

CHAPTER 5

A New Age of Innovation?

Innovation obviously didn't stop when the door closed on the 1980s. And while we all often fool ourselves into calling the present moment an era of profound change and innovation, I'm going to take a risk and make just that claim. I'll leave it to some future historian to decide if I'm overstating the case. But in all my years of studying work, organizations, and labor management relations, I have not seen another era like the 1980s come along again until now. Let's see if you agree after I review some of the exciting changes in the start-up and entrepreneurship community, in large firms, in existing unions, in new emerging forms of worker advocacy some are calling "alt-labor," and in education. I'll even go farther out on a limb and suggest that we might be on the verge of another window of opportunity to bring about significant innovation in national policies governing work and employment. But that, you might decide, is wishful thinking.

Let's take a look at what is going on today.

The Sharing Economy

The term "sharing economy" is now used to cover a wide array of business models that use advanced forms of information technology to link consumers and service providers. Often these involve collaborative relationships such as Airbnb, a platform that allows people to rent out their homes and find other homes to rent while traveling. Nearly all of them disrupt existing business models in some significant way.

The most visible example of a disruptive new model is in personal transportation services, as illustrated by Uber, Lyft, and other companies that allow passengers to hire a taxi by using their smart phones. Uber, the largest and most controversial of these, is now located in 57 countries and is estimated to have a market value of over \$40 billion.

I treated Uber as a case example of sharing-economy start-ups in the course and, not unexpectedly, the case generated a spirited discussion. Uber has a large and very loyal and enthusiastic customer base in the United States and, as I found out, in places as far away as China. Young people especially like the flexibility and speed of response time and the ability to use their smart phones to assess their options for getting a ride quickly and tracking drivers as they approach. A personal example in China brought home why this technology platform is capturing young people's attention and gaining market share so quickly. After a long day of teaching at Sun Yat Sen University in Guangzhou, China, my elderly (84 years old and still teaching!!) colleague and I were eager to get back to the hotel for a break before dinner and an evening class. Three of the students were assigned to get us to our hotel and were very attentive to my colleague, who has difficult walking. They said, "Don't worry, Uber is on the way." As we walked to the front door, all three were on their phones, checking on the progress of the driver. "Three minutes," they said, "so sit down here." Then, excited chatter among the three started with each looking at their phones like it was telling them something important. "No, four minutes," they reported. "Traffic is bad and the driver is headed for the wrong end of the building!" More chatter and clicking, and lo and behold, four minutes later the driver appeared in a five-passenger SUV, and our three competent students accompanied us to the hotel with a feeling of great satisfaction that they were taking good care of their elderly teachers!

Uber also has its critics, especially for the deal it offers drivers. Uber treats drivers as independent contractors, not employees. Drivers must meet Uber's hiring standards (which it raised after a number of scandals and tragic incidents). They must provide their own cars, which must meet Uber's standards (they cannot be more than seven years old), pay their own insurance, buy the gas, and set their hours of work. Uber sets the price of each trip, collects the fare via electronic payment, and pays the drivers about 75 percent of the revenue of each trip. While many drivers value the flexibility to choose their own hours (often as supplementary gigs to other jobs), some are protesting that Uber has cut the rates and income they receive. Other complaints are that the company unfairly

shifts all the risks of the business to drivers, controls their work tightly via the customer ratings aggregated electronically in their files, and doesn't provide benefits such as car insurance, much less health insurance.

Driver critiques of Uber have not gone unnoticed. New worker-centered apps such as *Sherpashare*¹ have been created that allow drivers to input their revenue data, hours worked, expenses for gas, depreciation, insurance, and so on and calculate their real earnings per hours worked. Moreover, some drivers have tried to form unions, even though according to the outmoded U.S. labor law, as contractors, not employees, they are not covered by the law and therefore Uber has no legal obligation to bargain with them. Some drivers have challenged this exclusion, claiming that Uber controls so much of the way they work and the pay they receive that they should be classified as employees, not as contractors. Cases on this are weaving their way through various state regulatory agencies and courts and may end up being decided by the U.S. Supreme Court someday down the line.

Uber drivers are not the only people upset with the way the company does business. Certainly the cab drivers who work for traditional taxi companies are upset because Uber has started up in many cities under the radar of the regulations governing existing taxis. Bad experiences (including accusations of rape) have led some cities and indeed some countries to ban Uber from entry into their markets. Uber and other companies like it are now engaged in negotiations with a large number of cities and state regulatory commissions to try to work out these issues.

My students had a lively discussion about Uber. The comments below capture the different views expressed. As these comments indicate, there is great appreciation and acceptance of the value of this new service yet concern that it needs to deal with the low-road features of its business model.

Flexibility is the main reason that I believe many people work for Uber. They are allowed to work multiple jobs and can also work whatever hours they so choose. I saw an Uber driver state in a video that he didn't work the night shifts because he couldn't

¹ <https://www.sherpashare.com/about/>.

deal with the drunk people who often damaged his car. He expressed pleasure with being able to choose his hours.

For many, not having a boss overseeing their every move is an advantage. They are free to go and work when they please without having someone telling them what to do and when to do it. This is especially good for those who may have other jobs or other responsibilities to attend to.

In order to better the working conditions for Uber drivers, I feel that possibly creating some sort of union could help them collect together for the same cause. When people come together in greater numbers, they can accomplish more. It's sad to read all the problems that Uber drivers have been facing. . . . I think that drivers need to demand more from Uber even though they are not employed with them but they still should be treated with more respect. They still work under Uber's brand name, so Uber should treat the drivers better in order to keep a good name.

Uber would be nothing without their drivers. I agree if they come together in a large number they can fight for better policies. A union could help employees such as the Uber drivers go on a peaceful strike to make the company realize how important it is to provide their somewhat employees with better working conditions.

Consider another example: Amazon's Mechanical Turk, an online job-posting platform for simple tasks related to information technology, and another app, Turk Opticon, that emerged as a source of leverage for those who accept and do the jobs offered on Amazon's electronic work platform. On Mechanical Turk, a prospective employer posts a task description and indicates the amount of pay (usually on a piecework basis) and individual workers can scan the available job offerings and pick one they feel competent and willing to do. Once the work is completed, the employer is obviously supposed to pay the employee. However, not all employers pay up, not all pay the amount promised, and not all pay quickly. This led an enterprising programmer to create a website called Turk Opticon that encourages employees to rate the reliability of those

who offer jobs. People looking for jobs can review the ratings of potential employers before deciding whether or not to accept a job. A creative experimental study of the dynamics of this market has shown that the employer ratings have real effects. Good Mechanical Turk employers get their job offers accepted 100 percent faster than bad employers, and employees earn 40 percent more from good than bad employers.² This is another great example of using information as a source of bargaining power!

Uber and Amazon did not invent the sharing economy. In fact an early prototype might be e-Bay. It provided a marketplace where people can buy and sell a wide variety of goods online. Another prototype might be various automotive buying guides that provide all the information car buyers need before they visit dealers so they can bargain a fair price for a new or used vehicle.

A common feature of these business models is that they use easy access to information to change the relative power of the stakeholders involved. In the case of the automotive buying guides, car dealers lose some informational leverage over consumers. Uber uses information both to take business away from existing taxi services and to control drivers and customers. Sherpashare seeks to provide drivers with the information they need to assess the fairness of the bargain Uber is providing and therefore serves as a potential source of power, assuming drivers can collectively engage with Uber executives in some fashion. The key point is that these models can be designed in various ways. The question is why these entrepreneurs do not consciously build a consideration for other stakeholders—employees, for example—into their vision and business strategies. Uber did not, and neither did Amazon’s Mechanical Turk platform. Both are now coping with apps that increase the bargaining power of their employees or contractors. We might ask why they don’t adopt a high-road strategy right from the start and build consideration for these other stakeholders into the initial business model. We will see that efforts to encourage just that are under way in some segments of the start-up community.

² Alan Benson, Aaron Sojourner, and Akhmed Umyarov, “The Value of Employer Reputation in the Absence of Contract Enforcement: A Randomized Experiment,” Working Paper, Carlson School of Management, University of Minnesota, 2015.

Start-Ups with a Social Purpose

So you are a young aspiring entrepreneur and want to turn your great idea into a successful business. You also want to build a sustainable company—perhaps in both an ecological and a social sense. But you know that at least in the early years of your new venture, money will be very scarce and it will be tough to attract the talented employees you will need and pay them a good salary. What do you do?

The evidence indicates that many who start firms either don't or can't provide really good jobs. Adam Seth Litwin and Phillip Phan have done the best research on this and found that most start-ups don't provide health insurance or pensions. Only 31 percent of the start-ups they researched offered health insurance and only 15 percent offered pensions, considerably lower statistics than we find at older and larger firms. Not a happy picture. But this picture is not preordained. The Litwin and Phan study found that larger start-ups, those that were better endowed (i.e., had a patent or trademark to build on), and those that were more profitable were more likely than others to offer employees both health insurance and pensions. So these features of start-ups make a difference.

The good news is that there seems to be a growing number of young entrepreneurs who share a passion for building environmentally and socially sustainable organizations that serve useful social purposes. And a number of organizations are working to help them do so. The mission of the Hitachi Foundation is to improve low-wage jobs. One of its programs supports young entrepreneurs who combine a passion for addressing some important social or environmental cause with the desire to build a profitable and sustainable new firm. The foundation works in partnership with organizations such as the Investors' Circle and the Social Venture Network to create spaces for young entrepreneurs to meet with investors looking for promising young firms with strong social missions. They are in effect creating incubators and mentoring processes modeled after successful high-tech incubators. You can find a set of videos describing some of these start-up businesses and the entrepreneurs who founded them at <http://hitachifoundation.org/our-work/entrepreneurship-at-work-program>. It is worth taking a look to see how creative, value-driven young entrepreneurs can make and are making a difference in a wide array of industries, from food and agriculture to education, health care, and alternative energy.

Innovations in Existing Businesses

Existing firms are not sitting idle waiting for smart entrepreneurs to disrupt their business models or worker advocates to become powerful enough to challenge them directly in collective bargaining. Indeed, in 2015 the pressures of the fast-food and retail industry campaigns induced companies such as McDonald's, Walmart, and others to announce their intention to raise wages above the minimums required in different locations. One company, Ikea, has gone farther and has committed to using a "Living Wage Calculator" created by MIT professor Amy Glassmeier to set wages for its store employees across the country.³

Starbucks announced in 2015 that it would offer its employees who lack a college degree tuition reimbursement. It also negotiated a lower tuition rate for online courses at Arizona State University. This is an example of a high-road move. It encourages employees to get a college degree that will enable them to advance (at Starbucks or elsewhere) to a higher-paying occupation and reduces turnover costs by holding on to these employees while they pursue their degrees. Microsoft made a comparable high-road move by indicating that it will require firms in its supply chain to provide sick leave for their employees. Presumably this will both increase the quality of work for employees affected and reduce delivery delays or increased costs associated with absenteeism among its suppliers. Dan Price, the CEO of Gravity Payments, a company that processes credit cards and gift cards, made a big media splash by announcing he would cut his salary and set a minimum salary of \$70,000 for all employees.⁴ His action generated lots of positive commentary in the media but highly critical comments from some business analysts. The critiques centered around the consequences of paying some of these

³ Dave Jamieson, "Ikea's Minimum Wage Hike Was So Successful, It's Raising Wages Again," *The Huffington Post*, June 24, 2015, http://www.huffingtonpost.com/2015/06/24/ikea-minimum-wage_n_7648804.html.

⁴ "Seattle CEO to Pay Employees \$70,000 Minimum Wage," *USA Today*, April 15, 2015, <http://www.usatoday.com/story/news/nation-now/2015/04/15/seattle-company-70000-minimum-wage/25810099/>.

employees' salaries well above their "market wage" and the difficulty the firm might have in attracting capital from skeptical investors.⁵

A number of other large firms are encouraging their employees to pursue lifelong learning. A 2015 blog post cited nine large, well-known firms that offer attractive education benefits. Deloitte, for example, offers employees who have been with the company for two years free tuition toward an MBA and full support for classes that strengthen computing skills. UPS offers free tuition at local community colleges and technical schools to employees at its major hub in Louisville, Kentucky. Others on the list such as General Mills, Exxon Mobil, Proctor and Gamble, EMC Corporation, and Genentech provide similarly generous tuition reimbursement benefits. Clearly these and other large firms like them recognize the value of investing in their employees. Judging from the number of employees who have taken advantage of these benefits, the concept that lifelong learning is crucial in today's economy has taken hold.⁶

These examples suggest a good deal of innovation is under way in both start-up and mature companies. Among start-ups, the focus appears to start with mission-driven organizations that also want to improve job opportunities for low-income workers. Among mature companies, the current focus appears to be education benefits, and among some of the lower-wage firms, the focus seems to be on increasing starting wages somewhat in response to pressure from labor groups.

The question is how to build on this momentum to make it the norm across industries and to extend the innovative spirit to address (1) all workers and contractors who contribute to the success of the business; and (2) the full range of workplace practices that need to come together to achieve and sustain the productivity and fair wage outcomes of truly high-road firms. Perhaps a rebuilding of worker bargaining power, either in new or traditional ways, is what is needed to keep the momentum going. I turn to where things stand on this front below.

⁵ Tom Duening, "Gravity's \$70,000 Minimum Wage," *Forbes*, April 28, 2015, <http://www.forbes.com/sites/tomduening/2015/04/28/gravitys-70000-minimum-wage/>.

⁶ Chris Couch, "9 Companies That Offer Fabulous Education Benefits," *Schools.com*, April, 17, 2014, <http://www.schools.com/articles/companies-offering-educational-benefits.html>.

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