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FAITH & BUSINESS

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The Wisdom of Shared Rewards

It was nice of Tim Cook to give me an excuse to revisit and refine a column I wrote several months back. A recent memo from the CEO informed everyone at Apple that the program under which valued employees are rewarded with grants of stock had been extended to include workers from all parts of the company. Previously only employees from the company's product areas had been candidates for such grants, but going forward the program is open to everyone. This means it will now include the half of Apple employees who work in the company's retail stores, as well as those on the AppleCare customer service teams. Notably, this expansion of stock grants is in addition to the program that Apple has had for many years allowing employees to buy company stock at discounted prices.

Apple's efforts to further broaden stock ownership among its employees relate back to my column entitled, "The $70,000 Minimum Wage — Capitalism Gone Bad … or Good?" That piece described the decision of Dan Price, a young Seattle entrepreneur, to boost to $70,000 the minimum wage at his payments-processing company. He funded the raises by cutting company profits in half, and by slashing his own salary from $1,000,000 to $70,000. In a country increasingly concerned about wage stagnation and rising inequality, Price's decision struck a nerve — and generated an extraordinary amount of media attention, both pro and con.

My column didn't actually offer an opinion on Price's decision. Instead, it took issue with those of his critics who argued that 1) the free market alone should set prices, including for labor and 2) it is wrong (both stupid and immoral) for business people to pay employees more than the minimum necessary. Nevertheless, many readers likely concluded that I supported Dan's decision, and so I would like to correct the record … sort of, while revisiting a hugely important topic for business people — God's view(s) about compensation.

First off, I applaud the admirable intentions that led Dan Price to his decision. He wanted to make sure that all of his Gravity Payments employees were well and fairly compensated. He was also concerned that in America today the rewards of business success flow disproportionately to owners versus workers. To address these issues he was willing to dramatically cut his own paycheck and his company's profits. As to his intentions, therefore, count me a big Dan Price fan.

But I am not a fan of his actual decision … which seemed to me at the time, and still seems to me, to be reckless and unwise. Interestingly, Price is a graduate of Seattle Pacific University (SPU), a highly- regarded Christian university whose business school advocates for a biblically-infused approach to business — what it refers to as "Another way of doing business." If Price had paid closer attention to the counsel of Scripture (and of SPU), he could have made a wiser, less risky decision. Given subsequent developments, Price could have used the help.

But before we get to the counsel of Scripture, and to what has transpired for Price, permit me as a serial entrepreneur to offer my personal reservations about

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Price's decision. As a starting point, let's admit that business people often take a low-ball approach to wages. And plenty of times, greed is a motivating factor. That's wrong, and needs to be condemned — something God does frequently, and emphatically, in Scripture.

Cautious About Compensation

But there is, as well, an entirely prudent reason why business people are instinctively cautious about compensation. Business circumstances change, often suddenly. The economy hits a downdraft. A new competitor starts to steal away customers. The legal/regulatory environment takes an adverse turn. Resource costs jump, yet competition may preclude passing the increase along to customers. And that's just the tip of a very large iceberg.

Against all those risks, therefore, it is entirely prudent for business people to strive, even in flush times, to keep costs down and margins and profits up. Sort of like bears gorging to put on fat in anticipation of lean times to come. That's a smart survival strategy for bears, and for businesses. By cutting his profits in half, Dan Price instead lowered the survivability prospects for his company. That's risky behavior for a business leader … not just risky for his own economic future but, as well, for the economic futures of his workers.

Against that risk, Price likely calculated that substantial raises for his lowest-paid employees would bring (at least) these benefits:

- Employees would be appreciative and would, as a result, work harder and be more productive.
- Gravity Payments would become an 'employer of choice' and would have an advantage going forward in hiring high-quality workers.
- Other companies would view his compensation decision favorably and decide to bring their business to his company.

There are more than a few flies in the logic of that ointment. First off, human appreciation for an undeserved kindness is fleeting. Just ask any parent. Initially, many of the employees who got substantial raises voiced real gratitude. But in six months, or a year, that appreciation will have largely drained away. The salary levels that had seemed so generous will have become, instead, the new normal. At least unconsciously, the attitude of plenty of Price's employees will have drifted back toward the human default 'What have you done for me lately?'

Second, while being an 'employer of choice' is a good thing, there was no evidence that Gravity Payments was having difficulty attracting appropriate numbers of capable employees. And third, while

the company did get an influx of new business because of all the publicity, it also lost established clients whose leaders were annoyed with Price's decision.

Which provides a window into the very real danger Price's decision poses for his company. Gaining new clients while losing established clients turns out to be a big problem. Because of front-end costs, it takes Gravity Payments a long time before new clients turn cash-flow positive. For two full years, in fact, every new client costs the company money. Coupled with the exodus of profitable existing clients, this has put the company in a significant cash-flow squeeze. And at the worst possible moment — just when its meaningfully reduced margins make it especially vulnerable.

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So what can it do? Well, pretty much what every company does when economic difficulties arise — figure out how to tighten one's belt. But since payroll is generally a company's largest expense, belt tightening often means layoffs and/or cuts in compensation. Should Price need to take such steps, any goodwill generated by the earlier raises will turn to anger and animosity. In fact, rescinding the much- ballyhooed raises, and/or firing people, would almost certainly leave Price with decidedly worse employee relations and morale than if he'd never raised wages in the first place. Not to mention leaving his company with real damage to its reputation.

Was Price wrong, therefore, to respond to the fact that his lowest-paid employees were struggling to make ends meet? Was he wrong to be concerned that the rewards of business success flow disproportionately to owners versus workers? No, not at all. But understanding the counsel of Scripture (or of Apple, for that matter) would have pointed Price toward a wiser solution.

Scripture's Compensation Counsel

The Bible offers business people three foundational pieces of compensation counsel. First, God emphatically condemns wages that are oppressively low. In the book of Malachi, for instance, God offers this angry litany of abuses for which he promises to judge Israel:

> *"Then I will draw near to you for judgment. I will be a swift witness against the sorcerers, against the adulterers, against those who swear falsely,* ***against those who oppress the hired worker in his wages,*** *the widow and the fatherless, against those who thrust aside the sojourner, and do not fear me, says the Lord of hosts," (Malachi 3:5, ESV, emphasis added).*

God plainly considers oppressively low wages an egregious violation of his moral order, right up there with sorcery and adultery. In fact, the following verses make clear that employers paying inadequate wages are, in God's view, stealing from their workers just as much as those who don't fulfill their tithe requirements are stealing from him. Which means that paying one's workers poorly is something God takes *very* seriously. It is worth noting, as well, that in all the places where God excoriates business people for exploitive wages there is not the slightest hint that he considers 'but that's what the market allows' an exculpatory excuse.

That all said, nowhere in Scripture does God offer clear guidance as to what he considers an appropriate 'minimum wage.'[1] There are several likely reasons, but the most important, I believe, is that if employers follow God's two other counsels regarding compensation, the issue of minimum wage largely disappears.

The first of these counsels shows up at a pivotal point in the biblical narrative. When the Israelites were ready to transition from slaves and wanderers to nationhood, God handed down a whole host of laws and directives. He was doing what we now call 'nation building,' i.e., putting in place the legal, political, moral, and spiritual framework for a successful society.

Land ownership was at the very center of God's plans. In fact, God made clear that the defining difference between the Israelites' former status as slaves, foreigners, and aliens, versus their new status as citizens, was the ownership[2] of land. Importantly, God didn't merely want Israel as a nation to possess land. He was determined that, Levites excepted, every single Israelite family own land.

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God considered the broad and equitable allocation of land so important, in fact, that he personally directed its distribution, specifying tribe by tribe the precise boundaries of their respective territories. He also rendered judgments in what would seem to be trivially-small legal matters to ensure that families did not lose their ownership of land (see, for example, God's specifications in chapters 27 and 36 of Numbers regarding how land should be inherited under a variety of special circumstances).

God also knew that land ownership would tend to concentrate over time. Families might lose their land foolishly, or through misfortune, or as a result of the greedy misbehavior of those with power. Eventually fewer and fewer people would own more and more of the land … a prospect God found deeply disturbing. So God did something extraordinary — his Year of Jubilee provision dictated that every fifty years all land should be returned to its original owners (or their descendants).

Modern-day readers might conclude that God seems curiously preoccupied with farm land … and that all this has little to do with contemporary business and economics. That would be a mistake. Agriculture was the predominant business engine — the primary means of wealth creation — in the ancient world (and still is in substantial portions of the modern world). As a result, land ownership meant (and still means) having an upside stake in the means of economic production. It meant the difference between being merely a laborer versus being a worker/owner.

God established at the founding of Israel, therefore, a 'ground rule' in favor of broad ownership of the means of production … in other words, in favor of worker/owners. Translated into modern economic conditions, God made clear the importance of employees having ownership stakes in the enterprises for which they work — just the sort of approach practiced at Apple and many other of the most successful companies.[3]

Shared Rewards

But one more of God's counsels makes his overarching principle for compensation — in fact, for the disbursement of business proceeds generally — especially clear and emphatic. In I Corinthians 9:9-10, the Apostle Paul speaks (in part) directly to business owners:

> *"For it is written in the Law of Moses: 'Do not muzzle an ox while it is treading out the grain.' Is it about oxen that God is concerned? Surely he says this for us, doesn't he? Yes, this was written for us, because whoever plows and threshes should be able to do so in the hope of sharing in the harvest."*

For purposes of this passage, it is helpful to understand that oxen were viewed as simply a particular kind of farm worker. Oxen performed a variety of tasks on behalf of the farm owner who, in turn, made sure they were fed and watered daily. Which means the default compensation for oxen farm workers was a 'livable wage' in exchange for their labor.

But God considers this insufficient. Instead, he *commands* that when oxen are treading out the grain at harvest, they be allowed to eat whatever supplemental grain they want. In other words, God says they must be allowed to enjoy 'bonus' feedings over and above the normal feedings (wages) provided by the farmer. Paul then makes clear that God's real reason for this command is to instruct employers — employers of oxen, yes, but primarily of human workers, those

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hired to plow and thresh — that all who help produce a harvest are meant to share in the upside rewards of that harvest. In fact the thrust of Paul's teaching is that God considers this shared-rewards principle so important, and means its application to be so pervasive, that for emphasis he extends its reach even to lowly oxen.

And again, because farming was the primary business activity of the day, God and Paul were not instructing farmers uniquely. Rather, they were providing a foundational principle for every business owner: All those who contribute to business success should share in its rewards, i.e., should share in the upside of business wealth creation. God considers this a matter of justice — making clear that it is wrong to deprive even the laboring oxen, much less human workers, of a share in the harvest they helped create.

But this is not only justice, it is wisdom. An expectation of appropriately sharing in the rewards of business success motivates and empowers — workers labor with far greater diligence and creativity. And fairly-shared rewards foster community … a synergistic sense that 'we're all in this together.'

This understanding would have helped Dan Price. One of the outcomes of his decision to raise the wages of his lower-paid workers was resentment on the part of some of the workers who didn't get raises. It's not so much that they were envious or greedy. Rather, they believed their higher salaries appropriately reflected the fact that their contributions to the company were especially valuable and long-standing. Which meant raises for only the lower-paid (and often more-recently-hired) employees made them feel, by comparison, undervalued and unappreciated. In fact, a few of Price's most important employees left the company over precisely this issue.

Dan Price was right to be concerned about employees whose wages left them struggling to make ends meet. And his willingness to more generously share the rewards of his company's success with (some of) his employees was admirably intentioned. But attempting to accomplish his objectives via large and risky salary increases and, even worse, via raises for some employees and not others, was ill-considered and unwise. It would have been far better if Price had heeded the counsel of Scripture and established a generous profit-sharing plan. Or, better still, if he had put in place a mechanism by which his employees could progressively end up with meaningful ownership in their company.

Either approach would have accomplished Price's objectives. Either would have led to higher worker incomes — and for all workers, not just some. Either would have addressed Price's concern that the rewards of business success flow disproportionately to owners versus workers. And either would have done so in ways that foster productivity and a genuine sense of community — and would, therefore, have made greater and greater business success a likelihood. Instead, Price put his company's future at risk.

These issues for Price and Gravity Payments mirror those for business generally. The single greatest challenge at most companies is the toxic effect of us-versus-them divisions. Down deep, these divisions are almost always about money and its implications — in other words, about the appropriate apportionment of the wealth that business creates. Such divisions are especially likely between management and employees … and especially harmful. But damaging divisions can show up anywhere in the organization at any time.

God's 'shared rewards' approach to compensation (largely) does away with these sorts of problems. When workers are also owners, and/or beneficiaries of a generous profit-sharing plan, interests align. When belts must be tightened, *every* belt tightens. When times are flush, *every* belt loosens. Top to bottom, everyone in the organization acts on the understanding that they win or lose *together* — exactly God's vision and blueprint for community.

God loves the prosperity that business creates … provided it is well and widely dispersed, not narrowly hoarded. His strategy for that is a broad sharing of ownership and profits. It is a strategy perfectly designed to accomplish God's overarching intent for business — provision and prosperity for all rather than fortunes for a few.

Notes:

1. *When it comes to minimum wages, though Scripture may not offer clear guidance — "Thus saith the Lord, 'Never pay workers less than 1.25 shekels per day.'" — it does offer inferential guidance. Jeff Van Duzer addresses this in his book Why Business Matters to God. Writing about the biblical basis for a 'livable wage,' Van Duzer says, "An employer must recognize that the full-time employment of an individual uses up that individual's earning capacity. If it does not yield enough for that person to live on, it violates the personhood of that individual as designed by God."*

2. *To be clear, Scripture teaches that all land (and everything else) ultimately belongs to God. In Leviticus 25:23 (NIV), for example, God says "The land is mine and you are but aliens and my tenants." Land 'ownership' in Israel, therefore, was more akin to what we would call a leasehold interest than outright ownership.*

3. *For more on this subject, see the books Equity: Why Employee Ownership is Good for Business, published in 2005 by Harvard Business School Press, and The Great Game of Business, by Jack Stark; and see these additional columns at www.eventidefunds.com: "The Wisdom of our Father(s)" and "Beggars or Baggers."*

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