for advancement in job postings. Very little or no mention was made of company values, benefits, or the accessibility of pathways to career advancement. Only 5% of job postings mentioned career mobility.

The low-wage, high-turnover trap



The challenges of upward mobility

To understand the barriers and contributors to upward mobility, we defined upward mobility as an improvement in skills that enhances an employee's productivity and results in an increase in the employee's pay or a promotion or both. We focused on the 3Ps—productivity, pay raise, and promotion—to understand the economics of employment from the perspective of the employers and employees, simultaneously.

Based on this definition, we surveyed 1,025 low-wage U.S. workers, aged 21 or above and with at least three years of continuous work experience. We surveyed both those who had experienced upward mobility and those who had not. We also surveyed 1,150 business leaders at U.S. companies across the managerial spectrum—from the C-suite to mid-level managers to front-line supervisors—on how they perceived the upward mobility of low-wage employees in their organizations. The surveys were carried out from September to November 2020 and to our knowledge are the most extensive ever conducted on the state of America's low-wage labor market. The surveys—carefully worded to ensure that responses were representative of employer and employee experiences before Covid-19 hit—also asked respondents how the pandemic changed both working conditions and their outlook on future upward mobility for low-wage employees. The key findings:

The struggle to survive: Despite working long hours and pooling incomes, low-wage workers lived in households below the poverty line. Of the surveyed workers, half (52%) were full-time employees working 35 hours or more; as many as 22% reported that, in addition to working 35 hours full time, they were also working part time for one or more employers. A significant majority (68%) reported that their household income was less than $40,000 per year.

Low stability, high turnover: Many low-wage workers would prefer to remain with their employers rather than move to a new company. When asked what would induce them to stay at their company, 62% of surveyed workers indicated the prospect of upward mobility. Job security, stable and predictable pay, and stable and predictable hours were cited as some of the most important attributes. Benefits that many employers perceive as important—tuition assistance, transportation assistance, and caregiving assistance—ranked the lowest in importance for all categories of workers.

Nonetheless, employers persisted in relying on management models predicated on the assumption that high levels of turnover are inevitable. For more than half of surveyed employers, the annual turnover rate of low-wage employees exceeded 24%. Today, most companies devote surprisingly little effort to retaining and nurturing their incumbent talent at the lower levels of their organizations. Only 29% of the employers surveyed estimated that more than 10% of their low-wage workforce experienced upward mobility over the previous year. Workers' attitudes suggest that high levels of turnover among such workers is far from an inevitability. Eye-watering levels of turnover appear to be the by-product of rote management practice.

Glaring underinvestment: Employers consistently underinvest in raising the productivity of their existing low-wage employees, failing to tap into the surprisingly deep reserves of goodwill that most workers have for their workplaces. Actions that would help low-wage workers to move up to the next level are seldom an area of focus for most employers. There is little investment in creating career pathways and communicating what is available and how workers can take advantage of such opportunities. The result: Low-wage workers have little or no visibility into opportunities to achieve upward mobility within their organization. When asked to describe the extent to which they might experience upward mobility at their company, a plurality (33%) of workers said they saw *no* opportunity to move up.

The surveys revealed that low-wage workers demonstrate a strong sense of agency over their own futures. They are willing—often eager—to invest time and effort in upgrading their skills. But they receive little, if any, guidance as to what training or skills development is needed to be considered for advancement. More than 50% of such workers, for instance, reported that their employer had not discussed what skills they should acquire in order to advance and how they might acquire them. And just 55% of low-wage workers said they have had, at any point, a supervisor or mentor who helped them succeed. Many received feedback rarely; it was often nonspecific and not actionable. That led to many low-wage workers having limited understanding of their employers' estimation of their capabilities and caused many to have unrealistic expectations as to their prospects. Those frustrated hopes fuel turnover.

Lack of awareness about the barriers and contributors: The survey findings on 60 business practices and 34 factors that can be barriers or contributors to upward mobility were revealing. Workers who experienced upward mobility tended to do many things right. They had an understanding about what they needed to do to improve their prospects. They not only had agency, but they had the ability to manage their careers within an organization. More discouragingly, however, workers who did not achieve upward mobility were often unaware as to what was holding them back.

The employers' perspectives on the barriers that inhibited advancement indicated that managers are frequently out of touch with the realities of the workplace. They often had weak or no formal mechanisms to hear directly from workers on their aspirations and the barriers they face in pursuing them. Moreover, employers were usually unaware of the personal circumstances of workers. Such issues—ranging from caregiving arrangements to access to reliable transportation—have a direct impact on the organization's ability to attract and retain talent and manage issues like absenteeism.

Employers simply don't know enough of what matters most to their lowest-paid employees. For example, when asked for reasons why they had changed jobs in the past, the reasons most cited by workers were convenience of getting to their work location (64% of respondents), followed by level of pay (43%), and supportive team members (41%). Yet in employers' perceptions of the priorities of low-wage workers, convenience of getting to work was not even ranked in the top five factors.

Differences by gender, race, and size of business: The top three issues that plagued all low-wage workers remained consistent: a lack of mentorship or supervisory support; a lack of communication on the prospects within the company; and a lack of guidance on career pathways. For each of the findings, the report provides additional detail by gender, race and/or size of business. (For the full survey instruments and data for each question, please visit https://www.hbs.edu/managing-the-future-of-work/research/Pages/building-from-the-bottom-up.aspx)

A new approach

Lack of job stability and the inability to access career pathways makes life worse for millions of low-wage U.S. workers, who cycle frequently between companies and industries. Such high turnover imposes large costs on American businesses, too. To promote upward mobility among employees at the bottom of the ladder, companies can advance their own interests by prioritizing the following actions.

Recognize low-wage employees as critical assets
Instead of perceiving low-wage workers as a cost, employers need to view such workers as assets. The skills, experience, and implicit knowledge of low-wage workers are intangible assets of real value to companies. They should extend their principles of talent management to include essential workers in order to preserve it.

Make retention a cornerstone of strategy
Employers can always hire new workers on the spot market by offering marginally higher wages. But by accepting inordinate churn, employers create a cascade of indirect costs. Experienced workers are likely to be more valuable than new hires with the same skills, if they can be found. They have already overcome barriers to working at the company; they're familiar with the company's ways of doing business and already have demonstrated competence in performing their jobs; and they're typically eager to remain at their current place of work. Voluntarily leaving a position is generally not their

preference—almost two-thirds of low-wage workers indicated a preference to remain with their current employer if opportunities for advancement were available.

Invest in mentorship, career pathways, and learning and development

Some of the largest gaps between the perceptions of workers who move up and those who do not fall into three key areas: mentorship, career pathways, and learning and development. Our research indicates that even incremental efforts in those three areas can help workers escape poverty-trap roles. Employers benefit by reducing the indirect costs associated with high turnover and raising the productivity of their workforce. In many instances, this requires little more than ensuring low-wage workers know of the existence of opportunities and that the programs' design reflects a clear understanding of their needs and personal circumstances.

Create a diverse workforce, bottom up

In the U.S., women and people of color represent a disproportionate share of low-wage workers. Companies, meanwhile, are still struggling to find ways to deliver on the promise of diversity. Historical efforts to increase diversity, often through mechanisms associated with corporate social responsibility programs, have yielded little at scale. The process for building a diverse organization can be significantly advanced by building from the ground up. Low-wage workers constitute a pool of talent with skills and experience that are immediately available. In a labor market in which employers of every size are seeking to improve performance on diversity, equity, and inclusion, "growing one's own" is far more likely to achieve desired results than playing the spot market.

Measure implementation rigorously

The last 20 years have seen a revolution in business analytics. Business intelligence systems provide executives and managers with near-real-time granular data on performance metrics of every variety. Comparatively few companies, however, utilize those capabilities to track the upward mobility of their low-wage workforce. The processes that will drive the creation of a more stable and productive workforce should be tracked with the same rigor as other mission-critical activities.

Understand the external implications of upward mobility

The more employers cooperate to develop a growing talent pool, the more they can create a smooth, well-functioning supply chain for local talent. Such collaboration can take place within an industry or in a given geography. Companies like Disney, Amazon, and Walmart—which hire at scale in low-wage positions—have begun innovating on building career pathways for their employees, both within and outside the company. They are forging partnerships with community colleges, identifying skills gaps in local communities, and preparing their workers for better paying positions at other employers. Smaller companies are also recognizing that, rather than competing for talent across employers, there are economies of scale in collaborating on deepening the talent pool. Solutions that help workers overcome barriers to employment through skills training, providing remedies to challenges like access to transportation, or working with skills providers and educators at all levels to develop programs can improve the readiness of workers for available jobs.

An essential shift

During the pandemic lockdowns, society needed front-line workers more than ever. They were suddenly dubbed "essential workers." In the post-Covid-19 recovery, U.S. workers responded by quitting their jobs at the highest rate in two decades. In November 2021 alone, 4.5 million workers voluntarily left their employers.

The lures offered by fast-food restaurants, big-box retailers, hotel chains, airlines, and warehouse and logistics companies—joining bonuses, transportation support, adjustments in managing shifts, more flexibility in accepting candidates—represent "one-time" enhancements to the "old deal." While expedient, they will not address the economic harm done to workers *and* employers by the high-turnover, low-wage approach embedded in many companies' business models. As businesses reopen, many will find that they will be unable to attract the quality or quantity of talent they want, despite employing such tactics.

Instead, in the future, business will need to build durable talent-management pipelines—including for their least-paid workers—that will enhance their prospects relative to competitors stuck in the old, wasteful paradigm. To avoid the high costs of turnover and avoid keeping critical positions open, employers will need to offer training and career pathways. By nurturing talent internally, they will deliver on their commitment to create a diverse organization—building better from the bottom up.