

From Hidden Costs to High Returns

Unlocking the Potential of the
Lower-Wage Workforce



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The Case in Brief: Why Invest in Lower-Wage Workers?

American companies tend to view their low-skill, low-wage workers as a disposable resource — necessary but transient, plentiful enough to hire and lose and hire again as needed. Like many forms of waste, this approach to human capital has the advantage of simplicity, but it's loaded with hidden costs. Chief among these is the constant expense of recruiting and training new employees. But there are other costs, too, like the stunting of employees' loyalty, ambition, and attention to quality. A culture of transiency, where paychecks don't pay the bills and opportunities for advancement are few or nil, is one sure way to wipe out any incentive to perform above average, to push for excellence, to get the details right.

These circumstances are mostly the result of longstanding practice, not of deliberate policy. Among other things, they reflect a tendency for companies to focus their investments in human resources — everything from recruitment to compensation to development — on higher-ranking employees. But the result is a lower-ranking workforce that performs well below its potential.

More and more employers are training lower-wage workers, building skills, loyalty, and quality-consciousness, and creating opportunity for higher earnings.

A growing number of companies, large and small, are investing in a different approach. These companies view the lower-skill workforce as a durable asset: a means of continually improving quality and a potential talent pool for higher-level positions. In interviews with nearly five dozen American companies in 2009, with particular emphasis on manufacturing and health care, employer after employer described deliberate, sometimes multifaceted efforts to train lower-wage workers, develop skills, build loyalty and quality-consciousness, and create opportunity for wage increases. In every case, without exception, the companies recommended these same efforts to other employers — often citing measurable business benefits and bottom-line returns as evidence that these ideas are not just altruistic, but fundamentals of sound personnel management.

For example, one such company, the defense contractor Northrop Grumman Shipbuilding, has created a recruitment and training program called Pay for Skills, specifically aimed at grooming entry-level workers for higher-level positions. Because the company foresees a shortage of good recruits for its skilled jobs, Pay for Skills seeks to grow that level of talent from within. Along the way, it gives the least skilled workers a clear motivation to stay, learn, perform, and try to advance.

Training 'reduced our attrition rate of entering employees, because it gave them a career ladder to look for.'

Woody Oge
Northrop Grumman

According to Woody Oge, site director at Northrop Grumman's Avondale, Louisiana, shipyards, the program not only improved performance and loyalty among the participants, but "there was more motivation, obviously, to the individual, if they could summarily increase pay with increased skills." Among other things, he says, Pay for Skills helped the company hold on to new recruits rather than having to replace them every few months. Together with an apprenticeship program for high school graduates, Pay for Skills "reduced our attrition rate of entering employees, because it gave them a career ladder to look for and a goal to shoot for." In Pay for Skills, entry-level Northrop Grumman workers would typically start at \$20,000 a year, and in two to four years could reach journeyman level, more than doubling their compensation. Within a few years after the program started in 2001, the company's entry-level attrition rate in the first year of employment plunged from a longstanding level of 20 to 25 percent down all the way to single digits.

Oge notes that when many companies think about skilled employees, they think first about four-year colleges and formal credentials. But he counters that "for every professional who comes out of a four-year university, arguably you need 10, 12, 15 technicians or support people to support that one four-year professional." In short, companies often need employees with a range of skills that don't call for traditional classroom learning, but can be acquired in many ways — on the job, at lunchtime, in community-based workforce programs, or through vocational or technical programs at community colleges, among other things. Employees can develop these skills during or outside work hours, while still doing essential work and forming a bond with the company and its products, services, and customers. At Northrop Grumman, close to 2,000 employees a month take part in Pay for Skills.

‘Staffing isn’t something that smart companies can afford to think about only in one- or two-year increments.’

Dennis Fanguy

Louisiana’s Bollinger Shipyards

True, the recession that began in 2008 reduced the risks of high staff turnover in some industries — for a time. Yet even in recessions, companies struggle to maintain the quality service that preserves market share, customer relations, and a reputation for excellence. And sooner or later, recessions end. When they do, seasoned employees can once again survey the landscape for other jobs, and strong replacements will once again be harder to find. Even in the midst of a diminished labor market, many companies take the view articulated by Dennis Fanguy, vice-president for Quality Management Systems at Louisiana’s Bollinger Shipyards. For the moment, he says, “we’re able to maintain our higher-skilled workers because of the economy. But welders, for example, are a breed of personnel that’s getting older by the minute. We’ve got to train the younger workforce in order to maintain our system here. We saw that coming around ten years ago.” Staffing, he adds, isn’t something that smart companies can afford to think about only in one- or two-year increments.

Of course, in some industries — health care in particular — even recessions don’t ease the pressure of finding and keeping a basic-skill workforce. “We’re going to be facing bigger workforce shortages in the next 15 years,” says Jim Brookhart, senior vice-president at St. John’s Health System in Springfield, Missouri. Like many others interviewed about their approach to entry-level recruiting and training in the health industry, Brookhart worries that “there aren’t enough people entering the workforce to replace us, let alone to deal with the increased health care demands brought about by the huge population of baby boomers who are aging. So faced with that prospect, it made good sense to invest in our own workforce now, and to help grow people within our organization, help them realize their career goals within our organization so they’re not looking elsewhere when they want growth — either income growth or career growth.” Besides, he concludes, “it serves us well from a recruiting standpoint that we have a reputation for investing in our people.”

Pulling Together for Better Results

Other companies may feel less equipped to launch a full-scale effort like Northrop Grumman’s “Pay for Skills” on their own. Yet more and more, they are finding or forging partnerships with other companies, community colleges, trade associations, or nonprofit workforce programs that specialize in the specific skills the companies need. These cooperative efforts can do many of the same things as Pay for Skills — recruiting motivated employees, offering opportunities for learning and advancement, and maintaining regular contact with the worker/trainees on the shop floor. But they spread the responsibility and cost of managing the program among two or more partners, and they often meet the needs of several companies at once.

For example, the Visiting Nurses Association of Eastern Massachusetts, a long-term care provider, teamed up with other health-care employers and a nonprofit workforce organization, called Employment Resources, Inc., to form a collective recruitment and training program for entry-level aides. As Linda Cornell, the association’s CEO, points out, the aides are low on the organization’s wage ladder, but they are “the people who have the most responsibility in our organization for the direct hands-on care that our patients and residents receive.” Their performance on the job consequently has a huge effect on service quality and customer satisfaction. Yet Ms. Cornell and her staff long felt that the standard training required for certified aides and nurses’ aides was too rudimentary to ensure the quality of care that VNA wanted to be known for. “In the industry,” she says, “the training did not match what we need. ... It was just a bare minimum, no real hands-on training.”

With only 50 to 60 aide-level employees at any given time, VNA was not in a position, by itself, to change the way this whole category of workers was prepared and certified. Luckily for VNA, Employment Resources was already working on an approach to the broader, industry-wide change that Ms. Cornell had in mind. As a workforce development organization serving the VNA’s part of the state, the nonprofit had been analyzing the needs of health-care employers in the area and had come up with a plan to meet those needs with better-trained local workers. Starting with the VNA, Employment Resources assembled a group of other health-care companies in the area, including

Lower-wage workers are ‘the people who have the most responsibility for the direct hands-on care that our patients and residents receive.’

Linda Cornell

VNA of Eastern MA

The training partnership has helped slash turnover rates. A better-trained and more dedicated staff has meant better service for patients and residents — a competitive edge.

a hospital group, nursing homes, and an organization that serves people with developmental disabilities, among others. With a grant from the Commonwealth Corporation, ERI designed a program specifically tailored for employers who collectively hired lots of aides every year. With so many participating companies, the program could recruit widely, train large numbers of people who were looking for work, greatly improve the kind of training each candidate receives, and yet keep the cost per worker low for each employer.

“A lot of the employers didn’t have the capacity to handle all the technical aspects” of running a multifaceted training program, says Kelly Gollobin, who managed the partnership for Employment Resources, Inc. “Their main purpose is health care. That’s what takes up all of their time. So they really needed someone who could project-manage and handle all the nitty-gritty, collecting the data, entering it, writing reports, all of the billing for the vendors. And then ... we formed an advisory group, where all of the employers were represented, to design the training.”

The program they designed takes place at the participating companies’ facilities, so trainees get an immediate, firsthand experience of the working environment. But their preparation extends well beyond a simple how-to for basic job requirements. The training also includes various kinds of adult basic education including writing, math, and computer skills — and, given that so many candidates are recent immigrants, English as a Second Language for those who need it. Employees who complete each stage of the curriculum get an immediate boost in wages, rising from \$10 an hour to as much as \$16 for completing the full regimen. The program even involves and trains supervisors and managers, to ensure that the companies know how to get the best results from the newly trained workers.

As VNA sees it, the cost of the training and wage incentives has been more than justified by the business benefits, which include greater stability, quality, and performance across the whole category of aide workers. But the program also helps answer a broader question that has been troubling employers throughout the fields of health care and aging: In a sector that will be growing geometrically over the next few decades (the aging population is expected to double in the next 30 years), where will care-giving organizations find the expanded workforce — especially the basic, entry-level staff — that they will need to compete and satisfy a mushrooming demand for service?

The cost of training and wage incentives has been more than justified by the business benefits: greater stability, quality, and performance.

Given that the need for well-trained employees is common across the health sector, it was logical for Employment Resources, Inc., to reach out to a number of health care organizations in the region to form a program together. The partnership effectively creates a network of possible employers for incoming job-seekers and a broad pool of prospective workers for participating companies to draw from. So-called “sector initiatives” like this one have been shown, in rigorous independent evaluations,¹ to yield higher earnings and steadier work among employees. Participating employers receive major benefits too.

Thanks to a sector initiative, a facility manager says, ‘We have full occupancy.’ Competitors without the training ‘have 20 percent vacancy rates.’

That has certainly been the result in VNA’s case, where the training partnership has helped slash turnover rates among the association’s aide-level employees. Once as high as 50 percent a year, according to CEO Linda Cornell, the figure has fallen to single digits. The most successful of these employees can now graduate to a new, higher-paid supervisory position called “team leader” — with responsibilities that used to be handled by a much more expensive Licensed Practical Nurse. One result of all this is a significant cost reduction for recruitment and training, both for entry-level workers and team leaders. But the business benefits also run deeper. With better training and longer tenure, staff are more experienced, knowledgeable, and attuned to the fine points of quality care. Higher-level performance has even allowed VNA to reduce the number of staff on some shifts, while still getting equal or better results.

Linda Cornell
VNA of Eastern MA

Most of all, a better-trained and more dedicated staff has meant better service for patients and residents — a competitive edge that is showing up in high demand for the VNA’s two assisted-living facilities. “We have full occupancy,” Cornell explains, “whereas many organizations” — residential

‘Many of our employees are over 50 and will be retiring in the next decade. It is now critical that I identify a pipeline of capable workers who can replace them.’

Erick Ajax

E.J. Ajax & Sons

facilities in the same region that are not participating in the training partnership — “have 20 percent vacancy rates. The community recognition is [reflected in] universal accolades for the care that is delivered.”

E.J. Ajax & Sons, a metal stamping company, likewise finds that investing in its workers gives the company a measurable competitive advantage. On overseas markets, where Ajax sells 35 percent of its product, the quality of its workforce translates directly into superior quality and greater market share. The company consequently invests upwards of 5 percent of its annual payroll in employee training and professional development. It also participates in M-Powered, a sector initiative through which Hennepin Technical College and a multi-service agency named HIRED help small manufacturers recruit and cultivate a top-quality workforce.

Erick Ajax, who owns E. J. Ajax and helps lead M-Powered, says that his company participates in the sector initiative because “it’s collaborate or die.” “About half of my employees have been with E.J. Ajax for more than 10 years,” he explains. “Many of them are over 50 years old and will be retiring within the next decade. It is now critical that I begin to identify and tap into a pipeline of capable workers who can replace them when they leave. M-Powered provides me with a cost-effective way to get access to a pipeline of the best and brightest people that we can put into entry-level positions, nurture their growth, and help them to eventually replace my aging workforce.”

Skills Pay Off in Quality and Competitiveness

As VNA and its partner organizations have discovered, the work done by the lowest-paid, least skilled workers can have a direct and significant influence on a company’s reputation in the marketplace. Better training and opportunity for these employees is visible to customers in the care with which work is completed, the perceived attitude of the people doing the work, and the overall impression of an efficient, inviting, and well-managed environment. As a result, one key benefit of these efforts is that they help companies sharpen their competitive advantage, expand market share, and increase revenue. At the same time, a better-trained, more quality-conscious staff also reduces waste and maintenance costs. Overall, many employers find that investing in more careful staff development for lower-wage workers pays off at both the top and bottom lines — by simultaneously boosting revenues and shrinking expenses.

Like the VNA of Eastern Massachusetts, the pharmacy chain CVS Caremark has joined forces with nonprofits and public programs to invest in its lower-wage workforce and reap many of these same benefits. At CVS, part of the Human Resources department works with these programs to attract and encourage employees who want to develop a career in the company. One of CVS’s partnerships, for example, is with the federally sponsored One-Stop Career Centers, which have created a specialized network of Retail Learning Centers specifically designed to suit the company’s needs. Steve Wing, the head of Workforce Initiatives for CVS, explains that the each center is a meticulous replica of a real worksite. “If you walked into it,” he says, “you would think you were in a CVS store.”

In a meticulously real-world environment, he says, trainees “go through Pharmacy Tech or photo or crew-member training.” Later, successful recruits can re-enter the training program to prepare for higher-skilled work in the company’s pharmacies. Because CVS sees itself not only as a retailer but as part of the health-care industry (many of its stores include “Minute Clinics” that treat some common illnesses), its interest in recruitment, training, and advancement is similar to that of health employers: CVS needs more and more trained pharmacy technicians to satisfy a fast-growing market. At the same time, like other health-care companies, it wants its pharmacy staff to reflect the community, provide memorable personal service, and stay on the job long enough to develop relationships with customers. The chain’s partnership with the publicly funded One-Stop Center

Investing in lower-wage workers pays off at both the top and bottom lines — by boosting revenues and shrinking expenses.

therefore provides CVS a feeder system for its hard-to-fill pharmacy tech jobs, as well as giving employees a shot at higher wages and a long-term health care career.

Among other things, CVS, like Northrop Grumman and the VNA of Eastern Massachusetts, has seen a marked improvement in employee retention. “In retail,” Wing notes, “most companies will have 100 percent or more turnover [annually]. Most of them are 200 percent and 300 percent.” But among participants in CVS’s employee-development programs, “we have a 60 percent-plus retention rate.” In the process, he adds, the quality of employees’ service has risen along with their loyalty.

“Everybody wins in this kind of situation,” Wing concludes. “The clients of these agencies win because they get a career-path job. The [workforce] agencies are trying to get these folks employed and given career-path opportunities. And we’re getting good employees. So we all win.”

A manufacturing company in Chicago that has invested in its new lower-wage employees has had the same experience. Areli Cazares, human resources manager at Wheatland Tube, says, “Last year was one of the best we’ve ever had, profit-wise, due to our investments in our new lower-wage workforce. One way of measuring the impact is that even in the middle of the recession we did better than other, similar facilities in our company. Our partnership with a sector initiative, Manufacturing Works, for assistance with recruiting and retention, and our own cross-training and coaching, were major contributors to our profitability. Our new lower-wage workers benefited too. Many moved up and got substantial pay increases. In the longer run, investing in them will allow us to fill positions in-house, and eliminate additional training costs for anybody coming from the outside.”

Harvard Vanguard Medical Associates, a group practice affiliated with Harvard Medical School, provides another example. The group teamed up with Jewish Vocational Services–Boston, a local workforce organization, to show lower-wage employees such as medical assistants that there are career paths they can move up, and to make it possible for them to do so. The two partners created opportunities for workers to network with managers, explore career alternatives, and sign up for career coaching and pre-college training. For instance, through Work it Out Wednesday, managers met periodically with medical assistants — a group with whom they would not otherwise interact — to let the employees know about job opportunities and tell them how to set up job-shadowing and informational interviews. JVS provided coaching and skill development that readied these employees for promotions. Brenda Thompson Stuckey, Harvard Vanguard’s senior employment and diversity consultant, says, “A very high rate of participants were promoted as a result.” She continues, “One of the things that we wanted to achieve was to reduce turnover, and that is something that we did. [JVS calculates savings of \$312,000 a year in reduced turnover.] The other would be to have a workplace where we’re really considered an employer of choice. For the last two years, we have been on the Boston Globe’s Top 100 Best Employers in Boston list.”

‘Our partnership with a sector initiative for recruiting and retention, and our own cross-training and coaching, were major contributors to our profitability.’

Areli Cazares
Wheatland Tube

A Better Job Leads to Better Performance

To understand why efforts to cultivate and reward low-wage workers end up paying real benefits to their employers, it helps to view the issue from the employee’s perspective. A worker whose earnings aren’t enough to meet basic costs such as food, shelter, and clothing, or who must work multiple jobs to cover the family’s daily expenses, is unlikely to feel much allegiance to any particular paycheck. On the contrary, that employee is likely to be looking around every corner and over every horizon for some other situation, where the struggle might be less onerous. In the meantime, frustration, family emergencies, exhaustion, or simple stress will interfere with daily performance. Minimal training may lead to mistakes, tension with supervisors, and eventual separation. A constant turnover among other workers in the same pay class only reinforces the message: *This job is just a way-station until a crisis hits or something better turns up.*

The result directly affects performance, quality, and ultimately profits. Churning through low-wage employees, turning over most of the workforce once or twice a year, hardly ever improves the quality of the work performed — even if the churning randomly produces a high-quality hire once in a while. Why? Because in an environment of transiency and limited opportunity, even the better hires are unlikely to last long, and the less-ideal ones will probably fail even faster.

This is precisely the conclusion that the Chelsea (Massachusetts) Jewish Nursing Home reached when it decided, years ago, to begin offering subsidized opportunities for the company's housekeeping, maintenance, and dietary workers to study for higher-paid work as nurses' aides and eventually for nursing credentials. As the nursing home's former executive director, Betsy Mullen, explains it: "We realized that people, if they have the capacity to go further, would not be happy and could not really survive on lower-income jobs. We could see that most of them had ambition and wanted to do more. We felt they could work at a higher level for us, or just be better for themselves and better human beings, if we offered them these learning opportunities."

'We nurture the staff so that the staff will nurture the residents we care for.'

Betsy Mullen

*Chelsea (Massachusetts)
Jewish Nursing Home*

Although the company is a mission-driven organization, proud of a broadly philanthropic approach to its work, its policy is not based solely on concern for its workers. Nor is it simply a matter of reducing the cost of turnover and retraining. Most of all, Mullen says, a loyal, stable workforce is crucial for maintaining the quality of service in caring for a mostly frail elderly clientele — and for maintaining the reputation that boosts customer demand. "When you're providing care to elders," she says, "when you can show [patients'] families that you have consistency and longevity in your organization, it speaks differently of your organization than other places that have rapid turnover." As a matter of sound business management, she concludes, "We nurture the staff so that the staff will nurture the residents we care for."

'Instead of having 25 percent new people coming in every couple of weeks, you had the same people there. ... The skill level was coming up. We spent less money per axle.'

John Barber

Hino North America

This isn't true only in the caring professions. At Hino North America, an Arkansas-based company that manufactures axles for Toyota's U.S. operations, managers experimented with several approaches to recruiting and training new workers. After some trial-and-error, they settled on a regimen that could quickly raise an entry-level trainee's wage by more than 40 percent, from \$9 an hour to \$13. This was a significant investment in a region where other entry-level jobs paid closer to \$7 or \$8 an hour, according to John Barber, a Hino senior adviser. Under this plan, as soon as a worker stepped into the door at Hino, after completing just 20 hours of training at a local community college, she or he was making at least 10 percent more than the prevailing wage elsewhere in the same market. Forty more hours of on-the-job training at Hino would gradually move the wage even higher.

Again, the company's motivation wasn't charitable. It was tied directly to cost, quality, and competitiveness. Because Hino relies on teamwork to ensure continuous quality improvement, it simply couldn't afford workers whose skill levels were bare-minimum and whose attachment to the company was tenuous and short-lived. By investing in two tiers of training (first at the community college, then on the job) and offering tangible, near-term opportunity for wage gains, the company sharply reduced the need for problem-solving on the shop floor. Barber says company executives quickly noticed the benefits:

"We started spending much less time in the plant, diagnosing and retraining individual skills on all our individual lines. Because instead of having 25 percent new people coming in every couple of weeks, you had the same people there. People weren't leaving, and the skill level was coming up. We spent less money per axle. It's a strictly economic thing: you have less man-hours per axle to put one out the door. And we had reports from our customer on the quality that they were experiencing." With greater proficiency among the workforce, the use of overtime, and the high cost associated with extra work hours, started to plummet. Longer tenure meant employees got to know one another and the wider manufacturing process they were part of. That in turn led to more consistent teamwork and better group performance.

Hino takes pride in the partnership it worked out with Mid-South Community College and with state labor and economic-development officials to structure the skills-development regimen. But the company has no interest in being perceived as a leader in education or career-counseling. The system was strictly business, and it was designed entirely for business reasons. Asked if Hino had a name for its innovative recruitment and training program, Barber paused to think for a moment. “Not really,” he said. “We called it, ‘How do we get some trained workers in here so we can make axles?’”

What It Takes to Succeed

Some of the companies profiled here, like Northrop Grumman, chose to organize and operate their own, internal programs for training and promoting low-wage workers. Others, like Hino and CVS, sought out programs and service providers in their community — organizations that specialize in various aspects of recruitment, training, career counseling, or other essentials — from whom the companies could get the services they needed. A third approach, which the Visiting Nurses Association of Eastern Massachusetts chose, involves joining forces with other companies in the same industry, to pool costs and responsibilities and draw from a larger market of potential workers. Each approach has its particular advantages, and each depends, for its success, on a handful of specific factors that lead to positive outcomes.

Yet according to the employers we surveyed, a few factors are fundamental to success in any of these approaches — regardless whether a company chooses to go its own way, work with service providers, or team up with one or more other firms. (An Insight Center survey of other research on this subject² turned up strikingly similar recommendations. One study, published by the Conference Board,³ largely parallels the success factors employers highlighted in our interviews.) Five fundamentals, the interviews and research agree, are common to all employers interested in developing their lower-wage workforce:

Success depends, first of all, on a workplace culture that values all employees as productive assets.

Influential Internal Champions

The value of these initiatives may not be obvious, at first, to everyone in the company whose cooperation is essential for success. So the effort has to have committed advocates at every level — especially among senior leadership. Success depends, first of all, on a workplace culture that values all employees as productive assets, and that treats the development of human capital as a business essential. Such a culture in turn needs constant reinforcement from executives, middle managers, and line supervisors who share that view and can promote it convincingly, up and down the organizational ladder.

An Eye on Results

Managers must not only believe that investment in lower-wage employees is good for the company; they should expect to see evidence of success and look for ways of improving the outcomes over time.

The effort has to have committed advocates at every level — especially among senior leadership.

An Able and Willing Workforce

Companies can offer opportunity, but they can't mandate receptivity. So success consists not only of a well-designed program, but also of a pool of workers who will take advantage of the program, meet the companies' expectations, and seize the opportunity for advancement. What businesses sometimes refer to as coaching can be important to helping employees develop a “career path” perspective rather than a “job” perspective, and to think about the steps that can further their career. Another approach is what some businesses call “smart hiring”: screening job applicants for strong work ethic, good interpersonal skills, and professional attitude. Many workforce development programs can help recruit and prepare applicants to meet these requirements.

To cultivate talent for your company, you need partners who understand your employees as well as your business.

Ability to Support Workers in Training

Often, entry-level employees are able and willing to take advantage of career-development opportunities, but face serious obstacles that employers can help in removing. If training or education requires time off of work, many employees can't afford to spend that time without pay. Some off-site training may pose transportation problems; after-hours classes may complicate child care. Helping employees navigate these problems, and maintain a living wage while they do, is one way to raise the level of participation and the odds of success.

Dedicated, Skilled Management of the Program

Designing the right program for the company's particular needs, operating it effectively, and adjusting it promptly all take time and talent. Some companies have that capacity in-house (or can easily acquire it); others need to find competent outside partners in the form of training and educational institutions, workforce organizations, public programs, or some combination. An early indicator of the likely success of any initiative will be the experience, knowledge, and commitment of the people — internal or external — who will manage and operate the program and be accountable for its success.

When companies decide to look for one or more outside partners, there is a further set of success factors to guide them. This list has to do with how to choose organizations to work with and what kind of relationship you establish between the company and the organization providing services:

Shared Goals

The first consideration in picking an education or service provider is to find ones that are dedicated to the same things you want to accomplish. Colleges, training programs, and service organizations all have their own missions, but they should be able to demonstrate a strong grasp of what your company wants to accomplish, how those accomplishments can be achieved, and why they are important. Educators and service agencies also need to be able to respond quickly to new information or requests from the company, and to adjust their programs accordingly.

Ability to Meet Needs Beyond Skills Training

Many low-wage workers remain stuck at the bottom of the organization chart not just for lack of job-related skills, but for other reasons that may have to do with family, community, or cultural issues. Organizations that can help workers cope with health problems, difficulties with children or spouses, limited English proficiency, or other personal matters can significantly raise the odds that employees will persevere in career-development programs and benefit from them. Because these issues are often private and sensitive, community counselors can sometimes intervene in ways an employer could not.

An Understanding of the Workers and the Workplace

To cultivate talent for your company, you need partners who understand your employees as well as your business. That includes a knowledge of the backgrounds and challenges employees bring to the job, the environment where they work, the demands they have to handle, what constitutes “quality” and “performance” in their job, and the opportunities that workers can aspire to if they excel. Effective recruitment, education, training, and counseling all depend on this kind of understanding.

Proven Capacity to Manage the Process and Deliver Results

Effective partners need to be more than just experts in the kind of service you want them to provide. They also have to be able to coordinate their services with your operational needs, to communicate effectively with your staff, to organize their services around your employees' availability, to account for the services they perform and the results they achieve, and to adjust those services as needs change. In addition to quality services, employers should expect the management savvy to ensure a smooth, productive, and responsive relationship. When multiple partners are involved in providing services, employers should expect one to manage and represent them.

When companies choose to band together with others in the same industry (alliances technically known as “sector initiatives”), they often work with outside partners to help manage the network and provide services. In these cases, all the foregoing principles apply. But so do two additional success factors that are specific to networks of more than one employer:

An Agreed-On Set of Common Goals

When a company considers working in partnership with other employers in its industry, it needs to be precise in defining the benefits it expects from the collaboration — especially when the participating companies may be competitors in other contexts. The likely benefits include the ability to recruit more widely, to take advantage of more and higher-quality services, to smooth over the normal peaks-and-troughs of any one company’s staffing patterns, and to spread both the costs and risks across several participants. The collaborative approach works best if the companies all have similar needs and goals, articulate those goals clearly in advance, and can readily share the same pools of employees, skills, and services.

Belief in the Value of a Partnership

Collaborating with other companies doesn’t usually come naturally. Even when the goals are clear and compelling, it can take time for participants to get used to the idea of working with competitors and meeting the demands of a multi-company effort. The partnership will work only if each participating company is convinced that the effort is good for its own bottom line, and is therefore willing to devote time and effort to achieving the partnership’s goals.

The collaborative approach works best if the participating companies all have similar needs and goals.

Conclusion: Putting Your Best People Forward

The information in this brief comes directly from employers — the result of five dozen interviews with business leaders over the course of 2009. Even in the midst of a recession and weak labor market, company after company described having carefully thought-out systems for recruiting, training, developing and retaining entry-level workers. In cases where recruiting had slowed or stalled because of the economy, most of their worker-development efforts remained active, and the rest were ready to be reactivated as soon as markets began to improve. Every single employer we interviewed enthusiastically recommended these same efforts to others.

The overriding lesson of these interviews, simply stated, is that employers who treat their basic-skill workforce as a durable asset — as a locus of quality and a source of steadily increasing skill and performance — find that their business is materially better for their effort. These are some of the returns they describe:

- Revenues improve as quality and customer satisfaction rises.
- Costs go down as errors, corrections, and vacancies diminish.
- Employee teams become more productive and cohesive.
- Less time is lost on supervisory interventions, customer complaints, and re-working.
- The costs of excessive turnover — especially vacancies, recruitment, and re-training — all drop sharply.
- The company’s reputation improves among both customers and potential employees.
- The company becomes a magnet for the most motivated and productive workers.

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A few studies have begun to quantify these benefits, though more research remains to be done. Results so far make it clear that the return on investing in lower-wage workers is substantial. For example, a study by the Commonwealth Corporation surveyed more than three dozen Massachusetts companies that participated in industry-wide partnerships to recruit, train, and create career ladders for entry-level workers.⁴ More than 68 percent of the respondents said they had calculated a positive, measurable return on the resources and time invested in these efforts. Nearly half could specify gains in profitability that were directly attributable to the career initiative. When Commonwealth asked companies whether they were satisfied with the results and would recommend similar efforts to others, it got the same response we received in the interviews conducted for this report: a unanimous Yes.

Suzanne McDowell, vice-president for human resources at King Arthur Flour, summed up the business consensus this way: “It’s a win-win at the end of the day, because people are coming to work motivated to do good work. They’re learning more when they’re here. You’re investing in them. You’re creating a learning culture. ... So to continue to motivate and inspire people, it’s just the right thing to do.”

¹ See, for example, Sheila Maguire, Joshua Freely, Carol Clymer, and Maureen Conway, *Job Training That Works: Findings from the Sectoral Employment Impact Study*, Philadelphia: Public/Private Ventures, May 2009.

² The full review of recent scholarship is at our web site: Tim Lohrentz, “Review and Analysis of the Literature: The Business Benefits of Employee Development,” Insight Center for Community Economic Development, 2009.

³ Jill Casner-Lotto, Elyse Rosenblum, and Mary Wright, “The Ill-Prepared U.S. Workforce: Exploring the Challenges of Employer-provided Workforce Readiness Training,” The Conference Board, 2009.

⁴ Cathryn Lea, “BEST Benefits: Employer Perspectives,” in *Research and Evaluation Brief*, vol. 2, issue 4, The Commonwealth Corporation, October 2004, p. 3



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