

Can good jobs be profitable in low cost services?

A systemic model and estimation

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Abstract

Can profit maximizing firms offer good jobs in low cost services? Assessing the viability of good jobs in any setting requires the quantification of mechanisms connecting employee quality and motivation, effectiveness of work processes, and customer service and integrating them at the firm level to assess overall performance benefits and costs. In a dynamic model of service operations we capture feedbacks, managerial decisions, costs, and benefits related to viability of good jobs. Using data from Borders bookstores and utilizing extended Kalman filtering with latent variables we estimate this model. We find evidence for significant benefits of employee quality and building capabilities in this mainstream retail setting. Our results also suggest notable managerial biases exist in allocating resources between customer service and capability building, promoting the former as predicted by the capability trap hypothesis. We further find a sharp discontinuity in the optimal organization of work within the range of parameters observed in this setting, with a shift from low paying jobs to good jobs if cost of employee quality could be contained below a threshold. The results point to potential viability of good jobs in low cost services and offers a method for assessing these costs and benefits.

Keywords: Service, Retail, Good jobs, Capability Trap, System Dynamics, Kalman Filter,