PODCAST 228: THE GOOD JOBS STRATEGY

By Mark Graban

Zeynep Ton, PhD is the author of The Good Jobs Strategy: How the Smartest Companies Invest in Employees to Lower Costs and Boost Profits.

Zeynep Ton, PhD
Adjunct Associate Professor at MIT Sloan School of Management
http://zeynepton.com

In episode 228 of the Lean Blog Podcast, Zeynep Ton, PhD spoke with me about the research behind her book *The Good Jobs Strategy: How the Smartest Companies Invest in Employees to Lower Costs and Boost Profits.*

Professor Ton is an Adjunct Associate Professor of Operations Management at the MIT Sloan School of Management. Beginning her career studying industrial engineering at Penn State, Ton wanted to pursue her doctorate in a subject matter that combined business and engineering. She found operations management to be the perfect fit and entered the Harvard Program.

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"I wish the entrance into retail was part of one, big, grand plan that I had thought about, but it wasn't, it was just by circumstance," Ton said.

As a PhD student, Ton found the Harvard Business School's operations management program less quantitative than she was hoping for, so she chose to work with the professor whose work was the most quantitative. That professor was beginning a new project in the retail industry studying supply chains and asked her if she would join the project.

"I said, yes without knowing much about the industry or what I was studying, I just wanted to work with the person. It ended up being a pretty good choice," she said. "But during our study we — and, when I say, 'we,' it's a group of researchers from Harvard business school and from Warton

— we found that while a lot of retailers did a very nice job in the back end of their supply chain, they often dropped the ball in the last ten yards."

One common example of this is that a product would make it all the way from China to the store only to be left in the backroom, never making it to the selling floor to be seen [or purchased] by customers. In-store logistics problems like that were pervasive and costing retailers sales.

"When we looked at what drove these problems, part of the answer was poor labor practices. Stores that had more employee turnover had more problems, stores that had less training had more problems, and the stores that were understaffed had more problems," Ton said.

Labor as a Cost

Poor labor practices are often a result of attempts to minimize costs because of very low profit margins. Ton explained that while cost minimization is very important, companies don't ultimately benefit when they view labor just as a cost. I'd add this should apply in healthcare, as well.

"People don't show up in the balance sheet [as an asset], they show up in the income statement in terms of cost. So that's how they end up being managed. When the attitude is to see people as a cost, they under invest in their employees, both in terms of quality and quantity," she explained. "It was frustrating to observe this as a researcher because it costs companies a lot of money, it gives customers bad service (and no one likes that), and it's just downright brutal for employees. So, I saw a system that wasn't working for anyone particularly, and the reaction was often that this is the only way to get the lowest prices. I thought, 'That can't be the only way.' After that, I started looking for companies that, on the one hand, offered the lowest prices to their customers, but, on the other hand, excelled operationally to be able to deliver great service to their customers and good jobs to their employees."

It wasn't challenging to find retailers that were doing things differently, but there aren't enough of them, Ton said. She found companies who were doing things differently (and better) through word of mouth, as well as research.

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What was exciting to her was that it didn't matter where the successful retailers were located, what industry they operated in, what products they sold, or who their target customers were. What was common among all of them was that they provided good jobs, charged low prices, and offered good customer service. These companies also all enjoyed higher labor productivity, higher sales per square foot, and lower inventory loss. Also common was strong financial performance, with per-store profits 89 percent higher than the top quartile in their industry, Ton said.

Ton explained that when she examined how they achieved all of that, she found the answer to be operational excellence.

Retail Compared to Manufacturing

"If I were to make an analogy to auto manufacturing, especially to Toyota, it would be that most retailers run their operations like Henry Ford thought about running operations, which is using people as interchangeable parts and designing an operating system that does not require empowered, or even capable employees," Ton said. "And then Toyota came along and Toyota said, 'If we design work differently, if we enroll our people in process improvement, have them identify problems when they happen, and solve those problems (we empower them to pull the 'andon cord'), if we cross-train them so that they perform a variety of functions other than just one thing over and over, if we create a whole operating system, a human-centered system that really leverages capable, skilled, motivated employees, then we will do so much better.' And they showed us that they do, do so much better in terms of quality, in terms of cost, in terms of lead time."

The Good Practices

The companies that Ton looked all had several practices very similar to Toyota and other organizations that practice Lean, including:

- Standardize and empower

On the one hand, they standardized all the common processes that would benefit from efficiencies and consistencies, like cash register operation and merchandising. At the same time, they empowered their employees to continuously improve those standards, and to make decisions for their local customers, like product offerings.

- Cross-train

They trained employees to perform a wide-range of tasks. Not all employees are cross-trained to do every task, but are trained in enough areas to be able to react to customer demand changes.

- Operate with slack

Deliberately having more people on the selling floor than the expected workload ensures them that employees aren't rushed to perform their tasks, which in turn results in fewer errors and gives employees time to help improve processes.

- Offer less

By understanding what the business will to deliver to customers, and what they won't, these retailers offer fewer products, which not only helps keep prices low, but allows employees to be efficient and knowledgeable.

The Good Jobs Strategy in Healthcare

Professor Ton and I spoke a bit about how these principles are also helping healthcare providers. One of the cases she shares with her students is Shouldice Hospital, which only performs hernia repair.

"They repeat it over and over, and that repetition, the standardization, the empowerment of people, that whole system works beautifully together," Ton said. "Their patients are so satisfied they even have conferences — like to get preorders. In addition to highly satisfied patients, their costs are much lower, and their employees are very happy with what they do; they're not rushed to do their tasks, like we see in other healthcare settings. They don't suffer from understaffing, they have enough time to take care of their patients and deliver service, and of course their people are able to create good outcomes for their customers. They themselves are more engaged in their job, and they're happier as a result."

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From Bad Jobs to Good Jobs

One of the retailers Ton talks about in her book transitioned from what she calls a "bad jobs strategy" to a "good job strategy." That retailer was Mercadona, Spain's largest supermarket chain.

"When they first started out, they were just like any other supermarket, they offered tens of thousands of products, they offered their employees unpredictable schedules, low wages, they didn't engage them in improvement, they didn't have a mentality of continuous improvement at all," Ton explained. "Then, they hit around 100 stores and foreign, international chains started coming into Spain, and these had better purchasing power, they had economy of scale in many things, and Mercadona needed to find a way to compete against these larger chains."

The president of Mercadona at the time believed that if you invest in people, and you invest in processes, you can get great results. He changed everything, from reducing the number of products they offered, stabilizing pricing so it's everyday low pricing as opposed to regular promotions, improved labor practices, invested in and empowered employees, implemented standardizing practices, and so on.

Professor Ton said that it took them a couple of years to implement all of those changes and start seeing benefits, but the result now is a very healthy company in an economy that's not doing so well.

"In my setting, I study retail, the consequence of understaffing, the consequence of lack of standardization or not following protocol, and not empowering people, is stock-outs, or lost sales. But in the healthcare setting, the consequences are a lot more serious and I wish more companies would follow the good jobs strategy in that setting. It would be better not just for the health of hospitals, in terms of their financial performance, but also for our own health, literally," Ton said.

Employee Wages

I asked her thoughts on the debate happening right now about retail employee wages, and its possible effect of causing employees to double down on the bad jobs strategy due to increased wage costs and the tendency to focus on labor as a cost, etc.

"Unfortunately, I think there is too much attention to wage right now, and too little attention to the design of the work in a way that creates great outcomes, not just the worker, but also the customer and the investor. I think one of the reasons is that the median wages in this country have been pretty stagnant for a long time — the median household income in the United States was higher in 1989 than it was in 2013 – and that's a big problem. Because wages are so low currently, a lot of people just don't have enough money to be able to take care of themselves and their families, there's a lot of focus on wages. But, if you want to create organizations that work for everyone, focusing only on wages is not healthy," Ton said.

Since her book came out in 2014, a lot of organizations have reached out and, oftentimes, the person who contacts her is the chief human relations officer, she explained.

"They say, 'We are determined to make life better for our employees

"It's not just operational practices, but it's the philosophy of seeing people as important, as strategic assets, not as a cost."

because we are going to offer them better schedules, and we're going to increase their wages.' And then I tell them my work is not about increasing wages, my work is about designing the work in a way that makes your people very important for your organization, so that you can pay them more, but it's about the work itself, it's not about paying," she said. "I think one thing that gets in the way is this silo thinking, and not thinking that all these are systems that need to be implementing, not small practices that need to be copied."

CEO Buy-in and Engagement

For organizations that come to her with this thinking, Ton agrees to speak with them only if the CEO is in the room because if CEO doesn't buy into it and doesn't believe that the good jobs strategy is the way to go forward, it won't work in the organization.

"It's not just operational practices, but it's the philosophy of seeing people as important, as strategic assets, not as a cost. There's a whole mentality shift, it's a whole strategic shift, and without the buy-in and support from the CEO it's just not going to work," Professor Ton said.

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