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AUTHOR Bailey, Thomas R.; Bernhardt, Annette D.
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ABSTRACT

A study examined the effects of high-performance innovations on workers and job quality by conducting six case studies of firms that had implemented reforms in both the production and the service end of their operations. All the firms were in the traditionally low-wage retail industry. These case studies were drawn on 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. An important cluster of innovations was found in each of the two functions of retailing--merchandising and selling. Although all the companies had performed well during the period of human resource reforms, the causal link between those reforms and stronger performance was far from clear. These effects on job quality were identified: creation of somewhat more interesting and varied jobs; few changes in wages and benefits for sales staff; and declining career mobility for some groups of workers through the emergence of a two-tiered job structure. Findings suggested the following: the spread of the high-performance workplace was limited; the low road may be more efficient in some contexts; the high road could be low wage; and the better jobs went to recruits with more skills and education. (YLB)

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

Thomas R. Bailey
Annette D. Bernhardt

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 of "high-performance systems" argue that such innovations will strengthen the competitiveness of American firms and simultaneously improve the quality of jobs. To test this assumption, we conducted a series of case studies of firms that had implemented reforms in both the production and the service end of their operations. All the firms were in the traditionally low-wage retail industry.

Although there has been a great deal of research describing the high-performance model, researchers have neglected service industries, even though these employ a large majority of workers and generate the bulk of new jobs. More importantly, there has been almost no work that examines the effects of high-performance innovations on workers and job quality; most analysts have simply assumed that these changes would benefit workers.

Because the retail industry is largely low-wage and has traditionally relied on entry-level workers, it is an excellent research site. We focused on three questions: First, what is the nature of restructuring in retail? Second, what effect does restructuring have on job quality, defined in terms of wages, benefits, and the opportunities of skill acquisition and promotion? Third, can the adoption of high-performance innovations improve job quality in this sector?

The high-performance model

The high-performance model is characterized by flexible work structures and streamlined production systems. Because the model relies on human resource strategies to create high levels of motivation and productivity, job quality rises and even entry-level jobs offer good wages, autonomy, and skill development. In theory, 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, there also appear to be efficient alternatives with much less desirable characteristics. These approaches emphasize cost-cutting, downsizing, and reliance on low-wage workers. This "lean and mean" model involves union avoidance, separation of an inner core of skilled workers from a periphery of cheaper part-time and temporary workers, and even the retention of some tenets of scientific management such as job fragmentation and de-skilling.

Policy makers have tried to devise ways to promote the high-performance model over the lean and mean model, but there is a third alternative that has received less attention. It is possible that firms might adopt many of the characteristics of the high-performance model without changing the quality of employment for entry-level workers. It is this possibility, that the high road may ultimately not benefit workers and job quality, that was the motivation for our study.

The Retail Industry

Retail trade is a major destination for entry-level workers without a college degree. The percentage of retail employees aged 16 to 24 is often more than twice the national average. Job quality has traditionally been a problem in this sector. Real wages for retail trade declined substantially in the past several decades, health care coverage is minimal, turnover is endemic, and the percent of part-time workers is extremely high.

In the last two decades, the industry experienced a marked rise in competition. Specialty and discount stores have been extremely successful and have been the first to adopt new inventory technology. At the same time, consumers have emphasized price and value. The result of these trends is that retail firms are competing for shares of an over-stored market in which price has come to dominate. The challenge of increasing sales is now focused on cost reduction.

Retail firms are therefore experimenting with a range of innovations in how they organize the workplace and in how they manage the links between buying, distribution, and sales. The goal is to move the industry toward more flexible and lean business practices. Although this process has created a demand for efficient workers with good skills, employers often see economic forces as militating against human resource innovations. Indeed, the downsizing and outsourcing that many employers believe to be essential to their survival are inimical to innovations that depend on employee involvement and commitment to the firm. Thus, while the move to innovative work structures holds the promise of good jobs, cost-oriented business strategies carry the threat of bad jobs, and the problem is that such strategies may be more prevalent.

Six Case Studies

During 1994 and 1995, we conducted case studies of six retail firms that had implemented a variety of production and workplace reforms. Some of the company names are fictional.

Better Burgers. This major fast food company is an efficient, low-wage employer, whose employees have traditionally followed a tightly orchestrated work process. But under a new "quality service" strategy, some of its workers have more discretion to respond to customer requests and complaints. The question for our research was whether this empowerment of employees has translated into any changes in wages, benefits, or promotion opportunities.

Home Depot. The largest home improvement and building supply company in the US and one of the most profitable companies in the retail industry, Home Depot's employees give customers detailed advice concerning their building and hardware needs. Management gives its sales associates wide discretion regarding department operations. Home Depot thus affords researchers a look at what might be considered the high road of firm restructuring.

Red Shoes. A small, fast-growing, and very successful shoe company in an intensely competitive industry, this company has established its niche with cutting-edge styles at low prices. It reduces its cost by relying exclusively on low-cost manufacturers, but, unlike many of its competitors, Red Shoes has tried to build its business using a full-time, low-turnover staff.

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 divisions, including Bloomingdale's, Stern's, Burdine's, and A&S. Two of these, Bloomingdale's and Stern's, have recently implemented workplace changes. The nature and depth of these changes differ, in part because Bloomingdale's serves the high end of Federated's clientele and Stern's serves the middle to lower end. This stratification is mirrored in how each store has changed the role of sales workers and managers, and thus affords us a look at two divergent paths to human resource innovation. At the same time, Federated itself implemented a team-buying system for all of its department stores, with mixed results. For the purposes of this study, Federated, Bloomingdale's and Stern's were considered as three separate cases of organizational change.

Taken together, these firms provide us with considerable variation in business strategy, competitive environment, and quality of entry-level, non-managerial jobs. We drew 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.

Firm Restructuring

Retailing can be seen as the combination of two functions, merchandising and selling. We found an important cluster of innovations in each of these broad functions.

Merchandising

Merchandising, the selection and buying of products from manufacturers, is fundamental to the success of a retail business. Retailers wary of inefficient merchandizing are creating tighter and more permanent relationships with smaller groups of vendors. These are often facilitated by technological advances, most notably Electronic Data Interchange (EDI), which links inventory directly to store purchases so that replenishment occurs as soon as it is needed.

Our case studies revealed a range of new approaches in merchandizing, and technology is often the key. Red Shoes, whose niche, high fashion at low prices,depends on a lean retail structure, gets about 60 percent of its revenue from wholesaling to department stores. This results in very low overhead. In addition, the company buys directly from manufacturers devoted exclusively to supplying the Red Shoes Corporation. Red Shoes is also introducing a fully automated ordering system to allow for immediate replenishment of inventory from the manufacturers. Home Depot also buys directly from a limited group of manufacturers using EDI. Stern's EDI system and automated terminals have resulted in significant reduction in paperwork, manual pricing, and reordering. Bloomingdale's is the only firm in this study that has not yet converted to an EDI-driven system.

As companies expand, merchandising exhibits several tensions—even with EDI. Large chains can use centralized purchasing to get lower prices from suppliers, but centralized buyers may not be in touch with local markets, thereby leading to inefficient ordering. For example, when Home Depot went national, stores on the West Coast complained that centralized buying was not meeting West Coast tastes. As a result, the company is creating a regional buying infrastructure, so that 90 percent of the buying is being done at the local level.

Federated is also attempting to strike this kind of balance. When buying was done separately by the individual department stores, the result was a lack of uniformity in the buying structure and a loss of economies of scale. To solve this problem, Federated instituted a buying system in which 70 percent of the purchasing and product selection was made by a centralized team consisting of representatives from all of the regional markets. This structure proved cumbersome and wasteful: buyers from Atlanta did not have to be involved with decisions relating to Chicago. Moreover, during the three years of the team structure, sales were flat and productivity did not increase. Federated is streamlining the system; purchasing is now centralized with only minimal input from the regions, but decisions about volume and marketing are left to the regions.

Selling

Because the industry is now in a price-driven market, retailers have shifted to an emphasis on quality service in an attempt to differentiate themselves. To varying degrees, retailers' 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, and total quality management.

Although there is considerable variation in depth and scope, programs along these lines exist in all of the companies we studied. Home Depot, which uses experienced, skilled sales workers, offers perhaps the closest approximation to a high-performance workplace. Store departments are decentralized, and managers and their staff work in a team structure that allows some decision-making by sales people. Better Burgers has been at the opposite pole from Home Depot, competing primarily on the basis of price and the delivery of uniform products, with minimal variation in how the product is delivered. To some extent, the company has introduced greater flexibility, and employee input is now encouraged through team meetings.

Bloomingdale's, which used to rely on its reputation for exclusive products, has had to shift toward competing on the quality of its customer service. Sales associates keep lists of their customers and their buying habits, and interact with them one-on-one, even arranging for purchases over the phone. This has led to a considerable exten-

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sion 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 ten percent of its sales staff.

By contrast, Stern's, which competes on the basis of price for mainstream products, has been streamlining the vendor delivery process and pushing for greater efficiency through the creation of tight productivity goals. While pushed to provide better service, sales associates still work under strict guidelines. Managerial jobs at Stern's have changed more than sales jobs; downsizing and the introduction of technology have resulted in managers taking on many personnel tasks and spending more time on the sales floor.

Restructuring and performance

Although all of the companies in these case studies 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 extensive cost-cutting and changes in merchandising. For example, despite the emphasis on service quality at Red Shoes, the company's strong performance clearly stems from its very lean merchandising strategy. Similarly, at Better Burgers, sales and customer satisfaction did increase at those restaurants that introduced employee empowerment, but the timing of that increase also coincided with significant price cuts. Similarly, Home Depot's success is clearly related, to a great extent, to its no-frills warehouse format and its everyday low prices.

In some cases, it may be that it is high growth and healthy profits that promote human resource innovations rather than the reverse. Further, 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 companies. 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 work structure. For example, at Better Burgers, the teams are very informal and ad hoc; the managers run the store. In short, although managers at all of these companies espoused a commitment to empowering workers, this has not resulted in fundamental changes in decision-making power or autonomy at the staff level. In contrast, these retailers have made significant commitments to innovations in merchandising that emphasize technology and inventory management.

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, especially for entry-level jobs. The critical question is whether the restructuring that we observed has improved job quality.

Job satisfaction, employee involvement and training

In general, the changes that we observed have created somewhat more interesting and varied jobs. Retail personnel have more discretion, engage in a wider variety of tasks, and have more complex interactions with customers. But the changes along these lines at Bloomingdale's and Home Depot are much more significant that those at Better Burgers and Stern's. At Bloomingdale's, 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. By contrast, Better Burgers and Stern's continue to rely on the traditional, controlled work environment, using brief computerized training, and offering largely ceremonial channels for employee input.

Wages

Despite the workplace innovations we observed, there were few changes in wages and benefits for the sales staff. At both Bloomingdale's and Stern's, for example, work and stress levels had increased significantly in the past few years, with no corresponding increases in wages. 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. For example, wages at Home Depot are above the industry average, and everyone receives basic benefits. On balance, however, the results in terms of wages are not encouraging.

Careers and mobility

In describing the effects of firm restructuring on workers and careers, researchers have argued that there is a decline in secure career jobs for part of the workforce. Increasingly, firms are substituting contingent labor for full-time labor. 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. For example, in the fast-food industry and among retail discounters, there are few jobs above the entry level. The result appears to be declining career mobility for some groups of workers, through the emergence of a two-tiered job structure. This trend has given added weight to the call for innovative work systems in low-wage service industries.

Our case studies do not provide grounds for much optimism on this issue. Only Bloomingdale's had an explicit emphasis on increasing internal promotion, but this was in the context of a previous system that had very little internal mobility from the sales associate position. The retail industry has long depended on external hiring of college graduates into managerial positions, and almost all of our case-study companies had formal managerial training programs for college graduates, who were trained briefly on the sales floor and then quickly promoted to managerial levels. At Better Burgers, the promotion chain effectively stops within the restaurant.

An additional problem is that those retailers in our study who were moving to high-skill strategies were increasingly selective in hiring. Home Depot, for example, does not train cashiers on how to give building advice to custom-

Institute on Education and the Economy
Box 174, Teachers College, Columbia University
New York, New York 10027
212-678-3091 Fax: (212) 678-3699
iee@columbia.edu
http://www.tc.columbia.edu/~iee
Director: Thomas R. Bailey
Managing Editor: Lisa Rothman

ers; instead, it recruits skilled, older workers with construction experience: less than two percent of its sales associates are first-time job holders. Red Shoes hires college graduates or students who are in or on their way to college.

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. Of course, labor market conditions can play an important role here. A dramatic expansion of high-performance workplaces in the service sector might dry up the supply of the educated labor now being hired by Red Shoes and Home Depot. On the other hand, there is the very real possibility that employers would not introduce some reforms if their access to more-skilled workers were restricted. For example, would Home Depot emphasize its service-oriented strategy if it had to train all of its sales associates?

Discussion

This Brief addressed three questions. First, what is the nature of firm restructuring in the retail industry? Second, how does that restructuring affect job quality and mobility? Third, can workplace innovations improve job quality, especially in service industries traditionally characterized by low wages and limited mobility? The findings from our case studies suggest several preliminary answers, and on the whole they are not encouraging.

The spread of the high-performance workplace is limited. Although the industry is currently swept by talk of total quality management and new approaches to human resource management, many of the key components of the high-performance model either were not present in these companies or were implemented only at a very rudimentary and ceremonial level. Further, there did not appear to be strong pressure in any of these firms to go much beyond the minimal human resource innovations they had already introduced. By contrast, the changes in the merchandising or the "production" side of retailing were much more fully developed.

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 yet also labor-intensive and low-wage. At Better Burgers and at Stern's, managers have been able to deliver quality service relying on low-wage workers and a tightly orchestrated work process without providing for upward mobility. To cite an example outside of our study, 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 and supplier relations may offer greater benefits to retailers than human resource innovations. These merchandising reforms are often based on information technology without influencing the nature of retail jobs, especially the numerous sales positions. Therefore, for industries such as retailing and business services, reforms that enhance wages and mobility may offer few performance gains over the rationalized, low-wage model. Future research on firms must recognize that there are multiple paths to productivity, 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, but positive effects on wages, promotion chances, and skill acquisition were absent. Even if firms successfully adopt high-performance practices and become more efficient, these gains do not necessarily trickle down and create improved compensation for workers. In particular, the success of discount retailing depends on price competition; therefore, improvements in efficiency are converted into lower prices rather than higher wages.

The better jobs go to recruits with more skills and education. Some of the companies in our study were able to combine competitive pricing and lean structures with a full-time, relatively well-paid, skilled staff. But these firms have largely sought to hire more educated and experienced workers, and have done little internal training for higher-level positions. Thus, workplace reform may have a variety of benefits for workers and companies, but it does not appear to have improved the opportunities of low-skilled workers.

Ultimately, then, in terms of job quality and wages, it is unclear whether the high-performance model holds much promise for workers in this sector of service industries. Public policy may instead have to focus on creating labor market institutions that support multi-employer careers, so that workers can find better jobs by moving between firms and even industries. In this scenario, workers would shift between firms according to demand but gain portable skills in the process, so that upward mobility occurs across different organizations. Some sharing of training costs would be necessary, so that individual firms would not risk losing their investment in training. The provision of portable health insurance and pensions, and the creation of job-matching centers, would also be critical to ensure worker welfare. Creating these types of labor market institutions will be a significant challenge.

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