Shareholder Value and the Reasons for Underpaying Workers

By Andrew Descheneaux

In 1914, Henry Ford made waves among his contemporaries by paying his workers $5 per day, upping the amount from the previous $2.34—more than doubling what they earned in an unprecedented move for factory owners and tycoons of the time. When asked why, he said that workers who are paid well are more productive and loyal, and this was worth much more to him in the long run than the amount he saved by paying them as little as possible.

While many were disbelieving of this assertion, his words eventually proved true: the additional pay did wonders for increasing productivity in Ford's factories and fostered a sense of pride and loyalty unheard of at the time in his employees. He also made strides by implementing the five-day, eight-hour workweek for the same reasons in 1922, and this also bore fruit in much the same manner as the pay increase: having time for leisure and relaxation in their lives encouraged workers to boost their productivity when it came to their jobs. This set a global standard for manufacturers at the time, and it soon became so common as to still be the norm today, at least in theory.

However, fast-forward 100 years and now many modern companies practically scoff at these practices; pay increases for jobs are few and far-between, with many companies sticking to the federal or state minimum wage in the United States and more likely to ignore or fire any employee who dares ask for a raise, and it's not uncommon for bosses to ask their employees to work overtime or on weekends—often without pay. Conversely, increased productivity in spite of this is more likely to be rewarded with extra work and responsibilities on top of everything else while raises or additional compensation are almost nowhere to be seen. On top of this, many companies lay off their employees without any warning or care due to sudden budget cuts or downsizing in order to avoid yearly and/or quarterly expenses. All of these practices have brought worker happiness, productivity, and loyalty in the modern day to an all-time low.

Now this begs the question: if such practices have demonstrably been proven to be counterproductive and harmful to a company's long term growth, then why conduct them in the first place? Ford's contemporaries have the "excuse" of theoretically not knowing any better, but modern companies have had more than a century to learn from their mistakes; how is it possible for those in charge of these companies to not understand something so basic as worker happiness leading to better growth and production in the long run?

Well, they actually *do* know—it's just that they don't care.

As for why this is, the answer lies in a crucial difference between the goals of many modern companies and that of the companies in Ford's time. While Ford and his contemporaries founded their companies to enrich themselves, the ultimate beneficiary of the Ford Motor Company during his lifetime was always Henry Ford himself. He had the most to gain and lose from its success or failure, and the company itself was his greatest legacy. This incentivized him to focus on more steady development and allowed him to make decisions that may be counterproductive in the short term but with long term benefits that may only show results years down the line, with the better pay and treatment of workers being one such decision.

But in the present day of 2025, this is no longer the case for the majority of corporations. The mindset of those running these corporations is overwhelmingly focused on the optimization of short-term gains to a near-pathological degree. It's even reached a point in some industries where one might lose their job *despite* their success in projects because said projects didn't contribute enough immediate growth even if they were profitable. The poor treatment of workers is also part of this: paying workers better and offering more benefits or job security will be an expense in the short term, and is thus ruled out from the beginning. The reason for this extreme fixation is in large part due to how public companies operate on the basis of shareholder value, with each and every decision made with the primary focus of increasing the value of company shares at a given point in time.

Now, this may not seem very different from the reasons why those like Ford created and operated their companies at first glance, but the key contrast is in the owners of those shares; Henry Ford owned his company from the moment it was founded until the day he died, while the shares of modern publicly traded corporations change ownership every day. One could own a number of shares in a company, sell them, and buy shares in a different one within seconds if they so desired. And though many companies have boards of shareholders in which those who hold majority shares can direct the actions of a given company, there is nothing stopping these shareholders from selling all their shares and "cashing out" while someone else buys said shares and takes their place.

The rapidly-paced, fluid nature of the stock market means that in order for these shareholders to benefit, the company has to be in a constantly "growing" state; share value increases along with growth and decreases with expense, and thus an ideal company must always be more profitable than it was the previous quarter/year and have as few "unnecessary" expenses as possible. If this doesn't happen, the share value will decrease and the shareholders will have suffered a loss—a recoverable one, but that recovery will most likely benefit the next owner of the shares rather than the current shareholder, who may have already sold it by then. However, the former simply isn't possible because there will always be *some* kind of accident, failure, scandal, competitor success, recession, global pandemic, etc. that impedes growth and increases expense. And even if the shareholders are aware of such an event occurring, they can't sell their shares ahead of time in order to get around that impending loss of value either because it's illegal; that would be insider trading.

Because of these factors, publicly-traded corporations often find their entire business, structure, and management fixated on this state of perpetual, forced "growth" in which they make cruel, counterproductive, or even seemingly nonsensical decisions that negatively impact their workers or customers for the sake of short-term gains that will increase the share value. Even if these decisions will clearly lead to a company going bankrupt in the future, that's a problem for the next shareholder after the current one increases the value of their shares from this short-term growth and sells them off. Simply put, paying workers enough for them to be happy and productive, keeping them as part of the company instead of laying them off en masse, and compensating them for working overtime or on weekends will result in a decreased share value, and that is useless to the current shareholders because those shares will almost certainly belong to someone else by the time they recover to their previous height. The shareholders win, everyone else loses.

While this does seem quite bleak, this problem is also nothing new. Governments around the world (and previously the United States) have seen the results for themselves and put laws/regulations in place to mitigate the issues. Worker protection, compensation, and fair treatment exists when governments step in and stop companies from hurting workers in their attempts to achieve infinite growth no matter the cost, and the results speak for themselves: workers in Denmark, Sweden, and Finland (which have implemented these measures) are much happier and satisfied with their jobs on average than in the United States (which had similar measures that have since been repealed or are no longer effective). This has also resulted in companies which operate there being much more productive with a loyal workforce in the same way Henry Ford demonstrated a century ago.

It's not impossible to recover to a point where workers can be happy as well as productive, companies can grow and succeed, and the vast majority of people aren't rightfully paranoid about being laid off for the sake of short-term share value growth. It's been done before and in the present, but the bodies of law and governments in charge need to recognize the issue and act directly in order to make it happen.