Better Jobs Mean Better Business™

Want to Achieve Alpha? Make Jobs Better

The evidence is clear: Improving frontline jobs is a proven pathway to profitability

By Ellen Frank-Miller, PhD, and Tom Woelfel

Jobs in the U.S. are plentiful right now, but are they good? As an organizational researcher and impact investor focused on improving job quality for workers and identifying opportunities to unlock value for companies, we find the answer is no. For most of today's workers, especially those in low-paying frontline jobs that too frequently offer little stability, mobility, equity, respect, or voice, work is something to endure and, at the slightest opportunity (or challenge), leave.

The COVID-19 pandemic has only exacerbated the U.S.' good jobs problem, with 40% of workers reporting worsening job quality since the onset of the pandemic. Poor job quality also continues to disproportionately affect Latino or Hispanic and Black workers who are overrepresented in low-wage work relative to their share of the total workforce. Poor job quality presents a growing challenge that is negatively affecting workers, businesses, and investors. In practical terms, increased turnover due to poor job quality costs businesses millions in recruiting, training, and lost productivity – costs that businesses and their investors bear in the short- and long-term.

But not all business leaders see poor job quality and its effects on turnover as a problem to solve. Some criticize cost-of-turnover calculations (and, sometimes, for good reason) and factor churn into their business models. Turnover, as they see it, is simply a cost of doing business.

Our work at WORC and HCAP Partners, the research of the Good Jobs Institute, and studies by others, shows differently. What we see time and again is that ***better jobs lead to better business outcomes and investment returns***. The science is solid. The correlations are real. To make it clear to businesses and investors, we need to dig deeper into the data and find new ways of showing how improving job quality achieves alpha.

Here are some notable examples of studies that highlight how better jobs mean better business.

> **Case Study #1 – Boosting Sales:** The Stable Scheduling Study conducted by scholars at the University of Chicago and UC Hastings is a compelling example of how intuitive changes to workplace practices can unlock business value. In 2016, these researchers and retailer the Gap set out to test the impact of changing the way they created employees' work schedules. To do that, some stores changed their operations and managerial practices, making work schedules more predictable and stable and giving employees more control, while other stores served as a control group, with no changes in how they operated. The results were stunning both for the business and for workers' satisfaction and well-being. Stable scheduling dramatically increased median sales by 7% – a remarkable feat in retail where companies work hard to achieve increases of just 1% to 2%. Stable scheduling also boosted labor productivity by 5%, which translated into $6.20 of revenue per hour of labor.

Case Study #2 – Reducing Costs by Preserving Product Reliability: In a 2020 white paper, researchers from Stanford, Wharton, and the University of Chicago set out to determine why costs in warranty replacements and authorized repair claims at a cell phone manufacturer were on the rise. Rather, they passed quality checks but failed later in the field, resulting in customers returning them to be replaced or repaired while still under warranty. What the researchers found was a remarkable correlation: employee quit rates at the company were highest right after the last paycheck of the month was issued, resulting in a need for the company to scramble to cover the assembly lines. Failure rates in the field for phones produced during these weeks when the company had to cover for labor shortages were 7% to 8% higher than at other times. The conclusion: Product reliability is hurt when there's turnover on the assembly line – and that's expensive and hurts profitability. Reducing turnover is the pathway to improving profits.

Case Study #3 – Investing in People to Improve Customer Satisfaction: In 2015, The Good Jobs Institute partnered with Quest Diagnostics to overhaul the Quest Management System, an operations program put into place in 2013. The company was facing high turnover rates within their national customer service organization – up to 60%, equating to $10.5 million in costs in just one year. To reduce those costs, they made a direct investment in frontline workers by starting customer service representatives at higher wages from the get-go, offering step-based pay, and making career mobility an attainable reality. They also developed operational practices that empowered workers to have more autonomy in their client-facing roles and gave employees the opportunity to cross-train and learn new skills and processes. As a result, Quest Diagnostics reduced call wait times, improved customer satisfaction, and cut their attrition rate by 50%, saving valuable capital from the losses of churn.

Case Study #4 – Reducing Hiring Costs: In a 2005 study published in the *Journal of Organizational Excellence*, researchers describe how UPS tackled 50% turnover and reduced hiring costs – and got some unexpected benefits along the way. After investigating causes of turnover, they addressed two job characteristics that the scientific evidence base shows are correlated with reducing turnover: perceived supervisor support and perceived coworker support. By having supervisors and coworkers track and support new hires and providing supervisors with training, they achieved strong results: Over the course of 4 years, UPS was able to not only reduce turnover and lower their hiring costs by $1 million, the company also reduced lost workdays due to work-related injuries by 20% and reduced the percentage of packages with delivery snafus from 4% to 1%.

Case Study #5 – Research Roundup: In their 2015 comprehensive review of the academic literature, *The Materiality of Human Capital to Corporate Financial Performance*, scholars at the Harvard Law School Labor and Worklife Program examined 92 empirical studies of relationships between human capital management (HCM) practices and company financial performance. They find that, "In aggregate the literature offers considerable empirical evidence that human capital policies can be material to corporate performance." Studies included a range of industries and company sizes and found positive relationships between HCM and powerful financial metrics including: profitability, stock price, return on assets, return on equity, return on income, return on capital employed, Tobin's Q, total shareholder return, and credit risk. Investors should sit up and take note!

The good news is that bad jobs are not inevitable, and companies and investors can choose to think differently and view workers not as a cost to be minimized but as key piece of the puzzle in driving value creation.

Companies that innovate to achieve improved recruiting and retention and that attract and maintain a more satisfied, engaged, and productive workforce are poised to perform better, outcompete their peers, and generate returns for their investors. To do that, however, they must come up with thoughtful and deliberate strategies for addressing job turnover and retention challenges and improving the quality of frontline jobs in ways that unlock business value.

WORC and HCAP Partners are doing just that. With WORC's Worthwhile Jobs Framework™ and HCAP's Gainful Jobs Approach™ our firms are helping investors and portfolio companies leverage improved job quality for alpha – and we're rigorously measuring results. WORC's proprietary Worthwhile Jobs Employee Survey™ measures improvements in job quality and evidence-based KPIs like turnover and engagement. WORC's scientifically-validated the Worthwhile Jobs Index Score™ allows portfolio companies and investors to track progress over time and demonstrate impact. Reach out to us to learn more.

About the authors:

Ellen G. Frank-Miller, PhD (ellen@worcimpact.com)*, has spent her 30-year career collaborating with investors, employers, national advocates, and community-based organizations to help make frontline jobs better and more accessible to all people. An organizational scholar by training, Dr. Frank-Miller has 15 years of experience in HR consulting and excels at creating evidence-informed programs and policies. Prior to launching the Workforce & Organizational Research Center (WORC), she founded and led the Workforce Financial Stability Initiative at the Social Policy Institute at Washington University in St. Louis. Dr. Frank-Miller has taught research methods at Washington University in St. Louis and at the University of Chicago, where she earned her Ph.D.*

Tom Woelfel (tom@hcap.com), *is HCAP Partners' Senior Director of Impact. Tom leads HCAP's Gainful Jobs Approach™ and overall impact management efforts, partnering with HCAP portfolio companies and collaborating with limited partners and industry thought leaders to improve job quality for frontline workers and generate positive impact in low- to moderate-income communities. In addition, Tom is responsible for HCAP's field-building initiatives and research, sharing findings, lessons learned, and evidence from HCAP's Gainful Jobs Approach™ and experience as an impact investor. Prior to joining HCAP Partners, Tom served for over a decade as Director of Pacific Community Ventures' research and consulting practice focused on impact investing where he developed tools and resources to support small businesses and investors in improving job quality.*

We gratefully acknowledge the support and funding for this project from Innovation Resource Center for Human Resources (IRC4HR®) https://irc4hr.org.

