Goldman Sachs Talks
Zeynep Ton, professor at the Massachusetts Institute of Technology's Sloan School and author of *The Good Jobs Strategy*
Greg Shell, Moderator
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Zeynep Ton: Nobody is proud when we present data on what percentage of their frontline employees are not making a living wage. Nobody is proud that people are not making ends meet. So there is this desire to change, but we just need to change some of those perceptions.

Greg Shell: Good to be with you all. Thank you for being here. I'm Greg Shell. I am a partner in the Sustainability Investing Group. I'm very pleased to be here with Zeynep Ton, professor of Operations Management at the MIT Sloan School. Zeynep, welcome to Talks at GS.

Zeynep Ton: Great. Thanks so much for having me.

Greg Shell: Thanks for being here. We've been very excited about this conversation for some time. It has direct relevance for issues that we face not only on my team and my fund but at the firm and increasingly more broadly than that in the global economy. So you, as a recognized expert today, will offer us some insight to be able to have deeper understanding about this topic, so thank you for being here.

I've had the wonderful opportunity to talk to you, you know, over a handful of years now. And one of the things I've not heard enough from you is just in terms of your own personal background and how you found your way to this topic. And I know that you came here really on a volleyball scholarship. Came to Penn State as a superstar athlete. Take us back to that time as you're finding your way here to this country in an academic setting, looking for who you're going to become as a student athlete and take us from there. But maybe start there as a place where we can get to know how you found your way to this thesis.

Zeynep Ton: Yes, first, thank you so much for having me. I keep looking around to see if I see any of my former students from either HBS or MIT Sloan. But I came here in 1992, a long time ago, on a volleyball scholarship to Penn State, studied industrial engineering, but the proudest moment for me in undergraduate was to make the Final Four team, all-tournament team in Final Four. We were the first team from Coach Rose, who made it to the Final Four. I ended up playing for the winningest coach in the NCAA history. When he retired in 2021, Coach was the winningest coach across all sports, and I learned so much from him.

I learned so much from what it takes to create a winning organization. And I think that I ended up taking with me throughout my career as a researcher, as an academic, and now as a practitioner working with companies, too.

Greg Shell: There's something, Zeynep, that you took in terms of what it meant to be part of a team in an organization that you think is directly relevant to companies. You know, far larger, much more complex. I'm curious about what the sort of tenets were that, you know, sort of formed the foundation of your thinking about how to see organizations in that same kind of sort of fabric of teamwork and organization?

Zeynep Ton: You played volleyball, Greg.

Greg Shell: I did.

Zeynep Ton: So you know. It's so much --

Greg Shell: I didn't make the Final Four.

Zeynep Ton: Yes, but it is -- but you depend on each other to be able to make a point, right? It's not one or two stars is not enough in volleyball, so teamwork is important. The competitive drive to win is important. Continuous improvement is important. And from the coach, there were three things that I saw from this winningest coach that applied to organizations.

The first one was deep focus, relentless focus on the fundamentals of running the business well, right? We did -- at Penn State, we did -- we ran a few drills and we ran them all the time. Passing, hitting, all those drills. And he didn't get distracted by the new, cool technologies, what other teams were doing. He was focusing on the fundamentals.

And the second thing was high expectations. He set really high expectations. Your spot on the team was never guaranteed. And every single practice was a competition.

And then the third one is we had a very stable team, right? So obviously in college sports, when you're a senior, after you're done, you graduate. But all of our team stayed together all four years. No one has reason to leave. And that stability enabled us to be a good team. And Coach's superpower -- and this is why we all stayed -- his superpower was to take ordinary players like me -- I could have never played for another team I think in the NCAA at that time. He took ordinary players like me and created extraordinary performance out of us because of how he leveraged the capabilities, abilities of each individual player, and he cared deeply for us.

So as I look at his formula for success, I see the organizations. The organizations that win with their customers are those that never lose the disciplined focus on the customer. They run their business with a keen desire to do the fundamentals really well. They set high expectations. And they don't get distracted by new, cool things but really are laser focused on the customer and creating value.

Greg Shell: Understood. When I think about classic operations management, I think of optimization, for example, in product and management of various inputs and costs, performance model, the rest. You've taken sort of principles of operations management and really oriented them toward people. Tell me a little bit about that on your journey to finding this topic.

Zeynep Ton: Yes. So I started my research more than 20 years ago. I won't tell you how many more than 20 years ago. But I was looking at retail supply chains. And managing retail supply chains is all about optimization, forecasting demand, optimizing inventory levels, so that you manage product availability relative to so that retailers can make more money.

And very early in my research with my colleagues, we saw that product availability was not just a planning optimization problem. It was a people problem. Oftentimes, products will be in the wrong location in the store where customers couldn't find them, so they experienced a stock-out. The inventory data that was used was oftentimes inaccurate. Trying running omnichannel with inaccurate inventory data. So many inventory-related problems that I saw in the front lines of retail stores, and these problems were big. They were expensive. They led to low sales. They led to higher costs. They led to lower productivity. And when we looked into why do these problems happen all the time, that's when I met the people side of operations, right?

Because we found over and over that stores that had more employee turnover had more problems. Stores that were understaffed had more problems. And many companies were operating in this vicious cycle of high turnover, poor performance. And they kept continuing on that vicious cycle by adding more products, more promotions, more coupons, things that really didn't add value to the customers but increased their sales and growth. And that was the status quo that I observed, which was costly from a business point of view.

But as I was studying these problems, I also saw the human side, the human costs associated with these problems. I met so many people working at retail stores and in supermarkets and so many other places, I met tens and then hundreds of people who are competent, capable people, hard-working people, many of them have multiple jobs, and they can't make ends meet, right? They can't put food on the table. They're working multiple jobs. They can't sleep. They can't take care of their children. And that side really appealed to me because I saw this problem is costly for companies, it's terrible for workers. Here we are in the most prosperous country in the world, yet tens of millions of people are left behind. And I wanted to study that intersection of operations and people. And that's what brought me to I think my first book, *The Good Jobs Strategy.* And then to the second one, *The Case for Good Jobs.*

Greg Shell: You're on your second book, *The Case for Good Jobs.* It's a fascinating title, and it implies in many ways that you're still out in the field, just as you described, prosecuting this case and almost still proselytizing for a way of thinking that the world hasn't quite caught up to yet. Talk about what you've seen since you wrote the first book, things that you're particularly proud of in terms of advancements some companies have made and where are we not quite there yet and why do you think that's so?

Zeynep Ton: Yeah. I mean, in some ways, the case for good jobs seems so obvious, right? How can any winning organization win without a strong team that's set up to succeed? Just like my volleyball team. Just like with Coach Rose. But unfortunately, what I have observed -- and sadly this observation stays; it hasn't changed so much -- so many leaders in industries from looking at industries like call centers, retail stores, nursing homes, restaurants, pest control, janitorial services, the frontline, factories, warehouses, I can go on and on, where tens of millions of people work in this country, so many leaders look at these settings and say, “We can't afford to invest in our employees. We can't afford to pay people more to be able to create that strong, winning team.”

And what I have observed is that low pay and the resulting high turnover is a lot more expensive than leaders may think, right? But oftentimes organizations are run assuming that low pay and high turnover are just necessary to compete in that industry. It's just equipment maintenance; you have to operate this way. But that's not the case.

Many leaders have never even quantified the cost of turnover. I started a nonprofit institute called the Good Jobs Institute a couple years ago. And we have worked with dozens of companies. And every company we work with we quantify the cost of turnover. And what we have seen, Greg, in the frontline settings -- again, all the different settings that I mentioned to you -- we have observed turnover levels from 40% to 300%. Just a few weeks ago, we started working with a Mexican company that topped the turnover record for 400%. Which means a typical person stays for three months. Can you imagine? Like, can you create a team made up of players who are there for just a couple of months?

But as we work with these companies and quantify just the direct cost of turnover -- hiring, recruiting, onboarding, training, time to full productivity -- we see those direct costs to be quite significant. They can amount to 10-25% of payroll dollars, overall payroll dollars, spent that you're paying for these direct costs of turnover. The highest that we have observed so far was at a financial services company, and it was at their call centers. And it automated to 45% of payroll dollars spent on direct cost of turnover alone because every worker had to be licensed. So the training costs are very high.

But those direct turnover costs are the smallest costs of turnover, right? Those costs are so much smaller than all those operational execution costs that we talked about before -- lower sales, higher product costs, waste, lower productivity. So those are even bigger.

But then the biggest costs of turnover are, you know, when companies operate with high turnover, there are basic management practices that they just can't implement. They can't hire the right people or train them well. They can't empower their workers. They can't set high standers. They can't create trust in their organization. They can't hold onto strong unit managers.

We work with organizations where unit managers ask to be demoted or leave the company because they were having anxiety attacks. Because when you operate in a system in a vicious system with high turnover, so many problems, people not showing up on time, you are burned out. As a manager, you don't want to be there. So this entire system ends up being a low-trust system, low-expectation system, uncompetitive system, and an inhumane system. So that's the status quo that we see so many organizations in still. And part of this book is to show, look, it costs you a lot more than you may think.

Greg Shell: Are you making the statement that, for most companies that see you or contact you through the Good Jobs Institute have already gotten to a place where they're convinced; they just want to know how? Or are there still holdovers who have not yet made that migration that this is even something they should spend time on?

Zeynep Ton: Yeah, many of them come to us because they read my first book, *The Good Jobs Strategy.* And they look at the company like Costco or Trader Joe's or [UNINTEL] or QuikTrip, a convenience store chain, and they see a company like that. Wow, they pay their employees so much more. They have a great team. I mean, if you go to Costco, last year, a typical Costco worker made $26 an hour. A typical retail worker made $16. $10 more. And Costco offers the lowest prices to customers, right? And it has been a darling for investors.

I mean, if you look at from 1985 to 2023, their compounded annual growth rate has been 17% compared to S&P's 9%. So they look at a company like that, and they -- and it's not just Costco. You don't have to be a warehouse model to be able to do this. You can be a convenience store chain like QuikTrip. A typical convenience store chain had 80% turnover for full timers. QuikTrip had 20%. So these companies operate so differently. They win with their customers. They win with their investors. And they say they want to be just like them and in our own way.

But part of it is where do we start? What changes do we make first? How do we make the case to our board, to our investors? So those are the conversations that we oftentimes have with those companies. And we do a workshop, 2-day workshop, and we bring together leaders from all levels, C-level leaders as well as other leaders, as well as some frontline leaders. And the whole purpose is to create urgency for change and alignment for change.

The urgency is really important because this is a system change, right? This is not an HR problem. It's not an operations problem. It's not a strategy problem. Everyone who makes decisions that affect the work of the frontline employees. So in a restaurant chain, it might be the people who are designing the menu, who are choosing the suppliers, who are choosing the deliveries. The work of all these functions affect the work that frontline employees do. So if they make their decisions that lower productivity, that make it difficult for frontline employees to deliver for their customers, they can't change.

So all of those functions have to be aligned. A mold for them to be aligned and involved, they need to make this a winning -- an argument around winning with customers.

There needs to be some urgency, competitive urgency for change. So we create this 2-day workshop to create that urgency. Why is status quo unacceptable? Can you stay with the status quo and continue to win with your customers? Can you adapt the changes to status quo? So we want them to see that the status quo is actually unacceptable and bring everybody along for this change.

Greg Shell: Take us into the playbook a little bit. Your research has helped you identify four operational choices that companies can make to improve productivity, motivation, morale. What are those four? And maybe give us a sense for the things that you consider to be essential for companies to get right on that journey?

Zeynep Ton: Great. So that's the secret sauce of the Good Job Strategy, which is operations. And four operational choices -- focus and simplify, standardize and empower, cross train, and operate with slack. So those are the four operational choices, but these choices work together as a system. This is a customer-centered system. And it's a system that increases productivity and contribution of workers.

You know, in a typical retail company, when someone in merchandising is making a decision about what do we add? They might add new products. They might add new promotions. They might add new coupons, new discounts, all these things because they are financial centered. They look at the spreadsheets and they look at all the things that drive sales, and a typical merchant in a typical retail organization will do things to increase sales.

At a place like Trader Joe's or Costco, that's not how merchants think, right? They think about value for the customer before they think about the numbers. And they think about, if I add this coupon or this discount, what is that going to do to the value I offer my customers? How is it going to affect the work of my employees? If it's going to increase time, if it's going to waste their time, if it's going to reduce their productivity, if it's going to prevent them from serving the customer, they won't add a new product or a service no matter what the spreadsheets may say. So it's a different type of thinking, and it's a thinking in terms of customer-centered and a frontline-centered way.

And similarly, if you go to Trader Joe's, you may not see 40,000 products that you may see in a typical retail chain because having fewer products enable their employees to be more productive, know the products, and serve the customer more. But you're going to see a lot of people.

And one of the choices of the Good Job Strategy is operate with slack. You might ask: How could it be efficient? Right? Because lean and mean is actually really inefficient. I mean, those of you who have taken an operations class, you would know that targeting near hundred capacity utilization in a variable system is a really, really bad idea. So what happens when you don't operate with slack? What happens when you don't think about all that variability? Well, people make mistakes. People can't serve the customer well. They have all sorts of inventory problems that end up costing the companies a lot more down the line. There's burnout. Managers are fighting fires; they have no time to lead their people. So they see the full costs of not having enough people, and they operate with slack to make sure that the shelves are always stocked, to make sure that customers are going through the checkout as fast as possible to drive up sales, to make sure that employees have time to think about all the ideas that would improve their sales or reduce their costs so they contribute to that continuous improvement. So it's that system that works together.

And of course, you can't operate with slack if you have slackers, right? So it's a very high-performance, high-expectation system.

Greg Shell: Yeah. Operate with slack but not slackers. It's an interesting concept.

Zeynep Ton: Yes.

Greg Shell: I want to talk a little bit about the current sort of employment context. We get a lot of data about the labor market monthly. This is a moment in time, when you step back, the market seems very tight. You've seen, in many ways, inflation with worker pay in some cases that we've not seen for a really long time.

On the other hand, there's this deep reliance on the gig economy. We've seen people drop out of the labor force and so on. So this is really some real dichotomy that I think is maybe under emphasized. So the direct relevance of what you talk about feels timely and important. I wonder, to the extent that -- and I want to come back to that word you used which is “obvious.” Why is it not more prevalent? Why are more CEOs not beating down your door? Why are they continuing to sort of preside over a context which is shown to be inefficient, ineffective, bad for them, expensive? And if all that's so true, why are they still doing it?

Zeynep Ton: Yeah, I mean, the things that we have covered before, you know, the first is lack of imagination. They can't think any other way than labor is just another cost, lean and mean is what drives efficiency, and market pays the right pay. And the way that we teach our students really prevents them from imagining. Our reliance on cause and effect in isolation, oftentimes using historical data, makes it very hard to imagine and make a change. I'll give you one example.

Many companies we have worked with, we've heard anecdotes like, “Well, we've empowered our employees before. It didn't improve performance.” “We've added more hours to operate with slack. It didn't improve customer service.” “We've increased pay before. It didn't reduce turnover.” So looking at the past, you know, what happened in the past, makes it very hard to imagine how much better you can be in a different system, right? Because those are siloed individual decisions. Looking at historical data makes it very hard to imagine the future, and that's a huge, huge barrier.

Greg Shell: When I've looked at some of your writing, you've used a very unique term about how companies ought to think about their employees. And you've used this term that you've described as having “deep care” for employees. Talk a little bit more about that.

Zeynep Ton: Yeah, I mean, you can either see your employees as a cost to minimize, or you can see them as human beings who drive real value for the company. And when you see them that way, then the biggest gift to give is to create high expectations and deep care for your employees, right? And the deep care is about paying enough wages so that they can take control over their lives. That has to be the minimum condition for a good job, right?

A good job for us in this room might mean different things, right? We might think about weighing sense of achievement, belonging, recognition, career growth, purpose, those things. But the minimum condition for a good job is high enough pay so that we have control over our lives.

There are tens of millions of people in this country that are not benefiting from that minimum condition. They have multiple jobs. They can't sleep. They can't put food on the table. They're constantly stressing about, “Am I going to be able to pay rent or take my child to childcare when they need it?” So in the system, all the pizza parties, belonging programs, or recognition programs are just a Band-Aid on a wound.

So deep care means paying workers enough so they have control over their lives. It means providing them stable schedules so they have a sane life. It also means designing their work for humans, not for interchangeable parts. It's designing their work in a way that respects their time, respects their abilities, and respects their knowledge.

Greg Shell: When you look forward over the next decade, when you start to think about what a third or fourth book would look like, when you start to think about the work not yet done, when you think about the consulting practice that the Good Jobs Institute and the impact it can really have, what's up next?

Zeynep Ton: Yeah. So I'll tell you the history for what's next. So 2014 is when *The Good Jobs Strategy* came out, and that's when I started receiving calls from company leaders, from the world's largest company to a small dog walking business, saying, "We want to do this, too." And we started working with companies, and our theory of change, Greg, was, if we can show a couple of success stories of transformation, then we could reduce the risk for other leaders who want to pursue this change. And I hope now, with this evidence, that risk of change seems a lot lower for other company leaders.

The risk of change is lower because, one, the system you're implementing is actually a blindingly obvious system. [UNINTEL] likes to think about her work as blindingly obvious, but I'll take it. It's blindingly obvious.

The second is, because just like there's a vicious cycle of low-pay, high-turnover, poor performance, there's a virtuous cycle of higher pay, lower turnover, better performance. And you don't have to make all the investments all at once. The leaders that we have worked with found this change incredibly meaningful, and that's an incredible legacy that they end up having.

So I hope that, with this evidence now, with this case made now, in the next couple of years, we see an inflection point where this is going to encourage many more companies to adopt this. And that's what our mission or our objective at Good Jobs Institute is, to take 10 million bad jobs, low-wage jobs and convert them into good jobs by 2027. So I hope we get closer to that goal.

Greg Shell: What a vision. Thank you for coming to talk to us and share a little bit about your research. Thank you.