In Search of the High Road in a Low-Wage Industry

Thomas R. Bailey
and
Annette D. Bernhardt
Institute on Education and the Economy
Teachers College

IEE Working Paper No. 2

October 10, 1996

Forthcoming in *Politics & Society*, 1997

This research was supported by funding from the William T. Grant Foundation and the National Center for the Workplace at the U.S. Department of Labor. Research assistance was provided by Deborah Ziegler, John Quigley, and David Jacobson. Please direct all correspondence to Thomas Bailey, Institute on Education and the Economy, Box 174, Teachers College, Columbia University, 525 West 120th Street, New York, NY 10027.

Abstract

When faced with rising wage inequality and large numbers of low-wage jobs, policy makers are increasingly looking to innovations in the business community for solutions. Advocates argue that "high performance systems" will both strengthen the competitiveness of American firms and improve the quality of jobs. But the proposed benefits for workers remain largely untested. Drawing on a series of case studies, we therefore examine the effect of firm restructuring on job quality, defined in terms of wages, benefits, and the opportunities for skill acquisition and promotion. The firms were chosen from the traditionally low-wage retail trade industry and each had implemented some level of reform in both the "production" and the service ends of their operations. Ultimately, however, it is unclear whether the high performance model holds much promise, at least in this sector. The reforms did create somewhat more interesting and varied jobs. But regardless of the extent of innovation and despite the strong performance of these firms, we found very little improvement either in wages or in the chances for upward mobility from entry-level positions. These findings question the simple delineation between an efficient "high road" and an inefficient "low road." In some contexts, a highly rationalized and low-wage business strategy may be more efficient. And even where high-road innovations are implemented, low wages may still persist, because productivity gains are translated into price cuts instead of wage increases. In those firms where job quality was above average, employers turned to college students and experienced workers rather than investing in the training of low-skill workers. These points have several implications for public policy, which are taken up at the conclusion of the paper.

I. Introduction

Since the early 1970s, earnings inequality has grown significantly and real wages have stagnated for many Americans.[1] Initial explanations held that the growing demand for skilled and flexible labor was not being met by a significant portion of the workforce, which consequently saw its wages decline.[2] But in recent years, the continued proliferation of low-wage jobs and well-publicized layoffs by the country's most prominent firms have forced a re-examination of the simple supply-side story. Increasingly, researchers are turning their attention to the quality of jobs that firms have created and destroyed in response to intensified competition and the globalization of markets.[3] At the peak of industrial capitalism, many low-skill workers found good opportunities in the manufacturing sector. But the service sector, which has replaced at least half of these jobs, has not proven nearly as high-tech, high-wage and knowledge intensive as originally hoped. Compared to manufacturing, there are many service industries where mobility chances are lower and job instability higher, and where low-wage business strategies dominate.[4] The concern, then, is that we are seeing a decline in jobs that offer opportunities for career mobility and earnings growth to workers without a college education.[5]

Without denying that education must play a role in any policy designed to promote productivity and increase standards of living, a demand-side policy would try to influence the types of jobs being created by American firms. Much of the recent policy discussion in this area

---

[1] Frank Levy and Robert Murnane, "U.S. Earnings Levels and Earnings Inequality: A Review of Recent Trends and Proposed Explanations," *Journal of Economic Literature* 30, no. 3 (1992): 1333-81; Sheldon Danziger and Peter Gottschalk, *Uneven Tides: Rising Inequality in America* (New York: Russell Sage Foundation, 1993); Paul Ryscavage, "A Surge in Growing Income Inequality?" *Monthly Labor Review* 118, no. 8 (1995): 51-61.

[2] William B. Johnston and Arnold B. Packer, *Workforce 2000: Work and Workers for the 21st Century* (Indianapolis, IN: Hudson Institute, 1987).

[3] Peter Cappelli, "Rethinking Employment," *British Journal of Industrial Relations* 33, no. 4 (December 1995): 563-602; Bennett Harrison, *Lean and Mean: The Changing Landscape of Corporate Power in the Age of Flexibility* (New York: Basic Books, 1994); Joel Nelson, *Post-industrial Capitalism: Exploring Economic Inequality in America* (London: SAGE Publications, 1995).

[4] Thierry Noyelle, ed., *Skills, Wages, and Productivity in the Service Sector* (San Francisco, CA: Westview, 1990).

[5] Katherine Newman and Chauncy Lennon, "The Job Ghetto," *The American Prospect* (Summer 1995).

has involved attempts to promote the spread of the “high performance work organization.”[6] Advocates argue that this business strategy will both strengthen the competitiveness of American firms and improve the quality of jobs. Ideally, high performance systems result in higher productivity and profits. But because these systems depend on a skilled and creative workforce, firms also have an incentive to offer good wages and upward mobility. This approach thus offers a route to reconciling employer interests with the larger interest of social welfare. Rather than forcing firms to take on social responsibility, public policy could be directed at removing barriers to the implementation of the superior production strategy.

Although there has been a great deal of research describing the high performance model, there is little evidence which would allow us to comment on the potential impact of this model on the future of job quality in America. Researchers have severely neglected service industries, even though they employ the large majority of workers and generate the bulk of new jobs.[7] Moreover, there has been almost no work which examines the effects of high performance innovations on workers and job quality -- most analysts have assumed that these changes would be in the interest of the worker.[8]

This paper therefore examines the effect of firm restructuring on the quality of jobs in the single largest service industry, retail trade. Because the retail industry is largely low-wage and has traditionally relied on entry-level workers, it serves as an excellent site for research on these questions. Drawing on a series of firm case studies, we focus on three questions. First, what is the nature of restructuring in retail trade, and in particular, what does a high performance approach look like in the service setting? Second, what effect does restructuring have on job

---

6 The best example is the report of the Commission on the Skills of the American Workforce, *America's Choice: High Skills or Low Wages!* (Rochester, NY: National Center on Education and the Economy, 1990), which was very influential in shaping subsequent federal and state policy discussion.

7 Eileen Appelbaum and Rosemary Batt, *The New American Workplace: Transforming Work Systems in the United States* (Ithaca, NY: IRL Press, 1994).

8 Commission on the Skills of the American Workforce, *America's Choice*; David I. Levine and Laura D'Andrea Tyson, “Participation, Productivity and the Firm's Environment,” in *Paying for Productivity: A Look at the Evidence*, ed. Alan S. Binder (Washington, D.C.: Brookings Institution, 1990); Thomas A. Kochan and Paul Osterman, *The Mutual Gains Enterprise* (Boston, MA: Harvard Business School Press, 1994).

quality, defined in terms of wages and benefits, and the opportunities for skill acquisition and promotion? Third, can the adoption of high performance innovations improve job quality in this sector?

We first briefly review the debates on service growth and firm restructuring. We then provide some background on the retail sector in general and on our six case study sites in particular. The subsequent two sections describe the innovations and reforms we observed in these firms, and the effects on job quality. The last section presents conclusions and policy recommendations.

II. The Growth in Services and the Restructuring of the Firm

There have traditionally been two views of the growth of service industries and the concurrent decline in manufacturing jobs. One view saw the service sector as a source of well-paid, knowledge-intensive jobs in professional and technical occupations.[9] This created a supply-side policy imperative: increase the educational level of the workforce to match the increasing educational requirements of the post-industrial workplace. The alternative view was much more pessimistic. Service growth implied a society in which a growing percentage of workers would be "hamburger flippers," employed in low-wage, low-skill jobs that offered few opportunities for career advancement and income growth.[10] The image of dislocated steelworkers employed at McDonald's and ex-IBM workers lining up for Wal-Mart jobs suggests an extreme deterioration in the standard of living, one which education and training programs cannot adequately address.[11]

Developments over the last two decades suggest that both visions are valid. There has been strong growth in technical and professional jobs filled by workers with college and

---

[9] Daniel Bell, *The Coming of Post-industrial Society* (New York: Basic Books, 1973).
[10] Bennett Harrison and Barry Bluestone, *The Great U-Turn: Corporate Restructuring and the Polarizing of America* (New York: Basic Books, 1988); Michael Harrington and Mark Levinson, "The Perils of a Dual Economy," *Dissent* 32 (Fall 1985): 417-26.
[11] Louis Uchitelle, "Good Jobs in Hard Times," *The New York Times*, October 3 1993, 3:1.

graduate degrees. But there has also been consistent growth of low-paid, low-skill jobs in service industries such as retail trade and business and personal services. While job creation has been very strong in the United States, of the occupations projected to provide the most openings by the year 2005, the majority do not come close to our vision of the twentieth-century "knowledge worker."[12] While these jobs do not require high educational credentials, they also do not offer much chance for subsequent wage growth and mobility.

The service sector has also been slower than the manufacturing sector to introduce human resource innovations. A 1993 Bureau of Labor Statistics survey of establishments collected data on the use of a variety of "flexible" practices such as the use of teams, total quality management, job rotation, and quality circles. At least one of those practices had been introduced by 56 percent of all manufacturing establishments, but by only 36 percent of retail firms and 41 percent of all service firms.[13]

What are the policy implications of this potential emerging dualism? Certainly from the point of view of the individual worker, the returns to education are high, so that one obvious policy is to promote higher levels of education and training. But this makes sense only if there are good entry-level jobs for the trained workers to fill, and it is not clear that American firms are creating enough of these types of jobs.[14] Moreover, society would benefit if there were a variety of paths to upward mobility. Some workers may not be able to afford higher education, others may not be adept at school but would be able to learn and progress on the job, and still others, especially in inner cities and rural areas, may not have easy geographic access to desirable jobs. From a societal standpoint, these groups should also have access to a living wage that can support a family over the long-term.

---

[12] U.S. Department of Labor, Bureau of Labor Statistics, Unpublished Tabulations from the 1992 and 1993 Current Populations Surveys (Washington, D.C.: U.S. Department of Labor, Bureau of Labor Statistics, 1994).

[13] Maury Gittleman, Michael Horrigan, and Mary Joyce, "Flexible Work Organizations: Evidence from the Survey of Employer-provided Training," (Washington, D.C.: U.S. Department of Labor, Bureau of Labor Statistics, 1995).

[14] In particular, minority youth increasingly face a labor market which, for them, offers little more than poorly paid and dead-end work. See Peter Kilborn, "Up from Welfare: It's Harder and Harder," *The New York Times*, April 16 1995, 4:1.

Thus, policy makers may need to consider a demand-side policy aimed at promoting service jobs which do provide income growth and mobility for workers without a college education -- similar to the type of employment that parts of the manufacturing sector appears to have been able to provide in the past. But public policies designed to create better jobs in the service sector are difficult to implement. Job creation for social purposes which is not in the interest of employers is not likely to succeed.

Changes in the economy and global markets may offer a solution to this dilemma. In the face of stiff international competition, business leaders and academics have argued that companies must fundamentally alter the way they organize the process of work and production.[15] A variety of new managerial and organizational principles has been developed, which attempt to create a viable system of industrial organization that consistently yields higher productivity and profits.

The "high performance" model is characterized by flexible work structures and streamlined production systems. Under this ideal model, job quality rises and even entry-level jobs offer good wages, autonomy, and skill development.[16] This is because the model relies on human resource strategies to create high levels of motivation, as well as mechanisms that channel employee involvement into performance gains.[17] These strategies include participative management, self-directed teams, job rotation, and more sophisticated employee incentives.

---

[15] Robert H. Hays and William J. Abernathy, "Managing Our Way to Economic Decline," *Harvard Business Review*, (July-August 1980); Michael J. Piore and Charles F. Sabel, *The Second Industrial Divide* (New York: Basic Books, 1984); Kochan and Osterman, *Mutual Gains Enterprise* (Boston, MA: Harvard Business School Press, 1994).

[16] See Michael L. Dertouzos, Richard K. Lester, and Robert M. Solow, *Made in America: Regaining the Competitive Edge* (Cambridge, MA: MIT Press, 1989); Edward E. Lawler, *High-involvement Management* (San Francisco, CA: Jossey-Bass, 1986); Levine and Tyson, "Participation, Productivity and Firm's Environment"; Kochan and Osterman, *Mutual Gains Enterprise*; James P. Womack, Daniel D. Jones, and Daniel Roos, *The Machine That Changed the World: The Story of Lean Production* (New York: Macmillan Publishing Company, 1990); and perhaps most visibly, the Secretary of Labor, Robert Reich, *The Work of Nations: Preparing Ourselves for 21st Century Capitalism* (New York: Knopf, 1991).

[17] Richard Walton, "From Control to Commitment in the Workplace," *Harvard Business Review* (March-April 1985): 77-84.

Under this model, everyone wins. The firm's success depends on the skill and creativity of its workforce, and in return it provides high wages and job security.

Although there is some evidence that the high performance model is effective,[18] there also appear to be efficient alternatives with much less desirable characteristics. These approaches emphasize cost-cutting, downsizing, and reliance on low-wage labor, and here, there is the clear possibility that job quality will suffer for significant numbers of workers.[19] The "lean and mean" model frequently involves union avoidance, increased use of two-tiered work and wage structures, separation of an inner core of skilled workers from a periphery of cheaper part-time and temporary workers, subcontracting as a means of reducing the size and cost of core labor, and the surprising retention of some tenets of scientific management such as job fragmentation and deskilling for part of the work force.[20]

There is growing awareness of the potential conflict between these two roads to better performance and higher profits. As a result, policy makers have tried to devise means to promote the high performance model over the "lean and mean" model. But there is a third alternative that has received much less attention. It is possible that firms adopt many of the characteristics of the high performance model, without changing the quality of employment for entry-level workers. Even a widespread adoption of the "high road" model may have little effect on the social problems that advocates hope it will address, especially in the context of the steep decline in labor strength, the dismantling of protective labor legislation, and the low prevalence

---

[18] Kochan and Osterman, *Mutual Gains Enterprise;* Casey Ichniowski, Thomas A. Kochan, David Levine, Craig Olson, and George Strauss, "What Works at Work: Overview and Assessment," *Industrial Relations* 35, no. 3 (1996): 299-333.

[19] Jeffrey Pfeffer and James Baron, "Taking the Workers Back Out: Recent Trends in the Structuring of Employment," *Research in Organizational Behavior* 10 (1988): 257-303; Bennett Harrison, *Lean and Mean: The Changing Landscape of Corporate Power in the Age of Flexibility* (New York: Basic Books, 1994); Robert Hyman, "Flexible Specialization: Miracle or Myth?," in *New Technology and Industrial Relations*, ed. Robert Hyman and William Streeck (Oxford: Basil Blackwell, 1988), 48-60; Stephen Cohen and John Zysman, *Manufacturing Matters: The Myth of the Post-industrial Economy* (New York: Basic Books, 1987).

[20] Glenna Colclough and Charles M. Tolbert, *Work in the Fast Lane: Flexibility, Divisions of Labor, and Inequality in High-tech Industries* (New York: SUNY, 1992).

of unionization in the service sector. It is this possibility, that the high road may ultimately not benefit workers and job quality, that is the motivation for our study.

III. Background on the Retail Industry

Any attempt to study the service sector must recognize the enormous amount of variation in the industries and occupations which it comprises. Service industries range from commodity brokerages, through engineering and accounting, to automotive repair, and the ubiquitous eating and drinking places. The way that firms are organized also varies considerably. Large and diversified companies with strong internal labor markets coexist alongside small niche firms with a high proportion of contingent workers, resulting in vastly different wages and working conditions.[21] Despite this diversity, there is growing concern about the future of the American middle class. This is because if we look at the occupations projected to generate the most job openings by the year 2005, it is low-wage jobs that predominate. The top ten occupations are, in order, retail salespersons, registered nurses, cashiers, general office clerks, truck drivers, waiters and waitresses, nursing aides, orderlies, and attendants, janitors and cleaners, food preparation workers, and systems analysts.[22]

An important feature of this list is that four of the occupations fall into the retail trade sector. This should come as no surprise, since the sector employed 17.9 percent of all American workers in 1994, and this percentage is not expected to decline in the future.[23] In addition to the force of sheer numbers, the industry holds several advantages for our research.

---

[21] For example, in 1993, kitchen and food preparation workers had $165 in median weekly earnings, while lawyers made $1,131 in median weekly earnings. U.S. Department of Labor, "Unpublished Tabulations."

[22] U.S. Department of Labor, Bureau of Labor Statistics, *The American Workforce: 1992-2005* (Washington, D.C.: U.S. Department of Labor, Bureau of Labor Statistics, 1994). This list may surprise readers who have heard of the explosion in computer programmers and professional consultants. But even though these types of occupations are experiencing the fastest growth *rates*, their initial slice of the employment pie is so small that they can contribute only a relatively small number of new jobs to the economy. See Thomas Bailey, "Jobs of the Future and the Education They Will Require: Evidence from Occupational Forecasts," *Educational Researcher* 20, no. 2 (1991): 11-20, for an extended discussion of this issue.

[23] James C. Franklin, "Industry Output and Employment," *Monthly Labor Review* (November 1993): 41-57. The retail trade classification includes industries such as department and apparel stores, car dealers and gasoline stations,

First, retail trade is clearly a major destination for entry-level workers without a college education, the population of most concern in current policy discussions. The percentage of employees aged 16-24 is often more than twice the national average, with a high of 44 percent in eating and drinking places. Second, job quality has traditionally been a problem in this sector. Real wages for retail trade declined from 91 percent to 62 percent of the national average between 1948 and 1992. Health care coverage tends to be minimal, and the ratio of skilled to non-skilled workers is dismal.[24] Turnover is endemic and the percent of part-time workers is extremely high. In fact, much of the economy-wide growth in part-time work occurred in these industries, and in recent years, the bulk of it has been involuntary.[25]

Third and most important, the industry experienced a marked rise in competition over the last two decades. Specialty stores entered the industry in the 1970s and have been extremely successful, by focusing only on specific products and quickly adopting new inventory technology. The rise of discount stores in the 1980s has been even more striking: in 1992, Wal-Mart single-handedly generated $67.5 billion in sales, roughly 12 percent of the industry total.[26] A parallel development was the maturation of the consumer market at the same time that consumer tastes shifted toward a more conservative emphasis on price and value. The result is that retail firms are now competing for shares of a stagnant, overstored market in which price has come to dominate. Attempts to increase sales are now focused on cost reduction, which has driven the industry-wide move toward consolidation and centralization: in 1991 ten companies

---

grocery, drug, and hardware stores, and "Eating and Drinking Places," which comprises restaurants and fast-food chains.

24 Wage growth figures are from U.S. Commerce Department, Bureau of Economic Analysis, *National Income and Product Accounts of the United States*, vols. 1 and 2 (Washington, D.C.: U.S. Government Printing Office, 1993), tables 6.6a,b, and c; all others from U.S. Department of Labor, Unpublished Tabulations.

25 Chris Tilly, *Short Hours, Short Shrift: Causes and Consequences of Part-time Work* (Washington, D.C.: Economic Policy Institute, 1990).

26 It is estimated that over the next decade, the top ten discount chains will control 90 percent, and the top ten specialty retailers 40 percent, of their respective markets. See Kathryn Petros and Ross Petros, *Job '94* (New York: Simon and Schuster, 1994).

controlled 34 percent of the retail market, and that percentage is projected to rise to 56 percent by the year 2000.[27]

At the firm level, retail firms are experimenting with a range of innovations in how they organize the workplace and in how they manage the link between buying, distribution, and sales. The common goal behind such practices is to move the industry toward more flexible and lean business practices. In the process, demand for efficient retail workers with good skills is potentially created. These observations suggest that there is indeed a “high road” option in traditionally low-wage service industries. The problem, however, is that employers often see economic forces as militating against human resource innovations. The downsizing and outsourcing that many employers believe to be essential to their survival are also inimical to innovations which depend on employee involvement and commitment to the firm. Thus, on the one hand, many believe that the move toward innovative work structures holds the promise of good jobs, and even if such structures are still quite rare, they represent a clear target for public policy. On the other hand, cost-oriented business strategies hold the threat of bad jobs; and the problem here is that such strategies may in fact be more prevalent.

IV. Case Studies

During 1994 and 1995, we conducted case studies of six retail firms which have implemented a variety of production and workplace reforms. Our objective in choosing the sites was to examine a range of retail firms serving different markets. Our research consisted of interviews with human resource personnel, managers, and front-line workers, as well as observation of the actual work structures. The fieldwork traced the characteristics of the reforms being used, the reasons for their introduction, the history of their development, problems encountered, the reactions of workers, and the effects on performance and job quality. We also

[27] Kurt Salmon Associates, “Supplier to Retailer: Streamlining the Inventory Pipeline: The Latest Trends and Successful Practices in Quick Response for Retailers and Their Suppliers” (Paper presented at the Annual Meeting of the National Retail Federation, New York, 14 January 1992).

conducted background research, drawing on industry publications and business media. We were able to gather some limited information on wages and performance data. A brief description of the firms follows.[28]

Better Burgers Corporation. Better Burgers is a major national fast food service company. To many, fast food chains such as Better Burgers epitomize the efficient, low-wage employer. The company recently responded to heightened competition both with significant price cuts and by developing a total quality management program. This program follows a current industry trend by focusing on quality service and giving greater responsibility to entry-level workers. Traditionally, Better Burgers prescribed most interactions between customers and crew members, but under the new Quality Service program, workers have more discretion to respond to customer requests and complaints. One of our main questions is whether this innovation, the "empowerment" of crew members, has translated into any changes in wages, benefits, and promotion opportunities.

The Home Depot. As the largest home improvement and building supply company in the United States, Home Depot is one of the most profitable companies in the industry, with an 8 percent market share and roughly 100,000 employees. Its success is based on two strategies: everyday low pricing and an innovative warehouse format to keep overhead low, and the provision of comprehensive service. In most stores that emphasize price, the sales staff is primarily engaged in stocking shelves and helping customers locate products. At Home Depot, clients can expect to get detailed instruction and advice concerning their building, renovation, and hardware needs. This requires a higher level of knowledge than is typical of a retail sales worker. Management considers the sales associates in each department as a team, with wide discretion over department operation. Associates also receive above average pay for this retail

[28] We use fictional names for two of the firms, Better Burgers Corporation and Red Shoes Corporation.

segment.[29] Home Depot thus affords us a close look at what might be considered the "high road" of firm restructuring in the services.

Red Shoes Corporation. Red Shoes is a small, fast-growing, and very successful shoe company in an intensely competitive industry. The company targets the middle to upper level of the market, and has established its niche with strong name recognition and cutting-edge styles at moderate prices. The company markets its shoes both through department stores as well as its own stores. It reduces costs by relying exclusively on low-cost manufacturers in Brazil. Unlike many of its competitors, Red Shoes has tried to build its business using a full-time, low turnover staff, and recent reforms in company training for sales associates have stressed the need to provide quality service to the customer.

Federated Department Stores. With its recent acquisition of Macy's, Federated is now the largest company in the department store industry; it consists of eight separate chains, known as divisions, including Bloomingdale's, Stern's, Burdine's and A&S. Following its highly publicized bankruptcy filing at the end of the 1980s, the company reformed its merchandising strategy on the one hand, and its customer servicing strategy on the other. The merchandising reforms attempted to implement a team-based buying structure, in the aim of balancing centralized buying control and regional autonomy in product and volume selection. The company also started a general drive toward greater quality service in its retail divisions. We focus on two of these, Bloomingdale's and Stern's, both of which have recently implemented changes in the workplace. But the nature and depth of these changes differs, in part because of the clientele which each store serves -- Bloomingdale's the high end, and Stern's the middle to lower end. This stratification is mirrored in how each store has changed the roles of sales workers and managers, and thus affords us a look at two divergent paths to human resource innovation.

---

[29] In the retail trade industry, sales workers are now called "sales associates," and we adopt this terminology throughout.

Taken together, these firms provide us with considerable variation in business strategies, competitive environment, and the quality of entry-level, non-managerial jobs. In what follows, we draw on the case studies to examine, first, the nature and range of firm restructuring in the retail industry, and second, the effect of these strategies on several dimensions of job quality.

V. Firm Restructuring in Retail

Over the last several decades, a variety of new approaches to retailing have begun to offer alternative methods for enhancing productivity, profits, and human resource management. In its most general sense, retailing can be seen as the combination of two functions, buying (or merchandising) and selling. There is an important cluster of innovations in each of these broad functions.

A. Merchandising

Merchandising -- the selection and buying of products from manufacturers -- is less visible to the public than selling, but it is fundamental to the success of the retail operation. Hot items need very little selling and the best sales techniques cannot sell something that no one wants. For example, well-planned buying can result in significant savings based on volume discount, and the largest purchasers such as Wal-Mart have substantial market power. By contrast, inefficient merchandising can have a fundamental effect on cost and productivity: economies of scale are not tapped; items that do not sell quickly must be marked down, reducing the retailer's margin; and retailers lose sales when they run out of popular items. Ideally, retailers would like to have small shipments arriving more or less continuously. The goal here is just-in-time inventory and delivery, in the equivalent of just-in-time production.

But in order to make this type of Quick Response system work, new relationships with suppliers, or vendors, are required. Rather than just taking the lowest price from any number of suppliers, retailers are creating tighter and more permanent relationships with a small group of vendors. This leads to greater economies of scale, less overhead, and more efficient delivery.

This is the root of the so-called vendor intensification strategy that is rapidly spreading in the industry, and retailers are hopeful that it can increase productivity.[30] Technology is critical to this strategy. Electronic Data Interchange (EDI) and terminals which read bar codes are used to link purchases and inventory, so that replenishment occurs in real time.[31] Nevertheless, although vendor intensification is now widely accepted, a definitive measure of its effectiveness is not yet available. Perhaps the most convincing evidence comes from the immensely successful Wal-Mart, which has redefined retailing as "moving" goods rather than "selling" them, by working with its suppliers to reduce the time between order and delivery.[32]

Our case studies exhibit a range of these new approaches. Probably the best illustration is Red Shoes, whose niche -- high fashion shoes at moderate prices -- depends on a very lean retail structure. Roughly 60 percent of the company's revenue comes from wholesaling to department stores, resulting in very low retail overhead. The company also buys directly from 25 manufacturers in Brazil, thus gaining access to vertically integrated factories with skilled, low-wage workers and quality raw materials. These plants are devoted exclusively to supplying Red Shoes and implement production changes very quickly, which is critical to the company's market strategy.

Home Depot has constructed a more unique model, which is considered a major innovation in the retail sector. The company's success depends on its highly competitive "every-day low pricing" policy on name-brand products. This policy is maintained by buying directly from a limited group of manufacturers, which are then linked directly to the stores via an EDI inventory system. The company further streamlined by adopting the lean, no-frills warehouse format for its stores, a structure which has rapidly spread to other industries. Last, Home Depot

---

[30] Nora Aufreiter, Nancy Karch, and Christiana Shi, "The Engine of Success in Retailing," *The McKinsey Quarterly* 3 (1993): 101-116.

[31] Gary Robins, "Productivity: A Look at Technology ROI," *Stores* (October 1992): 48-52.

[32] Another example comes from the success of specialty stores, which were the first to capitalize on the recent technological innovations.

contracts to 2,300 independent authorized installers, thus offering a full range of service without adding to the company's core costs.

Technology is clearly key here. Stern's EDI system and automated terminals have resulted in significant reduction in paper work and manual pricing and reordering. Red Shoes is also introducing a fully automated vendor system, to allow for immediate replenishment of inventory from its Brazilian manufacturers. Bloomingdale's is the one case which has not yet converted to an EDI-driven system, and both managers and sales workers repeatedly stated that this was a major impediment. The department store is unique because it has always relied on long-standing and close relationships with a small number of high quality manufacturers, such as Ralph Lauren and Calvin Klein; but the prevailing trend in the industry is clearly putting pressure on Bloomingdale's to automate.

Especially as companies expand, however, merchandising exhibits several tensions. Large chains can use centralized purchasing to get lower prices from suppliers. At the same time, however, centralized buyers may not be in touch with local markets, thereby leading to inefficient ordering. Home Depot is currently faced with this tension. When the company went national, stores on the West Coast complained that centralized buying was not meeting West Coast tastes. The resulting decentralization of buying, however, is now proving problematic. A regional buying infrastructure is created each time stores open in a different part of the country, so that 90 percent of the buying is being done at the local level. Home Depot is therefore in the process of creating a semi-centralized buying structure.

Federated is also engaged in an on-going attempt to strike this type of balance. In the past, buying at Federated was done separately by each of the individual department stores. The result was no uniformity in the buying structure, and significant economies of scale were not being tapped. During its reorganization in the early 1990s, Federated introduced a "team" buying system in which 70 percent of the purchasing and product selection was made by a centralized team. The team consisted of representatives from all of the regional markets and coexisted with the buying systems already in place. However, this structure proved cumbersome and wasteful: buyers from Atlanta did not have to be involved with decisions relating to Chicago.[33] In addition, during the three years of the team structure, sales were flat and buyer productivity did not increase. Federated is in the process of streamlining the system, in order to reduce duplication of effort and bureaucracy. Overall purchasing is now centralized with only minimal input from the regions, but decisions about volume and marketing are completely left to the regions.

B. Selling

As outlined above, intensified competition in the retail industry has resulted in a price-driven market in which there is very little room for maneuvering. Retailers have therefore shifted to an emphasis on quality service, in an attempt to differentiate themselves in the market. The dominant dictum in the industry is that managers are experimenting with a range of reforms in order to improve service quality.[34] To varying degrees, these reforms aim for some of the hallmarks of high performance systems, and the industry abounds with talk of "putting the customer first," greater employee involvement, streamlining the service process, and total quality management.

Programs along these lines exist at all of our case study companies, although there is considerable variation in their depth and scope. Home Depot offers perhaps the closest approximation to a high performance workplace. A cornerstone of the company's market strategy is the use of experienced, skilled sales workers who give in-depth advice on home improvement and repair projects. Close to 50 percent of the staff's interaction with customers consists of in-depth consultation and advice, which is highly unusual in a retail setting. Store departments are decentralized, and managers and their staff work in a loose team structure of

[33] This is a risk of the team paradigm that is often neglected by advocates.
[34] Ron Zemke and Dick Schlaaf, *The Service Edge: 101 Companies That Profit from Customer Care* (New York: New American Library, 1989).

"partners" that allows some decision-making by sales workers. For example, hourly sales workers can place an order as high as $17,000 without approval.

Better Burgers constitutes a very different setting. In the past, the company had competed largely on the basis of price, designing a rigid work system in order to produce uniform products as fast as possible. The workplace was highly streamlined and rationalized. Tasks at the 25 food-preparation stations were timed, and at the counter, workers were required to follow a regimented script for greeting customers. The recent emergence of low-cost competitors, however, has forced Better Burgers to shift toward an emphasis on quality service. The Quality Service program, introduced in 1992 and now in place at roughly half of the company's restaurants, attempts to relax some of the extreme workplace rigidity. Front-line crew members are given more discretion in responding to individual customer needs and complaints. For example, crew members can now greet customers in a variety of ways and can replace damaged or spilled items without permission from a supervisor. Employee input is encouraged through team meetings, and periodic customer and employee surveys have become standard.

Our study of Bloomingdale's and Stern's yields a very interesting comparison. The two stores target very different customer populations: Bloomingdale's is aimed at high-income customers, while Stern's is aimed at the middle to lower-middle class. Recent reforms mirror this stratification. In the past, Bloomingdale's relied on its reputation for exclusive products in order to compete. Because most of these products are now universally available, the company has had to shift toward competing on the basis of offering exceptional service. The new "clientelling" program is an explicit attempt to forge enduring, customized relationships between individual sales associates and customers. Under the program, associates keep lists of customers and their buying habits, and interact with them one-on-one, informing them of sales, new products, and arranging for purchases over the phone. This has led to a considerable extension of responsibility and independence for the sales associates. Bloomingdale's has also created a "specialized" sales associate position, which entails a higher skill and pay level and is held by roughly 10 percent of sales staff. The long-term goal is to have a majority of customer interactions at the store (45 percent) occur within the context of the clientelling program. In order to diffuse and maintain the culture of change, the company has instituted the equivalent of Quality Circles with its new customer service task forces.

By contrast, Stern's competes more on the basis of price for mainstream products. The company's emphasis has been on streamlining the vendor delivery process and on pushing for greater productivity through the creation of tight productivity goals. Stern's has also begun to emphasize service quality, but actual "clientelling" is only done by a very small number of specialized sales associates in a few departments. While pushed to provide better service, the sales associates still work under strict guidelines.[35] More than anything, it is managerial jobs which have changed. Marked downsizing and the introduction of technology have resulted in managers taking on many personnel tasks and spending more time on the sales floor.

The general opinion of managers at all of the case studies is that their "soft" reforms have been successful, the usual implementation problems notwithstanding. While these companies have performed well during the period of human resource reforms, the causal link between those reforms and stronger performance is far from clear. The reforms have taken place alongside cost-cutting and changes in merchandising, which in some cases have been quite extensive. Red Shoes is the clearest case here. There has been some talk of a new emphasis on service quality, but in the main, the company's strong performance clearly stems from its very lean merchandising strategy.

At Better Burgers, sales and customer satisfaction did increase at those restaurants which introduced the Quality Service program, but the timing of that increase also coincided with significant price-cuts. The company had raised prices 6 times during the 1980s, at the same time that small fast food stores were becoming increasingly competitive. The resulting declines in

[35] For example, when a new customer arrives, sales workers must make eye contact within 30 seconds and greet the customer within two minutes. The stores are routinely "shopped" by undercover staff to ensure compliance with this rule.

Better Burgers market share, in some regions quite steep, gave rise to an advertised program of price reductions. Because the program translates into a price cut of 7-8 percent, on balance it has probably been a more important factor than the Quality Service program in the company's recent performance.

Similarly, Home Depot depends on its merchandising strategy and no-frills warehouse format in order to maintain low prices. At Stern's and Red Shoes, a dominant and recurrent theme in our interviews was that new technology and vendor intensification have significantly changed the nature of work at all levels. Stern's in particular benefited from Federated's investment of over $60 million in its centralized data processing system. In some cases, it may be that it is high growth and healthy profits that promote human resource innovations rather than the reverse. This may particularly be the case at Home Depot, which has had unprecedented growth rates, and the young Red Shoes, where strong expansion has opened up many advancement opportunities for sales associates, thereby giving them incentives to work hard.[36]

Thus, while managers in each of the companies have tried to set up better methods for employees to provide ideas and suggestions, in many cases these methods are symbolic and do not approach the substance of self-managed teams or employee committees found in some manufacturing establishments. The "team" concept is often used by managers, but it is at best a loose term, meant to indicate a work spirit rather than a formal work structure. For example, the teams at Better Burgers are very informal *ad hoc* structures. And it is the managers who do the "vision building" for the restaurant, defining future goals and then passing the decisions onto the workers. In short, many of these managers did espouse a commitment to empowering workers, but in the main, this has not transferred into fundamental changes in decision-making power and autonomy at the staff level. In contrast, these retailers have made a more significant

[36] It is interesting to note that future reform plans at Red Shoes and Better Burgers all center on cost-cutting and "hard" innovations. In particular, Red Shoes plans to consolidate its warehousing distribution facilities into one site, and to use its new MIS technology to fine-tune shipment and delivery from Brazil. There are no plans at either company for additional human resource reforms.

commitment to innovations in merchandising which emphasize technology and inventory management rather than human resource reforms.

VI. Effects on Job Quality

The prevailing concern about the retail trade industry, and one of the motivations for this study, is that job quality is generally low. This is especially true of entry-level jobs. For example, in 1992 the average hourly retail wage was only $7.13, and nearly two-thirds of non-managerial workers earned less than $12,500 a year.[37] But this type of summary information remains at the level of stereotype, raising images of hamburger flippers and despondent cashiers. Our case studies clearly indicate that there is more variation in retail job quality. The critical question is how the restructuring that we have observed has affected job quality, especially those reforms which most closely approximate high performance innovations.

A. Job satisfaction, employee involvement and training

In general, the changes that we observed have created somewhat more interesting and varied jobs in which retail personnel have more discretion, engage in a wider variety of tasks, and have more complex interactions with customers. But the changes at Bloomingdale's and Home Depot are much more significant along these lines than those at Better Burgers and Stern's. At the former, one can clearly see a fundamental move away from the traditional retail sales job. Sales workers have real flexibility in performing their work, there are some channels for employee input, and both companies have a solid training program -- to convey the new "quality" culture (Bloomingdale's), and to keep sales workers up-to-date on new products and techniques (Home Depot). By contrast, Better Burgers and Stern's show continued reliance on the traditional, controlled work environment, using brief computerized training and offering largely ceremonial channels for employee input. This divergence should be instructive. Sales is

[37] U.S. Department of Labor, Unpublished Tabulations.

by far the most common retail occupation (41.8 percent in 1993), and given the current emphasis on quality service, sales jobs will likely hold a central place in any future changes in the industry.[38] The fact that we are seeing the emergence of a more skilled and specialized level of sales associate is therefore important, even though this layer is in the aggregate likely to be small.

B. Wages

Probably the most consistent and the most troubling finding from these case studies is that despite the workplace innovations we observed, there were few changes in terms of wages and benefits for the sales staff. Better Burgers' Quality Service program asks more of its crew members, but restaurants using the program did not pay higher wages than traditionally organized restaurants. In 1994, wages of entry-level crew members still ranged from $4.25/hr to $5.00/hr, with crew chiefs earning up to $7.00/hr. At both Bloomingdale's and Stern's, a recurrent theme was that work and stress levels had increased significantly in the past few years, with no corresponding increases in earnings. This held true at both managerial and sales levels.

It is true that the more innovative companies tend to have higher absolute wage levels and tend to provide better benefits. Earnings at Home Depot are above average (sales associates earned from $6/hr. to $12/hr in 1994.), and everyone receives basic benefits. Bloomingdale's hourly wages are clearly higher than those of its "lower-class" sister, Stern's. But again, even at these two companies, wages are not good in absolute terms, with the average associate earning less than $10 an hour, or under $20,000 a year, in 1994.

C. The role of low-wage jobs

A common argument is that low-wage jobs in service industries are functional, because they fill the demand for flexible employment by teenagers, college students, or parents with

[38] National Retail Federation, *Retail Industry Indicators* (Washington, D.C.: National Retail Federation, 1994).

young children. Thus there may be no pressing need to upgrade the quality of these jobs. Especially for young workers, retail work can offer a first exposure to employment and act as a springboard to the next tier of jobs that do hold the promise of a career. This argument does make sense, at least to some extent. Low-wage service jobs are almost certainly functional for some of the workers who hold them. For example, in 1993, roughly a third (31.8 percent) of retail workers was between the ages of 16 and 24.[39]

But there are several reasons to suspect that the role of low-wage service jobs is changing, that workers are increasingly depending on these jobs to be more than just a temporary way station. First, we know that the labor force is currently in the process of aging. This will likely increase the number of low-wage jobs that are filled by prime-aged adults in need of a real living wage.[40] Second, most of the rise in part-time work since 1970 has consisted of a rise in *involuntary* part-time work and has been concentrated in retail and service industries -- suggesting that a growing number of low-wage workers would rather have full-time, secure employment.[41] The managers that we interviewed were very clear on this trend; even older women returning to work are now seeking full-time jobs. Third, preliminary evidence suggests that career mobility in the service sector from peripheral to core jobs is declining, thus leaving more workers stuck in the lower tier of jobs for longer periods of time (see next section).

There may be some hope in our findings regarding staffing practices. Bloomingdale's has deliberately reduced the proportion of part-time workers to 20 percent, Red Shoes has a higher full-time/part-time ratio than is usual in its market (60/40), and Home Depot maintains an almost exclusively full-time sales staff (96 percent). Managers in these chains argue that full-time workers are more reliable, more motivated, and have less turnover. To the extent that these companies are pursuing "high-road" strategies, the effect on staffing patterns is encouraging. On the other hand, Better Burgers and Stern's clearly profit from strong dependence on part-time

---

[39] Ibid.
[40] In this context, it may come as a surprise that only about half of Better Burgers entry-level crew are teenagers.
[41] Tilly, *Short Hours, Short Shrift.*

workers for sales staff (75 percent and 70 percent respectively), as do the enormously successful discount retailers such as Wal-Mart, and there is no sign that this dependence will decline.

Regardless of current practices, the larger question is whether the service sector can increasingly play the role previously played by the manufacturing sector: a source of reasonably good jobs for workers without high levels of education. Thus, retail jobs as temporary way stations may have been functional in earlier decades; but the issue is whether human resource reforms can enable the retail sector to provide better career opportunities in the future.

D. Careers and mobility

In describing the effect of firm restructuring on workers and careers, researchers are increasingly arguing that work is being "externalized" and that the traditional internal labor market is being dismantled.[42] For example, while job tenure has always been shorter in the services, it may be becoming even shorter, indicating greater employment volatility and a decline in secure, career jobs.[43] Increasingly, firms are substituting contingent labor for full-time labor that is not absolutely integral to production: growth rates in temporary work have been phenomenal in recent years.[44] Moreover, use of temporary workers is significantly higher among large firms, which presumably are also more likely to have (had) internal labor markets.[45]

---

[42] Peter Cappelli, "The Effect of Restructuring on Employees," in *Looking Ahead: The Restructuring of Employment* (Washington, D.C.: National Planning Association, 1994); Katherine Abraham, "Restructuring the Employment Relationship: The Growth of Market-mediated Work Arrangements," in *New Developments in the Labor Market*, ed. Katherine Abraham and Robert McKersie (Cambridge, MA: MIT Press, 1990), 85-118.

[43] The extent of changes in job tenure is currently a much-debated topic. See Stephen J. Rose, "Declining Job Security and the Professionalization of Opportunity," (Washington, D.C.: National Commission for Employment Policy , Research Report no. 95-04, 1995); Kenneth Swinnerton and Howard Wial, "Is Job Stability Declining in the U.S. Economy?" *Industrial and Labor Relations Review* 48 (1995): 293-304; Henry Farber, "The Incidence and Costs of Job Loss: 1982-91," *Brookings Papers: Microeconomics* (1993): 73-132; Francis X. Diebold, David Neumark, and Daniel Polsky, *Job Stability in the United States* (Cambridge, MA: National Bureau of Economic Research, Working Paper no. 4859, 1994).

[44] Eileen Appelbaum, "Restructuring Work: Temporary, Part-time, and At-home Employment," in *Computer Chips and Paper Clips: Technology and Women's Employment*, ed. Heidi Hartmann (Washington, DC: National Academy Press, 1987), 268-310; Richard S. Belous, *The Contingent Economy: The Growth of the Temporary, Part-time, and Subcontracted Workforce* (Washington, D.C.: National Planning Association, 1989).

[45] Garth Mangum, Donald Mayall, and Kristin Nelson, "The Temporary Help Industry: A Response to the Dual Internal Market," *Industrial and Labor Relations Review* 38, no. 4 (1985): 599-611.

At the industry level, the increased premium on skill may make it more difficult to advance out of low-wage industries, where job hierarchies are often quite flat and not deep enough to provide a career for a significant proportion of workers. [46]

These types of trends have the potential to exacerbate barriers between "core" and "peripheral" workers, as movement into a shrinking group of specialized, permanent jobs is cut off. If the externalization process is differentially distributed across the workforce, the result may be declining career mobility for some groups of workers, through the emergence of a two-tiered job structure.[47] This possibility has given added weight to the call for innovative work systems in low-wage service industries, with the hope that internal labor markets can thereby be retained or even created.

Our case studies, however, do not provide grounds for much optimism on this issue. Only Bloomingdale's showed an explicit emphasis on increasing internal promotion, and this is in the context of a previous system which had no internal mobility whatsoever from the sales associate position. Moreover, the retail industry in general has long depended on external hiring of college graduates into managerial positions. Almost all of our case study companies had formal managerial training programs which target college students, train them briefly on the sales floor, and then quickly promote them to managerial levels.

While promotion rates at Red Shoes are quite strong (roughly 55 percent of full-time sales associates have been promoted to management trainees), this is due largely to the company's rapid expansion through new store openings, which creates the need for managers. Better Burgers does promote internal mobility from crew member to assistant manager, but the manager-to-crew ratio is roughly 1 to 9 and the promotion chain effectively stops within the

---

[46] Among retail discounters and in the fast-food industry, there are few jobs above the entry level, with roughly one managerial position for every 10 front-line positions. Office of Technology Assessment, *Draft Project Plan for the Assessment on Technology, Jobs, and Productivity in the Service Economy* (Washington, D.C.: U.S. Government Printing Office, 1994).

[47] Paul Osterman, *Employment Futures: Reorganization, Dislocation, and Public Policy* (New York: Oxford University Press, 1988); Harrison, *Lean and Mean*; Pfeffer and Baron, "Taking the Workers Back Out"; Thierry Noyelle, "Toward a New Labor Market Segmentation," in *Skills, Wages, and Productivity in the Service Sector*, ed. Thierry Noyelle (San Francisco, CA: Westview, 1990), 212-24; Cappelli, "Rethinking Employment."

restaurant and does not extend to company staff -- and in any case, this type of internal mobility has always been a traditional part of the Better Burgers system.

An additional problem is that those retailers in our study who were moving to high skill strategies were increasingly selective in hiring. Home Depot has not built its quality service by training cashiers to give advice on building a porch, but rather by recruiting skilled, older workers with construction experience: less than 2 percent of its sales associates are first-time job holders. And Red Shoes is hiring college graduates or students who are in or on their way to college; the full-time sales associates who stand a good chance of being promoted are usually college students. Similarly, Bloomingdale’s is more selective in its hiring and screening practices than Stern’s. These hiring trends are not encouraging if we expect retail sales jobs to constitute the next rung in the career ladder for teenage fast-food workers.

Thus, to the extent that the reforms discussed here have "transformed" the quality of retail employment, they have not done so to the benefit of less skilled workers with low levels of education. To be sure, conditions in the labor market can play an important role here. A dramatic expansion of high performance workplaces in the service sector might dry up the supply of more educated labor now being hired by Red Shoes and Home Depot, resulting in an upward pressure on wages and mobility opportunity. On the other hand, based on the information that we have now, there is the very real possibility that employers would not introduce some of these reforms if their access to more skilled workers were restricted. (Would Home Depot emphasize its service-oriented strategy if it had to train all of its sales associates?)

VII. Discussion

America’s shift to post-industrialism has left a legacy of rising earnings inequality and stagnant wages. In the growing service sector, well-paid professionals and technicians coexist with badly-paid janitors, office clerks, and sales workers, and increasingly the gap between the two seems unbridgeable. Accounts of innovative firms which provide for life-long employment and good wages are balanced by daily reports of layoffs in the thousands. The future of job quality in America seems mixed at best.

In this context, research is beginning to focus on how firms have responded to increased competition, and the distribution of jobs and wages they have created in the name of restructuring and reengineering. This article has addressed three questions. First, what is the nature of firm restructuring in the service sector? Second, how is firm restructuring affecting job quality and mobility opportunity? And third, can innovations in the workplace improve job quality, especially in service industries which have in the past been characterized by low wages and limited opportunities for upward mobility? The findings from our case studies in the retail trade sector suggest several preliminary answers to these questions, which on the whole are not encouraging.

The spread of the high performance workplace is limited: The retail industry is currently being swept by talk of total quality management and new approaches to human resource management. But the workplace reforms that we observed fell short of the ideal high performance model. Many of the key components of this model either were not present or were implemented only at a very rudimentary and ceremonial level, and there did not appear to be strong pressure in any of these firms to go much beyond the measures that they had already introduced. Part of the problem is that the model was developed for the manufacturing sector, and that is where much of the actual implementation can be found.[48] Quality circles and teamwork are difficult concepts to translate into a setting where employees often interact with customers rather than with other workers, where productivity is notoriously difficult to measure, and where the products themselves are often intangible and exist only temporarily.[49] By contrast, the changes that we observed in the "production" side of retailing, i.e. merchandising,

---

[48] Appelbaum and Batt, *New American Workplace*; Gittleman, Horrigan, and Joyce, *Flexible Work Organizations*.
[49] Thomas Stanback and Thierry Noyelle, "Productivity in Services: A Valid Measure of Economic Performance?," in *Skills, Wages, and Productivity in the Service Sector*, ed. Thierry Noyelle (San Francisco, CA: Westview, 1990), 187-211.

were much more developed and more closely approximated innovations in the manufacturing sector. Just-in-time production has found a clear analogy in just-in-time delivery and inventory management, and technology has played a very critical role in enabling this streamlining process.

The low road may be more efficient in some contexts: Our case studies suggest that we may be witnessing the emergence of a service business structure that is at once highly rationalized and productive and yet also labor-intensive and low-wage. At Better Burgers and to some extent Stern's, managers have been able to deliver quality service relying on low-wage workers and a tightly orchestrated work process with little opportunity for upward mobility. Similarly with the successful large discounters. Wal-Mart is among the most efficient and innovative organizations among retailers, yet wages and promotion chances are low. Innovations in merchandising and related functions such as inventory control may offer greater benefits to retailers than human resource innovations. The problem is that merchandising reforms are often based on information technology and do not influence the nature of retail jobs, especially the numerous sales positions. Therefore, for industries such as retailing and business services, workplace reforms that enhance wages and mobility may offer few performance gains over the rationalized, low-wage model. Future research on firms must recognize that multiple paths to efficiency and productivity exist, and that high-road production practices do not necessarily entail high-road human resource practices.

The high road can be low-wage: We found very little effect on wages and job quality in our case studies, regardless of the extent of innovation and despite the fact that these are very successful firms. The workplace reforms did appear to make for somewhat more interesting jobs and more satisfied workers. But positive effects on wages, promotion chances, and skill acquisition were largely absent. This highlights the problematic assumption that productivity gains will eventually trickle down and generate improved compensation for workers. Even if firms successfully adopt high-performance practices and become more efficient, there is no guarantee that productivity gains will be passed on to workers. This general principle is especially relevant in those service industries where competition is intense and markets are unstable. For example, the success of discount retailing depends on price competition. Therefore, improvements in efficiency are converted into lower prices rather than higher wages. Because the retail industry is now mature and no longer expanding, “margins” have become thin, sensitivity to economic fluctuation is high, and as a result, profits are less likely to be passed on through long-term wage increases.

The better jobs go to recruits with more skills and education: Some of our cases have been able to combine competitive pricing and lean structures with a full-time, relatively well-paid and skilled staff. This model is attractive when the nature of the service requires skilled and experienced sales workers. But these firms have largely sought to hire more educated and experienced workers, and done little by way of internal training for higher-level positions; workplace reform does not appear to have benefitted low-skill workers.

Policy options

In sum, our research suggests that at least in this sector of service industries, the high performance model may not have much potential to improve the quality of entry-level employment. We may simply have to recognize that the types of jobs we have been looking at cannot be upgraded, that tasks such as preparing hamburgers, cleaning hotel rooms, ringing up sales, and stocking shelves are inherently limited.

If the quality of low-skill service jobs cannot be significantly upgraded, then one alternative would be to focus on developing alternative strategies for skill acquisition and job mobility for entry-level workers. This can be achieved by developing institutions and policies that would help workers find successively better jobs by moving between firms, occupations, and even industries. In this scenario, workers could shift among firms according to demand but gain portable skills in the process, so that upward mobility occurs across different organizations. From the worker's standpoint, if the frequent job changes are accompanied by advancement into higher positions, then perhaps a multi-employer career structure is feasible.

What are the requirements of such a system? Much of the discussion surrounding this labor market model remains at the level of theory. But it is possible to draw some basic conclusions, from current initiatives that are in the process of being developed as well as traditional multi-employer systems in construction and printing.[50] Fundamentally, such a policy would require collaboration among employer organizations, unions, and the public sector. Employer organizations are necessary because employers acting on their own will have no incentive and little ability to develop this approach. Group participation ensures that training costs are collectivized (so that no single firm loses its investment) and ideally aids in recruitment, screening, and the creation of a more skilled labor force.

Even when jointly represented, however, employers are still at base in competition with one another. Therefore, the initial push toward involvement will probably have to come from unions and the public sector. Unions will need to aim for full representation across employers, in order to preclude wage undercutting and subcontracting by non-union firms. They will also have to ensure that worker welfare and security are protected in a system where careers are no longer guaranteed within a single firm. The public sector can play an important role here, by helping unions and their employers to establish job-matching centers and portable health insurance and pension plans. Last, it is likely that changes in labor law will be required to facilitate such initiatives.

The development of stronger worker representation is clearly a daunting task. It is made all the more difficult by the historical lack of unionization in the service sector and the notorious problems in trying to organize a high-turnover service workforce. But there is some hope. Unions have already begun to recognize that low-wage service work requires new organizing strategies which are not employer-based but rather cover a local region of employers. And in some niches, such as health services and the hotel industry, there are established unions with a tradition of focusing on training and mobility issues. A number of researchers and activists have

---

[50] For a current example, see Stuart R. Korshak, “Negotiating Trust in the San Francisco Hotel Industry,” *California Management Review* 38, no. 1 (1995): 117-137.

also begun to formulate alternative models of worker representation.[51] Dorothy Sue Cobble, drawing on the history of waitress unionism, advocates an "occupational unionism" model in which the union focuses on strengthening overall income security and skill acquisition rather than job security at a single employer. She suggests that this may be a viable model for a high-turnover, semi-skilled service labor force.[52]

Policy makers have also begun to develop ways of fostering employer organizations that move beyond the traditional lobbying role, and instead focus on industry-level training and employment issues. For example the National Skill Standards Board, created by federal legislation in 1994, is working with a number of employer organizations to develop standards and credentials for the skills that firms in their industries need. In recognition of the crucial role the unions must play, the Board has equal representation of business and labor. Whatever the specific outcome in terms of skill standards, unions and employers will gain important experience in working collaboratively to develop a coherent system of training and occupational mobility.

Thus, while the political climate is clearly not conducive to a resurgent union movement, there is support for cooperation among firms with respect to labor force development. If taken seriously, this cooperation could generate a role for unions. In the construction industry, for example, unions shoulder much of the burden of running hiring halls, scheduling and assigning workers, and coordinating apprenticeships. Although service industries represent a different setting, some initiative along these lines must be pursued. Otherwise, judging from the research presented here, it is likely that the service sector is headed for an increasingly polarized and unequal job structure, with a correspondingly segregated workforce.

---

[51] Joel Rogers, “A Strategy for Labor,” *Industrial Relations* 34, no 3 (1995): 367-381.

[52] Dorothy Sue Cobble, “Organizing the Postindustrial Work Force: Lessons from the History of Waitress Unionism,” *Industrial and Labor Relations Review* 44, no 3 (1991): 419-436.