

When does paying more pay off?

Hazhir Rahmandad

hazhir@mit.edu

Zeynep Ton

zton@mit.edu

Abstract

Can well-paying and satisfying jobs accompany—or lead to—profitability in the low-cost service sector? While the value of human resource practices that promote employee satisfaction is established in skilled jobs, their value in service-industry work remains uncertain. Building on qualitative data from a large set of cases, mostly in retail, we map out the systemic feedback mechanisms that could enable good jobs—those that pay a living wage, offer regular schedules, and offer engaging tasks—in services. We build a dynamic simulation model of these mechanisms to assess the viability and boundary conditions of good jobs. In a strategy space defined by two dimensions—task richness and compensation—two local profitability peaks emerge: one with low compensation and task richness, representing labor-cost minimization, and the good jobs peak with high compensation and task richness. Simulations establish the conditions under which each peak dominates and the challenges, due to temporal tradeoffs, of moving to the good jobs peak.

Keywords: Service industry, simulation, good jobs, capability, motivation, good jobs