

Helping trapped low-wage workers, employers struggling to fill spots

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Forty-four percent of American workers are employed in some of the least appealing or most dangerous jobs available, typically for low wages with little prospect for advancement. The positions have high turnover, so many employers view these jobs as expendable and put little resources into retaining these workers, creating a vicious cycle. Women, people of color, and those under 25 make up a disproportionate share of this group

of workers trapped in low-wage jobs.

Amid the pandemic, the longstanding problem has worsened for employers in industries that rely on this workforce—such as retail, hospitality, and food service—as firms struggle to fill vacancies and retain employees. New Harvard Business School research offers a possible strategy to help businesses do well and do good. It found that if companies invested in workers and provided them training and a pathway to career advancement within the company, they'd slow the churn, improve competitiveness by keeping experienced workers and developing a more highly skilled workforce, improve staffers future job prospects, and potentially help lift millions out of poverty.

The Gazette spoke with Joseph B. Fuller '79, M.B.A. '81, co-chair of the Managing the Future of Work and the Project on Workforce at HBS, who co-authored the report with Manjari Raman, program director for Managing the Future of Work, to learn why these employees become trapped and what companies can and should do. The interview has been edited for clarity and length.

Q&A: Joseph B. Fuller

GAZETTE: What were you hoping to better understand when you began this research?

FULLER: A large percentage of workers in the United States never succeed in developing a path that gives them economic security even though they are working. Historically, we've used phrases like "the working poor," and we've had public policy mechanisms like the Earned Income Tax Credit to try to encourage people to work. But the lack of mobility out of a low-income band is something I wanted to understand better. What are the impediments to people acquiring skills that would

allow them to be more productive? Could we begin to identify the difference between people who managed to punch their way out of the low-wage trap versus people who don't?

We looked at people who started off making below 200 percent of the poverty line in the United States, or a little less than \$40,000 for a household of three. Most people don't realize, but 44 percent of American workers fall into this category. We looked at workers who had escaped that group and those who hadn't. What distinguished the experience of people who had gotten a promotion or gotten a substantial wage increase versus those who hadn't? And how did employers view low-wage workers who advanced versus those who didn't? The impact of escaping the low-wage trap on someone's life is pretty material. There was a \$27,000 difference in the annual earnings between those who had and those still stuck in low-wage work.

GAZETTE: What did you learn about why so many workers stay stuck in these low-wage, low-opportunity jobs despite a desire to advance?

FULLER: Where you start in the labor market, where you start accumulating experience and skills, has a pretty strong impact on how things turn out. For a lot of young workers, if you're not on a pathway that has some prospect for advancement and economic security by your mid- to late 20s, the deck will get stacked higher and higher against you. Between 18 and 24 or 25, it's very, very important that you get launched onto something that supports a decent lifestyle, family formation, economic security. Once you've got a job and start accumulating skills, the likelihood that you can get another job and accumulate more skills goes up. But if you're not employed or caught in a job that has a very low [skills] requirement, if you're frequently leaving one employer for another, either because there's a layoff or you don't like your boss or it's

too hard to get to, you're continually knocked back toward the starting line. Each time you do that, it becomes that much harder to get off the low-wage carousel.

We found that the inability to accumulate new skills through work was a major factor in determining if people ended up being locked into this low-wage work trap. Once you're working, the notion that you're going to go to night school, do Harvard X, whatever, to upgrade your skills is pretty implausible. It's not a null set, but Horatio Alger stories are few and far between. We should celebrate them, but it's unrealistic to rely on heroic expressions of self-efficacy to address the challenge of upward mobility. If you're working for [low wages](#), you probably rely on somewhat inefficient transportation, probably have a fairly long commute. Low-wage workers skew female, skew having caregiving obligations, so these are people working hard to make ends meet. Between fatigue, and other obligations, if they don't have an easily accessible way to augment their skills, which means through work, the avenues for them to acquire skills to be considered for advancement are really constrained.

This was a surprising finding: A lot of people who progressed shifted industries. They gained some basic work experience and used that as a springboard. We don't know if it's strictly sectoral, but a change in employers was often correlated with moving forward. Whether that's better skills matching—they moved to an industry that's a better fit for their skills or to an industry that was more willing to invest in people—or once they demonstrated the basic competence, a new employer then was prepared to make a bet on them. We don't know entirely what explains this phenomenon, but 85 percent of the people who had escaped the low-wage trap had switched industries.

GAZETTE: What are the most common barriers to

advancement these workers face?

FULLER: There is no pathway, there's no program available through work that allows them to demonstrate their capabilities or to develop skills required to be considered for advancement. Either the mechanism isn't in place or access is limited—the hours required, or the timing or location of the training, or there are out-of-pocket costs. Workers are also very nervous about making their own choices about what they should do to advance. Many want some input or direction from their employer—what should I learn and where should I learn it?

Another big barrier is lacking someone who's taken active interest in that [worker](#)'s progression. Someone in a position of greater authority, a direct supervisor who says, "You're a hard worker. Let's talk about what your ambitions are. Here are the two or three things that, if you could do them, you might get a higher-paying job in the operation." A big issue for a lot of low-wage workers is soft or social skills. It's easier to verify technical or hard skills—they can either run that machine or they can't. But what's their capacity to deal with strangers or to work in teams with others who are unfamiliar to them? How good is their spontaneous written and oral communication? Those are skills for which there isn't a lot of training available. The absence of such skills is very often a significant barrier to advancement.

Life circumstances and the resources that a worker can bring to bear also represent big barriers. That resource could be their time. If you're leaving your toddler with your parents or a friend down the hall, you're constrained by the caregiver's schedule. And, obviously, a universal issue is the lack of financial resources.

A lack of confidence is another barrier. How do I know what I should do? Am I going to be good at that? That is why work-based learning is such an important part of the solution. Most learning and training in the

United States is through school settings and a considerable number of people are intimidated by school—they weren't good at it, they didn't enjoy it, they're skeptical that it's going to give them anything that employers will actually value. Upskilling and reskilling is sometimes as much inhibited by the concerns and anxieties of workers as it is by structural factors.

GAZETTE: The report found a pretty wide gap between employer perceptions of how they treat their workers and the obstacles to advancement workers face versus what the workers say about these things. How much of a problem is that?

FULLER: A very important finding, and a bit of a surprise, is the disconnect inside companies, particularly larger companies, between the understanding of senior executives about what's going on, and what's happening on the shop floor. Senior management give themselves pretty high marks. They do not have any doubt that they're doing the appropriate things for their industry, appropriate for their size, for their workforce. That they're doing the right things in the right way. But many are making a classic managerial mistake. They're assuming because they established a policy and announced a plan, because they have binders on desks and posters in the cafeteria, that those policies are being implemented in a way that's consistent with their strategy and intentions.

When you go down another couple of ranks in management, that certainty becomes, "Well, we're trying. It doesn't get implemented universally as much as we'd like. It's harder than it seems." When you get down to the frontline supervisors—the foreman, the branch manager, the store manager, and the shift supervisor—who are responsible for executing a lot of these policies, their evaluation of how frequent and detailed feedback is or how easy it is for workers to access advancement

opportunities is a lot closer to reality than the chief human resources officer or the chief executive officer. In fact, the frontline supervisors' evaluation of the support offered to low-wage workers is very close to that of the workers themselves. That's hardly a surprise; they work together. But the disconnect between the senior management's impressions and the reality reported by the supervisors is huge. So, there's a big "walking the talk" issue that leads to frustration on a lot of people's parts.

GAZETTE: Employers do seem to recognize that there are huge financial and organizational costs to this churn and that it's hard to find skilled workers to fill jobs, and yet they're not ensuring their own workers get that training or education. Why not?

FULLER: The entire system is essentially predicated on the idea that eye-watering rates of turnover are inevitable. The lowest rate of turnover reported by the industries we studied was 50 percent per year. And that has all sorts of impacts. You have to design the job to be very simple because you're bringing somebody in with no experience and trying to get them productive fast. The United States has proven in recent decades to be a very good at creating large numbers of people with fairly limited job market-relevant skills.

Employers have this attitude that the cost of inertia is zero and that anything beyond what they do today is a "new cost." Many employers seem to think, "The only people I can attract for this job are basic workers, and it's not worth it to invest in them because maybe they're going to go to a different employer who can pay them better after I paid for their training." Our data doesn't support that. What it strongly suggests is that workers will be more loyal to employers who invest in creating opportunities for them, more engaged in their work. Their

relationship with that employer will be stickier. Even though they've learned this new skill and could go somewhere else for higher wages, there are other considerations like, "These people have been good to me. I have more friends here. I feel confident that I know what I'm doing." And they're gratified when their supervisor says, "I'm so proud you did that. Let's talk about a next step." People tend to think of workplaces as economic contexts, and they are actually sociological contexts.

Employers are going to be facing a constrained supply of workers indefinitely. Isn't it smarter to invest in who you've got and give them upward mobility? A significant majority of the workers we polled, 74 percent, said they'd rather stay where they're working today if there were opportunities for advancement. Make that possible for them. Start slowing down this turnover carousel and build more permanence in your labor force. That's way better than going out and looking to replace half the people in your workforce every year.

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