9
The Potential of Profit Sharing to Support Undervalued Workers

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Profit sharing is an employer pay practice that awards employees part of the firm's profits. Employers and workers alike benefit from sharing profits generated from their joint efforts. Employees in companies with profit sharing typically earn higher wages than those in comparable companies without such arrangements. Profit sharing also facilitates skill development and opportunities for workers to learn about the business, to participate in problem solving, and to contribute to decision making. At the same time, profit sharing also benefits the workplace. It fosters employee engagement and loyalty, reduces turnover, and boosts productivity and profitability (Blasi, Kruse, and Freeman 2017). In 2011, slightly over 40 percent of *Fortune* magazine's annual list of the 100 best companies to work for had some kind of profit-sharing program (Kruse, Blasi, and Freeman 2011). Despite the demonstrated benefits, profit sharing is currently available to only about one-third of U.S. private-sector workers (Kruse, Blasi, and Freeman 2015), and, of these, a greater percentage of nonexempt are eligible for profit sharing compared to frontline or hourly employees.

Research studies indicate that certain employer practices and workplace structures are essential in order to provide lower-paid workers with opportunities that ultimately move them out of poverty and into economic security and stability, benefiting the firm in the process (Combs et al. 2006; Lower-Basch 2007). A few workforce development initiatives have explored the impact of new practices such as job shadowing, career coaching, and supervisory training (Crandall 2014; Wilson 2017). However, there has been limited attention specifically given to altering pay systems to boost wages and to provide skill development. Profit sharing is a fundamentally different approach from existing workforce efforts because it directly affects wages. It immediately increases take-home pay while simultaneously improving worker skills and enhancing job quality. Furthermore, profit sharing can be structured to benefit all employees, not just the few who successfully complete education and training programs or those who have had prior educational advantages.

The large-scale implementation of profit sharing calls for a significant paradigm shift. Rather than creating substantial increases in pay for a select few who are able to advance into middle-skill jobs in traditional workforce programs, profit sharing could be implemented to increase pay for existing low-paid frontline jobs, all while providing additional skills to enable employees in low-wage sectors to access future opportunities for advancement. Research has shown that the majority of low-paid workers are likely to remain trapped in poverty because of a lack of opportunities in their low-wage service sector (Andersson, Holzer, and Lane 2005). A shift in focus in workforce development, from training and initial placement to incumbent workforce strategies that are focused on profit sharing, enables greater income gains to be targeted toward the majority of low-wage workers. Such a shift expands efforts beyond the basics of job quality (i.e., better wages and benefits) to encourage work that is not only empowering and skill enhancing, but also ties the value of employees' contributions to a value share of the firms' profits. Profit sharing has been shown to increase wages, skills, and the bottom line, benefiting both employers and employees (Blasi, Kruse, and Freeman 2017). This approach to workforce development enables more wealth building to a broader population, especially for low-paid workers, and is a critical way to demonstrate the value of traditionally undervalued employees.

THE PROBLEM: THE WORKFORCE LANDSCAPE AND CURRENT WORKFORCE DEVELOPMENT STRATEGIES

Half of the U.S. workforce is employed in jobs that pay less than \$15 an hour (Oxfam America 2016), with the vast majority of these employees (71 percent) working in service-sector positions that provide few opportunities for workplace advancement (DeSilver 2016). The result of such constraints is limited economic mobility for low-income workers (Chetty et al. 2016). For that reason, it is imperative to invest in workforce development initiatives that will create real opportunities for advancement for low-wage workers.

Over the past decade, sector initiatives and career pathway strategies have dominated workforce policy in the United States. These strategies are premised on the theory that in order to close the "skills gap" and provide more opportunities for low-wage workers, employees should be trained for high-demand and higher-wage middle-skill jobs in sectors with opportunities for advancement (Fein 2012). When successful, these initiatives benefit both workers and employers, who experience increased productivity, greater innovation, and lower employee turnover. The Workforce Innovation and Opportunity Act is the major federal policy that influences state policy and other actions. The state policies, coupled with private philanthropic investment, have rallied behind these workforce strategies as a primary mechanism to increase economic advancement.

While this approach demonstrates improved employment and earnings outcomes for some, it leaves behind those in the lowest-paid positions, who often face multiple barriers to succeeding or participating in career advancement opportunities. It is challenging for low-wage employees to learn about internal or external advancement opportunities. Even when an employee is aware of these opportunities, unpredictable schedules, the cost of education (tuition, supplies, time, and potential lost income), caregiving, and current skill sets render it nearly impossible to retrain for a new, higher-income position or industry (Seefeldt, Engstrom, and Gardiner 2016). Furthermore, even when workers access training and obtain credentials, these workers are not guaranteed mobility through an identified career pathway to higher-paying employment. For instance, a recent national evaluation across four sector-specific workforce programs revealed that the programs were successful in helping workers obtain vocational credentials, but only one site showed statistically significant gains in employment (Copson et al. 2016).

One of the primary reasons workforce development programs struggle to garner success in securing higher-wage employment for workers is that the training-based solutions used do not align with the structure of the economy or the lived experience and workplaces of low-wage workers. Currently, workforce investment typically focuses on increasing the supply of workers for middle-skill jobs, such as occupations in health care that require an associate or bachelor's degree, which involve years of postsecondary education but ultimately pay family-sustaining wages.

While these strategies have achieved some success, they ignore several difficult truths. First, in spite of the demand for middle-skill jobs, low-wage work is not going away. On the contrary, the low-wage job market is growing; 48 percent of projected job openings from 2013 to 2023 pay less than $15 per hour, leaving even full-time workers at this rate living in conditions of poverty (Soni 2013). Second, current workforce development strategies reach only a fraction of workers and often do not help the lowest-paid workers, but rather those with fewer barriers. A related factor is that the increased demand for credentials exacerbates barriers and extends the time frame for lower-skilled workers to achieve the needed certifications and to advance on the job. For example, most frontline health care training puts individuals into poverty-wage jobs as certified nursing assistants or medical assistants, whose opportunities for growth are limited (Morgan and Farrar 2015). According to the American Association of Colleges of Nursing, registered nurse positions that once required an associate degree now require a bachelor's degree, which puts this middle-class job out of reach of many low-earning, low-skill adults. Solutions are needed that help even the lowest-paid workers establish economic and workplace stability.

Workplace structures and practices play an important role in employee advancement and economic security. Profit sharing is an underexplored and underutilized means to improve job quality, wage levels, and skill development, and it does not put the full responsibility for these gains on the employee. Rather than requiring workers to leap into middle-skill, higher-paying jobs, or onto career pathways with the hope of achieving these middle-skill jobs, profit sharing creates real opportunities that form a partnership for success. In these firms, an actual wage ladder is built by directly increasing pay and skills for current low-wage jobs, meeting employees where they currently are with their existing skill set, and establishing internal career advancement opportunities that focus on development of the whole individual. This is a new area, ripe for incumbent worker investment consideration from the workforce development system.

A SOLUTION: PROFIT-SHARING WORKFORCE DEVELOPMENT STRATEGIES

Profit sharing links employee pay to the performance of the workplace, whether at the level of the individual, team, or company (Kruse, Freeman, and Blasi 2010). When profit sharing is a component of employer pay plans, employees earn a portion of profits, depending on the firm's performance. Such arrangements can be formal, fully discretionary, or a combination, and at times they can be part of a deferred retirement program. Approximately 40 percent of U.S. employees participate in profit-sharing programs (Blasi et al. 2010).

For employees, profit sharing offers the opportunity to earn higher incomes and accumulate new skills, which leads to higher productivity and employee satisfaction (Bryson and Freeman 2016). Typically, the profit share value depends on the company's size and volume of sales. For example, in February 2017, General Motors announced that the profit share to each of its hourly workers would be $12,000 (Snavely 2017). In 2013, a furniture construction firm whose lowest-paid employees earned $13 an hour gained the equivalent of a retroactive $4-per-hour raise through end-of-year profit sharing (Downs 2013). While critics of profit-sharing programs argue that the model puts workers' wages at risk during business downturns, studies reveal that gains are an additional bonus to fair wages, not a replacement for them (Blasi et al. 2013).

For employers, the benefits of profit sharing are similarly clear: workers at companies that offer profit sharing or employee ownership perform better, are less likely to seek new jobs, and are more likely to monitor fellow employees to improve their coworkers' performance and work quality. Employers benefit from employees' greater willingness to work hard and offer ideas for business improvement when those employees share the profits of their work (Blasi, Freeman, and Kruse 2013; Bryson and Freeman 2016).

While profit sharing has proven beneficial for both employees and employers generally, not all employees have access to profit-sharing programs. In fact, employees in service industries, where the majority of low-wage jobs are concentrated, are the least likely to have access to shared ownership or profit-sharing programs. Only 5 percent of service workers, compared to 26 percent of sales workers and 23 percent of management workers, have access to such programs (Blasi et al. 2010). These lowest-wage jobs are also less likely to provide opportunities for skill development, promotion, and advancement. Thus, finding ways to increase profit sharing in the service industry through targeted workforce investments will accelerate the increasing wages and skills for the majority of low-paid employees. Box 9.1 gives three examples of companies that found innovative ways to share profits with employees.

Open Book Management: A Form of OBM That Values Employee Input

Open book management (OBM) is a type of profit sharing that has shown promise in terms of increasing wages for employees in occupations that don't require high levels of formal education. The premise of OBM is that financial information (including revenue, profit, cost of goods sold, and expenses) provided to employees should not only facilitate the development of skills that will enable them to do their own jobs more effectively, but it should also help them understand how the company is performing overall (Case 1995; Stevenson 2014). At the core of OBM is the philosophy that all employees, including frontline workers, will perform better if they know how the company is doing financially, are empowered to make changes, and have a stake in the company's success.

In order to motivate employees to achieve high performance, managers share with them the key measures of business, including how to understand and interpret financials, focusing on a "critical number" that represents a core indicator of profitability. Companies develop a "scoreboard" that displays all the numbers needed to calculate the critical number. The scoreboard is a prominent visual and is open to all employees to view. Regular meetings take place to discuss how employees can influence the direction of the score. With such direct involvement, employees are able to have an impact on performance as it relates to the critical number, thus creating a direct stake in the company's success—and in the risk of failure.

While profit sharing in general and OBM in particular are most prevalent in manufacturing firms, some food service establishments have implemented it, most notably Zingerman's Deli (Feloni 2014).

Box 9.1 Three Examples of Companies with Profit Sharing

Market Basket. In addition to annual bonuses, the Massachusetts-based company's profit-sharing plan sets aside as much as 15 percent of an employee's annual salary in a retirement account. That set-aside is available to anyone who works more than 1,000 hours a year, meaning even employees working an average of 20 hours a week can build a nest egg.

Zingerman's. Open-book management gives the more-than-500 employees of this Ann Arbor, Michigan, community of 11 interrelated businesses a chance to see, on a weekly basis, how the company is doing. They work together to set goals for the future, and they share in the profits when they surpass those goals.

Springfield ReManufacturing. The company got its start in 1983 when former employees of International Harvester bought a portion of their old company in Springfield, Missouri, in order to save their jobs. Open-book management and profit sharing turned the new business into a massive success and a shining example of the benefits of its management policies.

Leaders in profit-sharing companies believe that the more information a frontline employee has, the better decisions that employee will make, which allows management to harness the intellectual and creative abilities of employees, thus valuing the employees' knowledge and insights.

PRELIMINARY EVIDENCE FOR SUCCESS: A CASE STUDY OF THE PARIS CREPERIE

A case study of an OBM implementation at the Paris Creperie, a Boston-area restaurant, conducted by the Center for Social Policy at the University of Massachusetts Boston, finds that since implementation of OBM the Paris Creperie has increased employee compensation, enhanced skills, and reduced staff turnover (Crandall 2017). The training for OBM was financed in part by a grant from the Massachusetts Workforce Training Fund Program.

At the time of the study, the Paris Creperie employed 11 full-time and 11 part-time employees. It is a nonunion business. The Paris Creperie employees have a higher level of formal education than the average for the industry. More than half of Paris Creperie employees are college students, and of the other half, nine are college graduates. Most employees are in their early to mid-20s, and about two-thirds are women. Approximately 20 percent of employees are people of color. Employees receive hourly wages and a share of tips that are pooled and divided evenly among the nonmanagement staff at the end of each shift.

The impact of employees' participation through the OBM model was substantial on profitability. Primarily by reducing the cost of goods sold, the café tripled net operating profits, from 4 percent to 12 percent, over the course of its first year. At the end of Year One, the Paris Creperie had a total of $67,000 in a pool to distribute to employees. Bonuses were distributed based on hours worked, with full-time, year-round employees receiving up to $6,000. The bonuses were, for most employees, a very significant amount of money. When interviewed, one employee said that it was more money than she had ever had at any one time. She used her bonus to build savings, pay off student loans, pay rent, and take a vacation.

Through use of the Open Book Solutions and resulting bonuses, the Paris Creperie achieved the goal of reducing employee turnover from 82 percent to 60 percent (OECD 2017). Employees reported that they expanded their knowledge and skills in myriad ways that helped them at their current workplace and enabled them to access opportunities within and outside the business (see Box 9.2).

IMPLEMENTATION CHALLENGES: PARADIGM SHIFTS REQUIRED

In order to strengthen business productivity and profits while at the same time providing opportunities to workers, solutions that enable immediate work-based skill development and wage gains must augment the training-centric solutions of career pathways and sector ini-

Box 9.2 Skills and Knowledge Built through a Profit-Sharing Workplace Model

Employees report the following gains:

- Learned how to develop and track a personal budget; improved their personal financial literacy.
- Increased business financial skills, including the ability to understand and interpret financial data and statements such as profit and loss, balance and income, and cash flow.
- Learned how to measure progress, including selecting indicators, developing scorecards, and doing basic forecasting.
- Improved problem-solving skills such as the ability to analyze financial data and identify challenges and opportunities.
- Developed entrepreneurship skills, including developing and implementing new growth opportunities and learning to decrease inefficiencies and lower costs.
- Built communication skills by learning to manage social media, marketing campaigns, and vendor negotiation, and through participation in the committee structure.
- Broadened leadership skills, including delegation and management of team members and mentoring and building new leadership.

SOURCE: OECD (2017).

tiatives. In order for profit sharing to take root and achieve sufficient scale as a workforce development solution, there needs to be greater openness and a cultural shift in the field. Such a shift would broaden the prevailing narrative from attributing the root cause of workforce challenges entirely to a "skills gap" and therefore viewing education and training as comprising the whole solution. This paradigm shift needs to occur in many different realms: within the political context, in the popular press, in the public workforce development field, and in the beliefs of employers.

Each year, government agencies invest nearly half a billion dollars in training for roughly one million low-wage adults (National Skills Coalition 2018), efforts that reach only a fraction of the poor. While participants do gain skills, their wages and job prospects often remain stagnant, reflecting current economic conditions. In contrast, profit-sharing programs are shown to increase profits for employers while creating opportunities for employee skill growth.

Furthermore, most of the public training and education dollars allocated do not affect workers in the service sector. Public training funds, such as those allocated by the Workforce Training Fund Program in Massachusetts, typically are distributed to large private-sector employers such as manufacturing. Small businesses pay into the Workforce Training Fund but do not benefit to the same extent as larger firms. Businesses with fewer than 50 employees make up 95 percent of all businesses in Massachusetts and employ 38 percent of the state's workforce (English for New Bostonians 2013). However, those businesses receive, on average, only 34 percent of general program grant awards. Meanwhile, philanthropic investments in sector workforce development programs also are primarily allocated to non-service-sector occupations.

Employers are less likely to invest in their frontline workforce: overall, low-wage workers are less likely to receive formal training by employers than are college-educated employees and managers. Carnevale, Strohl, and Gulish (2015) reported that 17 percent of workers with a high school degree received formal employer-based training, A recent survey by NSC supports these findings: only 15 percent of service-sector workers reported any financial support for formal education (Bergson-Shilcock 2017). Thus, the employees who need training and financial support the most are most often denied it, further holding them back and contributing to race, class, and gender inequity.

Opportunities exist within the current policy environment to create this needed shift toward helping low-wage workers. For instance, the language in the recently reauthorized Workforce Innovation and Opportunity Act (WIOA) could permit on-the-job profit-sharing training programs. Compared to previous policy, the reauthorized WIOA provides more incentives for improving the quality of jobs by placing more emphasis on higher wages and advancement opportunities. For example, it allows for the establishment of job-quality criteria in order for employers to receive work-based training placements (CLASP 2015). Additionally, states and local workforce boards are permitted to establish job-quality standards as part of the performance expectations for workforce-training service providers. As such, workforce boards can establish higher wage standards for job placements, indirectly promoting employers who share profits with employees.

The grant from the Massachusetts Workforce Training Fund program was essential to finance the initiative at the Paris Creperie. However, improvements could be made to increase the accessibility and impact of the Workforce Training Fund, especially for small businesses in the food services industry. As the policy is currently structured, it is challenging for small local businesses to secure the match for the training program, given their thin profit margins. The grant requires a one-to-one match, with the majority of the match being in-kind in the form of worker wages paid during training time. Because most workers are low-paid, it is difficult to make the match equivalent to the expense of the training programs. Exacerbating this challenge is the fact that not all employees can attend training at one time, as the restaurant must operate while training is being conducted. Thus, the match requirement for the Workforce Training Fund in Massachusetts—and similar programs in other states—should be waived or reduced for small businesses that are targeting service employees.

INCENTIVES TO SHIFT THE PARADIGM

A variety of incentives exist to promote profit sharing and workforce development. Private philanthropy could leverage program-related investment (PRI) to support training intermediaries who offer profit-sharing programs. PRIs allow foundations to make investments in order to recoup their capital in addition to making a reasonable rate of return. While PRIs have traditionally been used for affordable housing development, they have also been used to stimulate private-sector innovation in fields such as nutrition and biotechnology (Motter 2013). Philanthropy could make use of PRIs to provide seed money or otherwise support the capacity for training intermediaries to offer profit sharing for employers of lower-paid employees. This would enable such employers to expect a return on their investment. In order for this strategy to be successful, there could be a long period allowable for loan payback.

Intermediary training organizations who offer shared ownership and profit sharing could be eligible for a special tax status as part of entities known as benefit corporations (B Corps), which are for-profit companies certified to meet rigorous standards of social and environmental performance, accountability, and transparency. The certification and documentation process could be streamlined and accompanied by technical assistance to encourage uptake by training providers.

Policymakers could advance policies to incentivize profit sharing and couple it with workforce development. For example, during her election campaign, then–presidential nominee Hillary Clinton proposed a tax credit to incentivize profit sharing. Under this plan, companies that share profits with their employees would receive a two-year tax credit equal to 15 percent of the profits they share, with a higher credit for small businesses. After two years, companies that have established profit-sharing plans and enjoyed the benefits of them would no longer need the credit to sustain the plans (Merica 2015).

The tax credit was designed to phase out for higher-income workers, and it would be available only to firms that share profits widely among employees. Moreover, the benefit for any single company in a given year would be capped to prevent an excessive credit for very large corporations. According to Clinton, this investment would create a significant boost to the economy by increasing the wages of millions of working Americans. Workforce development could be an added investment in this arena, maximizing the value of the tax credits by helping to raise incomes while simultaneously raising skills and knowledge.

CONCLUSION: REFLECTIONS ON INVESTMENTS IN UNDERVALUED WORKERS

New approaches are sorely needed to address stagnating wages and a poverty trap that perpetuates staggering wealth inequality. While training and education programs appear to offer a pathway out of poverty, the majority of workforce programs require longer-term training and credentialing in order for their participants to earn a sustainable wage. Low-paid workers face a number of barriers to accessing formal training programs, including cost, transportation, and the need for child care.

Compared to traditional workforce approaches such as sector initiatives and community college programs, early evidence suggests that profit sharing can be implemented at a lower cost, in a shorter time frame, and can have a positive impact on significantly greater numbers of low-wage workers. It provides alternatives to credentialing and instead favors earn-and-learn models in which learning occurs on the job, mitigating transportation and child-care challenges. Profit sharing values employees for their existing skills and enables employees to attain a relatively quick gain in income and assets. Additionally, workers do not incur debt, a growing problem that has a disparate impact on women and people of color. Finally, profit sharing provides a much-needed boost to minimum wage adjustments, which, even with increases, have not kept pace with the cost of living.

To be clear, occupational advancement and workplace stability are rarely issues of capability or motivation. Rather, they have to do with the capacity to harness and manage, outside of one's work time, the resource complexities that create barriers to advancement. They are also about altering the traditional workplace structure, which may not value employee input. Thus, advancement and skill development within the context of the workplace, for those who still have such attachments, form a critical area of focus for low-skill and low-income worker advancement. The benefits to employers through profit sharing occur because it is a method of workforce development that facilitates a return to workplace-based employment, lowering turnover and increasing productivity.

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