Amy Hissom

Article Critique #5

TECH 50000 - Quality Standards

Friday, April 01, 2011

How Businesses Can Profit From Raising Compensation at the Bottom

By: Jody Heymann and Magda Barrera

The Organization | November / December 2010

This article explains how businesses can save money in terms of constantly hiring new employees and having to train them, by investing in those hired in the first place (in regards to those at the bottom of the corporate ladder). It also includes two examples of companies (used in a six-year study) that took this idea seriously and what approaches they used. The six-year study conducted by the authors consisted of companies from a wide variety of industries in 9 countries ranging in size from 27 to 126,000 employees that had tried investing in their employees at the bottom of the ladder. The study sought to answer two questions: 1) How successful were these companies in improving conditions at the bottom of the ladder and 2) What impact did the improvements have on the firms' productivity, financial costs, and economic returns. The two example companies included in this article are Costco and The Great Little Box Company which is a packing-supplies manufacturer in British Columbia. According to the authors, their findings very clearly demonstrate that investing in employees at the bottom can be an advantage both in times of economic growth and during a recession.

Costco knew that high employee turnover rates were costly in terms of training new employees; therefore, to attract the best, they offered high wages and great incentives along with room for advancement for all full-time-entry-level employees. According to the authors, Costco's entry-level wages for different positions were so high that it took four years for national wages to catch up. I think Costco's approach was excellent! Not only did it ensure a low employee turnover rate (which was less than 6 percent after the first year of employment: one of the lowest rates in the industry), it led to increased employee motivation, higher quality service, and greater productivity. After reading this article, it is evident that Costco's employees are highly satisfied, which in turn, creates highly satisfied and loyal customers. The fact that Costco's has higher annual sales than its competitor, Wal-Mart's Sam's Club, tells a lot about how good a company it is. Especially since Wal-Mart is one, if not the top, international company.

The Great Little Box Company is a small, privately-owned company that employed an open-book management strategy combined with profit sharing which extended to all employees regardless of rank. This company in particular, rewarded employees for improved company performance. It launched a program called the "Idea Recognition Program" which provided rewards for ideas that led to cost savings. This was a great way of motivating employees since 15 percent of the company's pre-tax profits were split equally every month among everyone from managers to workers on the factory floor. The more ways employees found to improve processes that reduce costs, the more money the company made, which in turn made all employees more money because of the profit-sharing. This encouraged employees to strive in their efforts of finding opportunities for improvements. This small company is very successful because of the way it treats its employees as assets on every level.

I feel that the approaches used by these particular two companies are perfect examples for other companies to follow regardless of which industry they pertain to. It is evident, based on the success of these two companies, that a key factor to success is treating all employees as assets and investing in them from the beginning. Taking for granted that those at the bottom of the employee chain are easily replaced is not a good way to do business. This is because they are not easily replaced; especially when the cost of training new employees constantly can be high. I have seen this first-hand when running the temporary staffing agency years ago. We constantly had to find 20 – 30 low-level employees for certain companies that had high turnover rates. The high turnover rates of employees they were experiencing were the exact reason they needed our services. Our services, I am quite sure, cost them more money in the long run. Not only did they have to pay each employee's wages, they had to pay us as well. Had they treated their low-level employees as assets by implementing approaches and programs such as those implemented by Costco and The Great Little Box Company, they probably would have saved millions. I really liked this article! Kudos to Costco and the Great Little Box Company!

Source: http://www.iveybusinessjournal.com/topics/the-organization/how-businesses-can-profit-from-raising-compensation-at-the-bottom