

IN SEARCH OF THE HIGH ROAD: MEANING AND EVIDENCE

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This article is the first in a series to celebrate the 70th anniversary of the *ILR Review*. We will be highlighting important research themes that have been featured in the journal over its many years of publication. In this article, Paul Osterman reviews research on the quality of jobs and recent debates over “High Road” and “Low Road” approaches to employment practices. Scholars and policy advocates frequently utilize the distinction between High Road and Low Road firms as a framework for efforts to improve the quality of work in low-wage employers. This article assesses the logic and evidence that underlies this construct. The author provides a definition of the concept and examines the evidence behind the assumption that firms have a choice in how they design their employment policies. He then takes up the assertion that firms that adopt a High Road model can “do well by doing good” and adds precision to this claim by reviewing the evidence that a profit-maximizing firm would benefit from following the High Road path. The article concludes by suggesting a research agenda and providing a framework for policy that flows from the conclusions drawn from the existing research base.

Stagnant wages and earnings inequality have directed scholarly and policy attention to the employment practices of firms. The distinction between “High Road” and “Low Road” employers has emerged as an important theme, as has the puzzle of how to push firms onto the High Road model.

The power of the High Road/Low Road idea is demonstrated by its take-up at the highest levels of government. The Obama Administration’s Secretary of Labor and the Director of the National Economic Council jointly issued a report entitled “Profit and Purpose: The High Road Is the Smart Road” (White House 2016). The president himself visited so-called High Road employers, including Zingerman’s Deli in Ann Arbor, Michigan, and a Costco superstore, to highlight their employment practices. He also

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issued an executive order requiring that federal contractors adhere to what was termed “High Road practices” (Marstel-Day 2016).

Advocates commonly deploy the High Road/Low Road distinction (Restaurant Opportunities Center 2012; National Employment Law Project 2013), as do business groups (American Sustainable Business Council 2017) and think tanks (Keystone Research Center 2015; U.C. Berkeley Labor Center 2017). The business press has taken up the framework and the success of books such as *The Good Jobs Strategy* (Ton 2014) show that the idea has captured broader attention. The funding community is also onboard as illustrated by the Clinton Foundation promotion of what it termed “high road practices in the restaurant industry” (Clinton Foundation 2017) and the Hitachi Foundation’s support of what it termed “Pioneer Employers” (IWER 2017).

The interest in High Road policies is understandable. The prevalence of low-wage jobs represents a central economic and policy challenge. In 2015, 27 million adults between the ages of 25 and 54 earned less than 125% of the poverty line for a family of three with two children (\$23,870). These represented 21% of the workforce in this age range, and of these workers 42% worked full-time and full-year¹ in low-wage jobs concentrated in specific industries, such as retail, accommodations, restaurants, and personal services. Given these facts, it is clearly tempting to focus on employer practices rather than on employee improvements. The traditional emphasis on education and training is unlikely to have an impact at scale on adults who are already in the workforce, and in any case a great many low-wage workers do have postsecondary education.²

As popular and intuitive as is the idea of the High Road/Low Road model, significant questions remain. This article is structured to address these questions step by step. The first issue is definitional: What does it mean to be a High Road employer? I then ask about the evidence and logic behind the core premise that firms have a choice about how to organize work rather than there being a single optimal choice. This then raises what might be seen as the central question: What is the meaning and evidence behind the claim that High Road firms can “do well by doing good”? Are High Road firms equally profitable as their Low Road competitors, or rather, is the meaning of the High Road that firms are willing to sacrifice some profits in return for acting on their values or rewarding stakeholders other than just owners? I work through the evidence on this question and conclude with a framework for thinking about policy options.

Defining the High Road

The High Road idea is related to but different in important ways from two other concepts—High Performance Work Organization (HPWO) and job

¹These figures are calculated from the 2015 American Community Survey (ACS).

²Of low-wage workers as defined in the text, 53.6% have either some college or a college degree.

quality—which focus on the employment practices of firms. In this article, I draw on the HPWO literature because it speaks to the question of whether employers can reorganize their work systems in a manner that gives them the margin to improve employee compensation. But it is important to understand that the idea of HPWO is not the same as the High Road. HPWO is not specifically about low-wage industries, and more important, it *is* fundamentally about firm performance. The early literature centered on practices that deepen employee involvement through team production, quality programs, cross-training, and the like (Kochan and Osterman 1994; Osterman 1994). Other researchers focus on three dimensions of employment practices: higher relative skills, opportunity structures to use skills, and incentives for effort (Appelbaum, Bailey, Berg, and Kalleberg 2000; Batt 2002). Whether the benefits of productivity growth are shared with the workforce is a secondary question in this literature. Many advocates of HPWO systems assumed that workers benefit as a by-product of improved productivity and quality, but employee benefit was not a core part of the construct itself and, as we will see, whether this happens is controversial. Finally, it is perfectly possible for a firm for which none of the HPWO systems apply (think a gas station) to be High Road as I use the term below.

The job quality literature differs from the High Road model in two respects. First, it is as much concerned with working conditions at the top of the occupational hierarchy as it is at the low end. Second, it encompasses a long list of concerns. For example, Green et al. (2013) constructed an index with four components—Work Quality, Work Intensity, Working Time Quality, and Good Physical Environment—each of which has multiple elements. The power of this literature is that it provides a useful portrait of trends in employment. From the perspective of the High Road discussion, however, the difficulty—in addition to the focus on the entire range of occupations from top to bottom—is that no firm is likely to score well on all components; that some of the components, such as intensity, may be valued by some people and not others; and the literature leaves open the questions of how to weight the various features and where to focus policy attention.

A Narrow View of the High Road

One point of view might be that High Road firms are simply those that obey the law. Of course, a great many firms have an occasional violation and so the criteria for Low Road from this perspective should be whether the firm violates the law as part of its business model.

Recent research suggests that a surprisingly large number of firms engage in wage theft or misclassification of workers on a systematic basis. For example, an innovative survey of low-wage employees in three cities found that in 2008, 26% of employees in low-wage industries experienced minimum wage violations, 20% experienced overtime violations, and 17% were not paid for

off-the-clock work (Bernhardt et al. 2009: 20). In addition to violations of the Fair Labor Standards Act there appears to be widespread misclassification. A study of residential construction workers in Texas found that 40% are misclassified as independent contractors or are paid under the table (Leberstein and Ruckelshaus 2016). The Wage and Hours Division of the U.S. Department of Labor concluded that misclassification is increasing across a range of low-wage industries (Weil 2017).

A Wider High Road

It seems uncontroversial that employers should be law-abiding, and so this would be a basic entry requirement into the High Road club. Even if employment standards were adequately enforced, however, compensation in many jobs in low-wage industries would remain below family-sustaining levels. Consider that in a state that has raised its minimum wage to \$10 an hour, a person working full-time and full-year still earns only about \$1,000 over the 2016 poverty threshold for a family of three. For this reason, simple obedience to the law is a considerably more limited definition than what proponents of the High Road have in mind.

I argue that at its core the High Road idea is that firms compensate employees with a wage that is “adequate,” one that is typically above the minimum the firm could get away with and still attract a workforce. This criterion applies to low-wage jobs in all settings but is most compelling in industries with a large concentration of low-wage workers; it is in these industries that I emphasize here (Osterman and Shulman 2011).

I focus on wage levels, but even this criterion has ambiguities. For example, there are reasons, independent of a firm’s values or business practices, why its wages may be lower than, say, the median wage in the economy. While fast food wages may be low, no one can reasonably expect that these firms pay cashiers and servers comparably to the wages of skilled machinists or nurses. The skill level of the workers, their value added, and the price elasticity of consumer demand establish a ceiling to wage levels. The implication is that the wages of High Road firms might still be at the low end of the wage distribution, but they would be superior to comparable employers (and would provide an adequate wage). This definition—paying adequate wages in low-wage industries—captures the core idea behind the High Road discussion.

This formulation, “paying or providing a path to an adequate wage in a low-wage industry,” is the definition I will work with going forward. But this still leaves open room for judgment and uncertainty. One important point is that some high-wage industries have clusters of low-wage jobs. This said, I will focus on low-wage industries in this article—both for expositional clarity as well as for the substantive reason that low-wage work is highly concentrated in a limited number of industries. A deeper question is: What is an adequate wage? One view is that it should be “family sustaining,” and

measures are available of what this would be in different geographical areas.³ Another idea has emerged out of the Fight for Fifteen movement. People may reasonably disagree about the answer, and this has important implications for policymaking. This uncertainty, however, does not undermine the core definitional point of choosing to offer adequate compensation, typically higher than the low market clearing rate, nor does it affect our interpretation, developed below, of the available research.

A final qualification concerns the meaning of “industry.” In many low-wage industries, including hotels, restaurants, and retail firms, an important distinction is between customer segments. It may not make sense to compare employment conditions in a Four Seasons Hotel with those in a Motel 6 nor to compare employment standards in a fast food chain with a high-end fine dining establishment. Indeed, research on restaurants and call centers (Batt 2002; Batt, Lee, and Lakhani 2014) report that industry segments make an important difference in employment outcomes. To some extent segment represents a control for the human capital and skill level of the workforce, and the implication is that the meaning of High Road will vary not just by industry but by segment within an industry.

Is Choice Possible

At the core of the High Road idea is the assertion that within the same industry and product market segment, firms vary in the wages they pay for similar employees and these wage variations are not simply part of an overall package that offers the same utility albeit with different components. If the latter were the case, then all that would be at stake is the idea of compensating differentials but no firm would be “better” than any other.

From the perspective of many economists, the High Road model seems implausible as it means that organizations facing the same constraints make different optimizing choices. Despite this skepticism, evidence and theory support the possibility that a subset of similarly situated employers may choose High Road practices.

A considerable body of work shows that establishments within an industry have a wage policy independent of (or in addition to) external labor market supply and demand. Groshen (1991) found that for six manufacturing industries, controlling for occupation and a limited set of human capital variables, establishment wage differentials accounted for a significant proportion of intra-industry wage differentials. Note that only about half of these employer differentials were associated with establishment characteristics such as size, union status, and product. A more recent study by Lane, Salmon, and Spletzer (2007) replicated Groshen’s findings on a considerably larger sample of manufacturing and nonmanufacturing industries.

³One estimate is provided by the Economic Policy Institute in its Family Budget Calculator (<http://www.epi.org/resources/budget/>) but other estimates are certainly possible and reasonable.

They found an important role for establishment wage differentials and also replicated the earlier findings from the inter-industry wage literature (e.g., Krueger and Summers 1988) that within an establishment significant wage correlations occur across occupations. In other words, the establishment wage effect holds for seemingly unrelated (by human capital or labor market supply and demand) occupations. Helper and Noonan (2015) found considerable wage variation within narrowly defined four-digit manufacturing industries. These studies do not, however, contain fine-grained human capital controls. This lacuna has been filled by John Abowd and his colleagues. In a series of papers utilizing detailed employee–employer matched data, they have found significant establishment wage effects even after controlling for human capital variables and selection (Abowd, Finer, and Kramarz 1999; Abowd, Kramarz, and Margolis 1999; Abowd, Kramarz, Margolis, and Troske 2001). Additionally, Holzer, Lane, and Vilhuber (2004) worked with matched employer–employee data from Illinois and showed that even accounting for industry and individual fixed effects, an important specific firm fixed effect remained in low-wage industries. In more recent work on the same question, Card, Cardoso, Heining, and Kline (2016) found additional support for the core finding that a substantial firm effect persists after controlling for employee characteristics and sorting of high- and low-wage workers into different firms.

Given the evidence that establishment wage differentials exist, this question arises: How can this pattern be reconciled with theoretical understandings of the labor market? Economists, industrial relations scholars, and organizational sociologists arrive at different answers to the question. The emerging answer in the labor economics literature is that because of search frictions or, alternatively, employee preferences across employers, firms have some degree of monopsony power over their workers (Acemoglu and Pischke 1998; Manning 2005; Ashenfelter, Farber, and Ransom 2010; Card et al. 2016). A wage dispersion will arise reflecting different degrees of monopsony power across firms. The problem for our purposes is that, because firms with monopsony power underpay or “exploit” their workforce, these models imply that those firms with no wage policy, that is, no monopsony power, offer the better jobs even though they are simply paying the market rate. The High Road idea is that some firms have a wage policy, and it is to offer wages (or an overall package) above the market rate. Additionally, in monopsony models there is little scope for strategy or choice as these terms are typically understood.

Industrial relations scholars have emphasized the role of social and organizational factors in wage setting. In 1950, Slichter spoke of “wage policies” and wrote that “the results of this study give strong support to the proposition that managerial policy is important in determining inter-industry wage differences” (89). Examples of how this plays out include the importance firms place on their internal wage structure (Doeringer and Piore 1971), the role played by customary comparisons across firms through so-called

wage contours (Dunlop 1957), and the implicit bargaining that takes place within a wage “zone of indeterminacy” (Okun, Fellner, and Wachter 1975) even in the absence of unions. Adding all of this up leads to variation across similarly situated firms in their wage-setting policies. Organizational sociology also points to a variety of factors internal to the firm that explain variation in human resource practices (Meyer and Rowan 1977; Edelman 1992; Dobbin and Kelly 2007; Dobbin and Kalev 2013), and accounts of the rise of internal labor markets similarly emphasize the role of both public policy and organizational politics in the adoption of employment practices (Jacoby 2004; Osterman 2011).

Does the High Road Exist?

The establishment effect literature demonstrates heterogeneity across firms in general, but the literature demonstrating the existence and viability of High Road employment practices in low-wage industries is considerably thinner. Margins are often low and labor costs are a large fraction of costs, so the scope for choice may be limited.

Proponents of the High Road/Low Road perspective commonly cite examples of firms in low-wage industries that have seemingly been successful while adopting High Road employment practices. As noted earlier, President Obama singled out Costco in several events and policy papers. Another example of this style of argument is the Hitachi Foundation Pioneer Employers project, which highlights employers, largely in health care and to some extent in manufacturing, who offer career ladders or enhanced training to their employees. A well-known example of this style of argument is Zeynep Ton’s recent book *The Good Jobs Strategy* (2014), which describes the human resources and operational practices of four retailers.

Case studies of the sort just described are powerful because they are concrete. Rich descriptions of the policies of real firms that are successful can be inspiring and persuasive. Nonetheless, this style of argument suffers from a number of serious weaknesses.

The first problem is that on closer examination the firms cited are often idiosyncratic. Of the four retail companies cited by Ton, three are privately held and not subject to the discipline of financial markets. Many of the Pioneer employers highlighted by Hitachi are similarly untypical. For example, the health care employers are frequently owned by a religious order and hence are not in the business of maximizing returns. President Obama also singled out Zingerman’s Deli in Ann Arbor, but it too is controlled by its founders who are explicitly willing to accept a below market rate of return in order to adhere to High Road practices (<https://www.nytimes.com/2014/07/06/business/at-zingermans-pastrami-and-partnership-to-go.html>). Although Costco is a public company, it remains under the control of its founder, a man with strong values who is evidently willing to pay a price to remain true to them.

That many of the favorite examples of High Road firms are idiosyncratic raises the question of whether the model is scalable, that is, how generalizable is it. An additional concern is that the examples rest on research that selects on success. We have no idea from these examples how many firms attempted to implement High Road practices and failed to survive in the market, nor do we know how many firms were simply unable to make the necessary organizational adjustments to attempt High Road practices in the first place. Absent this information, it is difficult to know what to make of the cases. In an economy as large and diverse as we have in the United States there will always be outliers from which general lessons are hard to draw.

All of that said, the anecdotal evidence is useful. The cases are existence proofs. While they fail to show that the High Road is generalizable or that it is a viable alternative for a randomly selected firm, the cases do demonstrate High Road employment policies in typically low-wage industries are not a pipe dream. At least some firms can make it work.

A solution to a portion of the foregoing worries would be representative surveys, but few national surveys are directed at understanding the incidence of High Road practices across low-wage industries or within some industries—although examples can be found within some industries. Batt, Lee, and Lakhani (2014) surveyed human resource practices in the restaurant industry. The survey was not nationally representative but rather weighted toward high-wage metropolitan areas. Carré and Tilly (2017) surveyed eight grocery stores and eight electronic retailers and additionally conducted case studies in these settings. Nonetheless, no large-scale national surveys of low-wage employers have been conducted.

Does the High Road Pay Off?

Bailey and Bernhardt (1997) raised two concerns based on their case studies of six retail firms: 1) that the Low Road may in fact be more efficient and profitable than the High Road, and 2) even if firms did adopt elements of modern human resource management, workers might not benefit. These worries are still reasonable today and I turn to them now. The concerns are key because they speak to the view of advocates who believe that the High Road model benefits not just workers but also employers who are willing to take the plunge. If this were not true then some form of pressure and constraints would be necessary to achieve movement in the High Road direction.

As a first step we need to ask whether there is a relationship between choice of employment systems and employer outcomes. Research on HPWO systems answers this question based on studies of firms in specific industries (MacDuffie 1995; Ichniowski, Shaw, and Prennushi 1997; Appelbaum et al. 2000; Bartel 2004) and on surveys of representative samples of establishments (Osterman 1994; Osterman 2000; Cappelli and

Neumark 2001, Black and Lynch 2004). Several literature reviews or meta-studies have reached the strong overall conclusion that implementation of these practices leads to better organizational performance as measured by operational measures such as productivity and quality (Ichniowski et al. 1996; Combs, Liu, Hall, and Ketchen 2006; Jiang, Lepak, Hu, and Barr 2012). The issue of profitability, however, is more complicated and I address it below.

Do low-wage industries have the scope for the same kind of performance gains found in the High Performance literature? Low-wage industries may lack the task complexity, the opportunities for teamwork, and the focus on quality that are the sources of the gains. Nonetheless, evidence supports that in many low-wage jobs, such as child care or elder care, scope exists for employee discretion with respect to effort as well as to creativity or what is sometimes termed “job crafting” (Leana, Appelbaum, and Shevchuk 2009). Batt (2002) provided evidence in the context of call centers that the skill level of low-wage workers affects the customer experience as well as the organizational performance measured by sales.

Recall also that a popular economic model, efficiency wage theory, has as its central proposition that a firm that pays wages higher than the going rate benefits from increased effort by employees. In some of these models, this increased effort is attributable to employees recognizing that they are enjoying above-market wages and fearing they will lose these if their performance falters. In other versions of the theory, the motivating mechanism is gift exchange (Akerlof 1982; Stoft 1982; Shapiro and Stiglitz 1984). Both variants predict that higher-than-market wages lead to improved performance, and evidence suggests that these models capture reality (Cappelli and Chauvin 1991; Levine 1993). There is no good reason to think that the same general principles do not apply to employees in low-wage jobs.

A Framework

A crucial question is whether firms would regard High Road as profitable. (I also ask whether the High Road is in the interest of employees but the former is much more straightforward.) The profitability issue goes directly to the possibilities and strategies for diffusion. But this said, the question “are they profitable” needs some discussion. Until the Conclusion, I will use the word “profitable” in the conventional sense of the term as understood by most managers today. This approach is not uncontroversial in the face of the argument that firms have too narrow a view of the meaning of profit and how to achieve it. I will return to a broader conception of profit, but until then my approach is to ask whether a firm that is profit oriented, as managers currently understand that term, would find it beneficial to adopt High Road practices.

With this in mind, the goal is to understand the implications of the claim in the High Road discussion that “firms can do well by doing good.” While

catchy, this expression is ambiguous. Does it imply that High Road practices lead to sufficient performance gains that they offset the costs of higher wages and hence are just as profitable as more traditional models? Or, does it imply that some performance gains are realized, and even if these are not sufficient to offset the costs, firms will be able to do “good enough” so that they can survive in the market for their products? This latter position is essentially the stakeholder view that the firm should weigh the interests of employees, and perhaps the community, as well as stockholders, and hence should strive for “adequate” but not maximum profitability.

The two interpretations have quite different implications for strategies to diffuse High Road practices. If they are equally or more profitable as any alternative then the issue becomes one of information diffusion and overcoming internal organizational barriers to change. The stakeholder perspective, however, brings with it the additional assumptions that it will be possible to convince, or force, firms to accept less return than they otherwise could and that financial markets and/or competition from lower price competitors will not extinguish organizations that make this choice.

Addressing these questions poses difficult methodological issues. Questions of generalizability arise because so much of the evidence comes from case studies. A second question centers on the need for adequate controls. Even the commonly used Costco/Walmart comparison suffers, for example, because Costco offers more high-end products and has a wealthier customer base than Walmart does. In other words, they are in different market segments, which raises the same question about the appropriateness of the comparison as might be raised by comparing McDonalds to a high-end fine dining establishment or even to a Panera Bread that serves a higher income clientele in the context of fast food. The third concern is selection: Even with survey data, as opposed to case studies, we have to consider that firms that adopt a given practice have some inside information that leads them to think the practice would succeed, and hence, the “treatment” of the practice to a randomly selected firm (even in the same industry or product market) would have less success. Because random assignment is not possible, this problem is hard to solve although, as developed below, the minimum wage and living wage evidence offers a step in that direction.

As I work through the evidence, I distinguish between what might be termed intermediate impacts of High Road practices versus final impacts. By intermediate impacts I refer to the potential benefits of High Road practices on outcomes such as turnover, employee productivity, product quality, workplace safety, inventory management, and so forth. Fairly rich evidence can be found along these lines. Nonetheless, from the firm’s perspective the central question is likely to be the impact of High Road practices on profits. Even if High Road practices improve intermediate outcomes but are more costly than the gains, the employer will not be interested unless it has a stakeholder perspective. The evidence on profitability is considerably

thinner (and also less encouraging) than the evidence is on intermediate impacts.

It is also important to ask about the payoff of High Road practices for employees. As the definition of High Road is compensation above market rates for the industry, this might seem a moot question. Firms can make other adjustments, however, that might undermine wage gains. These adjustments include reductions in employment levels, work intensification, or replacing the incumbent workforce with higher-skilled people. I will review the evidence on these issues.

Intermediate Benefits of Improved Compensation

The evidence based on the impact of High Road practices on firm performance is considerably more limited than one would wish, and for this reason, much of the discussion relies on research regarding the impact of minimum wage and living wage increases. Using this research, however, provides a substantive advantage. As just noted, selection issues are a methodological concern. The classic solution to this problem is random assignment, but that is not possible in this case. A solution that does come close to random assignment is the adoption of living wage ordinances and increases in minimum wages, because these are exogenous shocks that force firms to move in the High Road direction. While this advantage is important, it is noteworthy that the range of minimum wage and living wage increases are well below what is envisioned for a High Road policy. Hence we need to approach extension of the minimum wage and living wage findings to potential out-of-range behaviors with considerable caution.

Turnover

The most commonly cited intermediate impact of High Road practices is a reduction in turnover, which is valuable because it saves on recruiting and training costs, preserves specific human capital and relationships of trust among workers, and avoids lower productivity while new hires become proficient. The first step in this chain of logic—that higher wages reduce turnover—seems relatively uncontroversial. Howes (2005) studied the impact of living wage increases on home care aides and found that a \$1/hour increase reduced turnover by 17 percentage points. When wages were raised at the San Francisco Airport following passage of a Living Wage ordinance, turnover fell substantially (Reich, Hall, and Jacobs 2005). Batt and Colvin (2011) reported that HPWO policies as well as long-term incentives, including above market compensation, reduced turnover in call centers. In a national study, Dube, Lester, and Reich (2016) reported that a 10% increase in state minimum wages reduced restaurant turnover by 2.1%.

Although optimal turnover is likely not zero, the general consensus is that firms, including firms in the low-wage labor market, benefit from reduced turnover. The most obvious issue is the cost of replacement. A study of

frontline workers in health care (orderlies, home health aides, and other jobs at the bottom of the ladder) estimated that the cost of losing and replacing an employee was in the \$2,500 to \$6,000 range, depending on whether the costs of bringing the new employee up to speed were included in the calculation (Seavey 2004). Research conducted at the Cornell University Hotel School found that in the year 2000, the cost of replacing a line cook in Miami was slightly more than \$2,000, a gift store clerk more than \$3,000, a hotel room cleaner more than \$1,300, and a front desk worker just less than \$6,000 (Hinkin and Tracey 2000). Using a panel survey of establishments in California, Dube, Freeman, and Reich (2010) estimated that average replacement costs were 9% of an employee's annual wage bill.

There are additional costs of turnover, such as overall operational disruption (Hausknecht and Trevor 2011). As examples, Batt found that increased turnover in call centers is associated with reduced sales per employee (Batt 2002) and lower service quality as reported by managers (Batt and Colvin 2011). A study of company-owned Burger King's found that increases in turnover among crew members led to longer customer wait times as well as to increases in food wastage (Kaemar et al. 2006). In a careful investigation of retail stores, Chen and Sandino (2012) reported that employee turnover is associated with increased rates of theft. An earlier study of restaurants (albeit with weaker controls) found a similar result (Thoms, Wolper, Scott, and Jones 2001).

Additional Intermediate Benefits of Higher Compensation

The costs of employee turnover and the argument that improved wages reduce these costs are the most commonly cited benefits to employers of High Road policies, and the evidence is supportive. The evidence for additional potential benefits is thinner.

More than 20 years ago, James Heskett and his colleagues argued that what they termed the "service profit chain" has a basis of committed employees who are trained and motivated. They cited Taco Bell and ServiceMaster, which they said provided better than average training, compensation, and (as important) respect for their direct customer service workers (Heskett and Schlesinger 1994). Additional evidence along these lines is provided by Liao and Chuang (2004), who summarized a substantial literature that tests and supports this idea and then assessed it themselves by way of a cross-sectional study of 52 stores in a restaurant chain. They controlled for a set of employee characteristics and reported that those restaurants that involve employees in decision making and that inculcate a commitment to service quality score higher levels on a customer satisfaction survey.

Research on the impact of the San Francisco Airport Living Wage ordinance found that 35% of employers reported an improvement in overall performance, 29% a reduction in absenteeism, 44% a reduction in

disciplinary issues, and 45% an improvement in customer service (Reich et al. 2005). Meuris and Leana (2015) drew on an emerging literature regarding the impact of financial stress upon behavior and judgement (Shah, Mullainathan, and Shafir 2012; Mani, Mullainathan, Shafir, and Zhao 2013) to argue that low wages as well as financial volatility can lead to a range of suboptimal employee actions ranging from simple inattention to weak problem-solving and safety failures. The authors cited a wide range of studies that support this argument.

Impact on Profits

Even if the effect of High Road policy on intermediate impacts is judged to be positive, it does not necessarily follow that it is in the interest of firms to become a High Road employer. It is possible that the cost of higher wages, increased training, or organizational disruption exceed the benefits.

The evidence on the profitability of High Road practices is considerably thinner than one would hope. Case study evidence of High Road firms typically points out that the firms studied are profitable. These examples are helpful in demonstrating that High Road firms can succeed in the market, but they do not answer the question of whether they are profit maximizing. The problem is that they lack a counterfactual: How would the firm have done in terms of profits had it not adopted High Road practices?

These worries are reinforced by some studies that analyze the costs and benefits of the intermediate impacts. For example, the Chen and Sandino (2012) study of employee theft, which concluded that losses rise with turnover, used their estimated relationship between wage and theft levels to examine whether benefits of raising wages outweighed the costs and concluded that they did not. Similarly, the case study of the Los Angeles living wage ordinance concluded that turnover fell as a result, but the savings from this effect accounted for only 4% of the increased wage bill (Fairris 2005).

As already noted, the advantage of utilizing minimum wage increases is that they are exogenous to firm decisions regarding wages, and hence the body of evidence from this research offers insights into the profitability of the High Road. Recall that I am not asking whether minimum wage increases, and the High Road, are desirable social policy, but simply whether a firm would find it more profitable or at least neutral to move to the High Road.

Card and Krueger (1995) conducted an event study of the impact on stock prices of restaurants and retailers to announcements of minimum wage increases in the late 1980s and 1990s. They found no evidence of a positive effect and mixed and weak evidence of a negative impact. Two British studies found stronger evidence of a negative impact of minimum wage increases on profits. Draca, Machin, and Van Reenen (2011) drew on survey data on profits and used a difference-in-differences approach to

estimate the impact in minimum wage sensitive industries. They found minimum wage increases reduced profits. Bell and Machin (2016) conducted an event study using British data and found that stock prices fell in response to an unexpected announcement of a minimum wage increase.

Additional support for the conclusion that minimum wage increases reduce employer profits comes from recent research that estimates what the authors term a “putty-clay” model in which firms are unable to alter their capital/labor ratio in response to a wage hike (Aaronson, French, Sorkin, and To 2016). The authors found that existing firms do not change their employment levels, and hence suffer a profit reduction; the failure rate of these establishments rises; and at the same time, new establishments with a more capital-intensive mix enter. The model is estimated for chain restaurants and fits the data well.

Profits may also fall if firms offset wage increases by raising prices, and this in turn reduces consumer demand. A number of studies have documented price increases in response to minimum wage increases (Aaronson 2001; Aaronson and French 2007; Lester 2016) or in response to other similar mandates (Colla, Dow, and Dube 2017). In an important study that links these price increases to employment patterns, Allegretto and Reich (2017) innovated by coding the prices in online menus to study the impact of a large (25%) minimum wage increase in San Jose, California. Using a difference-in-differences methodology across the city border, they reported that on average restaurants increased their prices by 1.45%, with a somewhat higher increase in fast food and chain establishments. They showed that employment impacts were small or nonexistent and that sales declined very modestly, on the order of 1% across all types of restaurants (although the results seem to imply somewhat higher losses in fast food settings).⁴ Even though this sales decline is small, there must be some negative consequences for profits as otherwise the firm would have already raised prices.

The Larger Package: Wages Plus Supporting Practices

To this point I have focused on the impact of compensation increases on intermediate and final outcomes. A fair but harsh summary is that better pay improves performance along multiple dimensions, but the costs of increased compensation appear to be larger than the benefits and hence profitability does not increase or even remain steady. A milder summary would be that little or no evidence supports that High Road practices are neutral or positive with respect to profitability, but that the case is not closed.

A response to this assessment would be that High Road advocates do not focus solely on improved compensation but also argue that this should be

⁴Because the authors’ data extended only six months after the implementation of the minimum wage increase, however, it is possible that the long-run impacts will be more substantial (as in the earlier putty-clay discussion).

accompanied by additional organizational changes that lead to improved performance, and these would help underwrite the cost of higher pay. In effect, High Road firms should adopt many of the features of HPWOs: opportunities for employee involvement and voice, enhanced training, and so on.

As already noted, a strong evidence base upholds the proposition that adoption of HPWO designs improves productivity and quality. Yet, most of the HPWO literature focuses on productivity gains, not profits. So would the adoption of HPWO policies improve profits sufficiently to underwrite High Road compensation?

What would be ideal for our purposes is research on the impact on profits of HPWO policies in low-wage industries. Unfortunately, the limited HPWO evidence on profits does not typically include low-wage industries. Given the research base, the best that can be done is to ask what the evidence says about whether adoption of HPWO systems more broadly enhances profits as opposed to simply enhancing productivity and quality.

Huselid's (1995) widely cited study of a cross section of publicly traded firms with 100 or more employees found that the utilization of HPWO practices was associated with increased stock market and accounting profits. Using a subset of these data in a two-period panel study, Huselid and Becker (1996) also reported a positive effect on firm performance, based on considerable econometric efforts to adjust for measurement error and selection bias. These two studies suffer from the fact that HPWO practices were measured by a corporate-level survey that may not have accurately captured establishment-level practices in large, multi-establishment firms with many different occupational groups. Cappelli and Neumark (2001) analyzed a longitudinal sample of manufacturing establishments and found that adoption of HPWO practices raises compensation; but after considering productivity gains they were unable to reach a strong conclusion one way or the other with respect to profits. Meta reviews of the literature (Combs et al. 2006; Jiang et al. 2012) do find a positive impact of HPWO systems on what they term "organizational performance," but the research reviewed is a mixture of cross-sectional and longitudinal data, corporate level and establishment data, and various measures of what is meant by performance.

The foregoing suggests that the evidence on hand does not lead to any clear conclusion about the relationship of HPWO systems to profits, but a reasonable presumption would be that the firms that adopt these systems do so because they believe their profits will increase. However, a deeper problem surfaces in applying this lesson to the High Road discussion because neither practice nor theory includes increased compensation as a component of HPWO systems, and therefore the cost of HPWO systems *plus* wage gains are understated in the research literature. This realization casts doubt on the view that HPWO systems create sufficient margin for a High Road compensation regime.

That this is a serious concern is validated by the evidence, which suggests that HPWO systems are not typically accompanied by wage increases (although other benefits occur, such as greater employment security or more satisfying work). Some studies found compensation gains (Cappelli and Neumark 2001; Black, Lynch, and Krivelyova 2004) whereas others did not (Osterman 2000; Handel and Gittleman 2004), and yet others found that whether or not employee compensation benefits from HPWO varies by industry (Bailey, Berg, and Sandy 2001). A review of this literature as a whole concludes that unless unions are present, employee compensation typically does not rise as a result of HPWO implementation (Handel and Levine 2004).

Consistent with this finding, the package of human resource and organizational practices used to index the presence or absence of a HPWO system typically includes the type of compensation system (e.g., use of performance pay) but not the pay level or an increase in pay as one of these practices. In their review of the HPWO literature, Becker and Gerhart (1996) provided a useful list of the practices used in various studies, and while compensation systems appear, the level of compensation (not to mention the level relative to the market) does not (Arthur 1994, and later Batt 2002, are exceptions). The same is true for the meta-surveys cited earlier. In short, research that finds that HPWO systems increase profits or organizational performance do not consider the full range of costs that are relevant to the High Road discussion.

The only possible conclusion is that, in principle, it is possible that implementation of a package of organizational innovations, taking into account the full cost of adopting them, might enhance profitability sufficiently to offset the net costs of higher wages in low-wage industries (after taking into account the benefits of reduced turnover, and so forth). The current state of our understanding, however, suggests that this claim is essentially a statement of faith, not fact. And, of course, a self-interested firm might be better off implementing HPWO practices and skipping the wage increase.

Do Workers Benefit?

Whether employees benefit from the High Road might be thought an irrelevant question, since by definition High Road employers compensate their workforce above going market rates. But, there are two complexities. The first is that a High Road firm forced on this path through regulation or other form of pressure might respond by reducing employment levels. The remaining workers would be better off but some would lose their jobs. The second concern is that a High Road firm might respond by changing its mix of employees: discharging or reducing by attrition incumbent employees and replacing them with a better-trained and qualified workforce.

As is true for virtually all issues regarding the High Road, the research evidence on these questions is much thinner than one would like. As a consequence, what can be said about impact on employees must be drawn

entirely from research on minimum wages and living wages. As has been noted earlier, the difficulty is that the magnitude of wage increases due to minimum or living wage policies is below that envisioned in the High Road discussion, and hence, any inferences are well out of range of the existing data. This caution needs to be kept in mind as I proceed.

The possibility that employees face job loss as firms implement High Road models emerges from several channels. The most straightforward path is that the costs to employers exceed the benefits and, as a consequence, firms that raise prices suffer lower consumer demand, lower profits, shrinkage, or at the extreme, they go out of business. Additionally, faced with higher wages, firms may decide to shift toward greater use of capital and this too may lead to job loss.

The strength of the literature on local living wage and minimum wage ordinances is that they directly examine the behavior of firms through surveys or case studies, as opposed to the broader minimum wage literature that utilizes large-scale data sets on individuals across geographic locations. The weakness of the living wage literature is the obverse: living wage ordinances are relatively rare, concentrated geographically (typically on the coasts and disproportionately in California), and their scope is limited to a relatively small number of individuals and firms. All this said, the weight of the living wage and local minimum wage evidence is that employment losses are either minimal (Neumark and Adams 2003; Allegretto and Reich 2017) or nonexistent (Fairris 2005; Reich et al. 2005; Lester 2011).

The lessons from the national minimum wage research are more complicated. Debate still rages regarding the impact of the minimum wage on employment, but dating to Card and Krueger's work (1995), there is no longer an automatic presumption of employment loss. The central disputes regard methodological questions of how to construct the most appropriate control or comparison group (Allegretto, Dube, Reich, and Zipperer 2017; Neumark and Wascher 2017).

The balance of research is that if a negative employment effect occurs, it is small, and the odds are very high that low-wage workers as a group would benefit from High Road policies (Dube 2017). Nonetheless, concern continues because the considerably larger wage increases implied by the High Road discussion could lead to more job loss (albeit with low-wage workers as a group still benefiting). The question then becomes whether the affected employees find work in the High Road firms that prosper or whether they instead are forced to work in other low-wage firms or are even unable to find employment. We do not know the answer.

The second potential concern is that firms that move to the High Road may replace their workforce with more-skilled employees either because they wish to offset the costs of increased compensation by employing more-productive workers or because they have reorganized their production or service process in a manner that requires a different skill set. The worry here is that employees who are displaced are likely to be the ones who are

most in need of an improvement in their employment circumstances. The broader research on the relationship between firm productivity and management practices has found evidence that selection along these lines does occur (Bender et al. 2016).

The theory that the adoption of HPWO practices leads to better performance supports this view because “high-involvement systems emphasize the selective hiring of employees” (Batt 2002: 588). When it comes to low-wage industries, there is mixed evidence of employment substitution effects. The older minimum wage literature had long suggested that higher wage floors led employers to hire more-skilled employees and to dismiss the weaker ones (Neumark and Wascher 2007); but by contrast, Dube et al. (2016) reported no labor–labor substitution along age lines (replacing teens with adults) or in restaurants. The case study of the living wage at the San Francisco airport found a small level of substitution along education and gender lines, the case study of the Los Angeles living wage ordinance found that substitution along the lines of race and gender and prior training reduced wage gains by 27% (Fairris and Bujanda 2008), and an examination of the impact of the California minimum wage on restaurant hiring in San Francisco found that employers raised their hiring standards (Reich et al. 2005).

Overall, it seems likely that firms that move to the High Road are likely, to some degree, to raise their hiring standards and to seek in other ways to swap out some of their workforce. Nonetheless, the extent of labor–labor substitution in these studies implies that it is very unlikely that this process will come at all close to fully eliminating the gains the incumbent workforce experiences.

High Road Employment Practices

The gold standard for a High Road firm is adequate compensation, typically above going market rates. Improved compensation might be implemented as a stand-alone policy or it might be integrated with work organization and operations innovations that at least partially underwrite higher wages. This said, low-wage employers can take other steps that are more modest yet move the jobs in the direction of higher job quality.

Two practices that have been at the center of public debate and policy innovation might bring substantive upgrades in the quality of low-wage jobs: better scheduling practices and greater investments in training and career ladders to access better-paying jobs. I focus on these two because considerable evidence exists that scheduling and work–family problems can knock people out of employment altogether and because skill acquisition and career ladders are steps toward increasing compensation levels. Again, the question is whether it is possible to make the case that a firm that implements these practices would increase profits or at least be no worse off.

Although data are scarce, a recent study found that only 23% of people with a high school degree and 18% with less than a high school degree have access to flexible schedules (Williams and Huang 2011: 8). Yet considerable research shows that when employees enjoy flexibility in setting their hours, turnover and absenteeism falls. Much of this research is associational, but one random assignment intervention convincingly showed the benefits of flexibility with respect to turnover (Moen et al. 2017). A recent review of the international literature as well as original research on a large sample of German employees concluded that the balance of evidence is that employees respond positively to schedule flexibility and that effort increases (Beckmann, Cornelissen, and Kräkel 2015). Another cross-national study reached similar conclusions, although the positive effect of work-life balance policies disappeared after controls were introduced for overall management quality (Bloom and Van Reenen 2006).

Because turnover falls and effort increases it is reasonable to conclude that for employers the benefits of hours flexibility are positive. But whether the benefits exceed the associated costs is an empirical question and the evidence here is very thin. The study that comes closest examined the ROI for a randomly assigned (within a firm) intervention that in a variety of ways increased managerial sensitivity with respect to scheduling conflict and permitted hours flexibility (Barbosa et al. 2015). In this case, the costs were \$707 per treated employee and the benefits to the employer were \$1,850; and so this policy paid off. Nonetheless, there are worries. This research was carried out in a high-technology company, which means the standard worry about generalizability to low-wage settings is relevant. Moreover, the costs captured were measurable out-of-pocket expenditures (e.g., for managerial training). The article does not deal with a potential concern that providing flexibility in setting hours might lead to a range of inefficiencies or perhaps to an overload on managers who have to add to their duties the job of making the system work.

For many employees in low-wage jobs, the problem is not that hours are long and rigid but rather that they are “scarce and fluctuating” (Lambert, Haley-Lock, and Henly 2012: 293). The issue has captured public attention, has been the subject of critical news stories (Cohen 2017), and has led to legislation in Oregon and New York. The problem arises as managers, whose incentives and evaluations are linked to their ability to minimize labor costs as a fraction of sales, make rapid adjustments on the basis of fluctuating consumer demand. This type of response occurs in a wide range of low-wage industries including retail, restaurants, and accommodations. Unpredictable and last-minute changes in work hours create challenges for arranging child care and disrupt family life in other ways, leading to employee stress and hence turnover (Lambert and Henly 2009; Williams and Huang 2011; Henly and Lambert 2014). The costs to employers are self-evident.

The literature contains numerous examples of firm practices that have made their scheduling more predictable, even in the face of fluctuating production demand (Williams and Huang 2011). This said, no cost/benefit evidence appears to exist that would support the general proposition that rendering work hours more predictable is in a firm's interest although given the high costs of turnover and the reasonable expense of improving scheduling algorithms, this seems likely.

In summary, with respect to scheduling, although employees would benefit, turnover would fall, and work effort would increase, it is not yet clear that a self-interested, profit-maximizing firm would find it beneficial to move in this direction.

Enhanced advancement opportunities from training and career ladders represent a second strategy to improve low-wage work, but long-standing evidence shows that employer-provided training is biased away from lower-skilled, less-educated employees. The 2008 Survey of Income and Program Participation (SIPP) reported that 7.7% of employees with a high school degree received company-provided training whereas the figure was 19.7% for those with a college degree (White House Report 2015: 18); other research also supports this pattern (Mikelson and Nightingale 2004). Ahlstrand, Bassi, and McMurrer (2003) surveyed 40 low-wage firms and found that only eight made a significant investment in training their employees, and of these, only two were publicly traded and the other six were either nonprofits or quasi-public health systems.

In light of these findings, governments at all levels (national, state, and local) as well as foundations and community groups have pushed to encourage low-wage employers to enhance their training (Conway, Blair, Dawson, and Dworak-Muñoz 2007; Jobs For the Future 2017; National Fund for Workforce Solutions 2017). Related programs encourage development of internal career ladders for less-skilled employees, enabling, for example, a laundry worker in a hospital to become a radiation technician or a hotel maid to become a banquet server. Contrary to the often negative rhetoric regarding publicly supported training programs, evaluations, including Randomized Control Trials, demonstrate that employees can benefit (Maguire et al. 2010; Hendra et al. 2016; Elliott and Roder 2017), and hence these efforts can reasonably be considered a step along the High Road. In addition to public programs, considerable evidence shows more generally that employer-based training pays off for workers, as measured by the wage gains, presumably reflecting productivity increases (Lynch 1992; Barron, Berger, and Black 1997); some studies show that this holds in low-wage settings (Liu and Batt 2007).

Although employees likely benefit, again the question is whether self-interested employers would invest in training or career ladders. Representative data are scarce, but our best evidence shows a decline in employer investments in training (Waddoups 2016). Based on SIPP data,

the fraction of respondents who received company-provided training fell from 21% to 12% between 1996 and 2008 (White House Report 2015: 16).

Inductive evidence about whether low-wage employers value training can be drawn from job training and career ladder programs that target low-wage firms and are subsidized by foundations or government programs. The practitioner experience is telling here. Enormous effort is required to interest employers in even considering participation in public training programs (Taylor 2011), and those programs that do gain firms' attention still find it difficult to entice them to participate even in subsidized training (Barnow and Spaulding 2015). While some successes exist, a recent review noted that, "Employers do not see the value in partnering with workforce programs; they perceive the costs of participation as outweighing the benefits" (Spaulding and Martin-Caughey 2015: 3). Moreover, for many programs, when the subsidy ends employers do not continue with the training (Holzer, Block, Cheatham, and Knott 1993; Whiting 2005).

Low-wage employers certainly engage in basic "on-boarding" training, but it appears doubtful that they see it in their own self-interest to provide training for career advancement and/or for the creation of career ladders. It is possible that the negative patterns cited above partially reflect employer attitudes toward public programs. But the decline in training investment, the bias of training resources away from those at the bottom of the occupational hierarchy, and the termination of programs when subsidies end, all suggest that the self-interests of low-wage employers will not drive investments in training or career ladders.

Conclusion

The High Road is not simply a catchy slogan; instead it brings important insights to the national discussion regarding labor market inequality. Certainly the skill requirements of jobs have increased, albeit at a steady rather than an explosive rate (Handel 2012; Autor 2015; Weaver and Osterman 2016; National Academies of Sciences, Engineering, and Medicine 2017), and assuring that people enter the job market with the appropriate skills is an important component of any strategy aimed at reducing labor market disparities. The core contribution of the High Road discussion is that this "supply side" strategy is not enough. Improving employment outcomes at scale in low-wage firms will also require finding ways to provide incentives to employers to upgrade the quality of the jobs they offer. A key assumption behind this argument is that firms can in fact make a choice about their employment and wage policy—market forces do not dictate a single optimal outcome. This article has spent considerable effort showing that at both a theoretical and an empirical level this is true.

The idea of the High Road is powerful, yet its meaning is elusive. I have argued that a High Road employer in a low-wage industry is one that obeys the law and pays "adequate" wages, wages that are often higher than the going

market wage. The firm may support this wage policy with an array of human resource policies aimed at creating the margin to underwrite this policy. A less ambitious formulation points to improved human resource practices such as flexible and predictable scheduling and investment in skill development.

To move the High Road agenda forward it is important to understand the incentives facing firms when someone (the government, a community group, employees, activist consumers, and so on) comes knocking at their door and asks them to shift onto that path. Is it possible to make the case that the High Road is not just socially desirable but also at least as profitable as the alternative? Or rather, will it take some combination of pressure and supportive institutions to convince or force employers to adopt policies that do not deliver the maximum possible profits? The evidence reviewed here suggests that firms will not find the High Road as profitable, conventionally defined, as the alternative although the case is not closed. This conclusion brings us to thinking about a research agenda as well as a range of policy options, given the evidence at hand.

The research agenda that flows from this review is straightforward. It begins with the facts. We need representative and systematic evidence on the distribution of employment practices in low-wage industries and on the characteristics of the adopters of High Road practices. A serious effort requires an adequate sample size, a focus on establishments as opposed to headquarters, the ability to distinguish product market segments, and of course, a rich array of measures. Among the questions that need answers is the fundamental one regarding the benefits to firms of pursuing the High Road. As should be clear from the foregoing discussion, deeper understanding of intermediate benefits as well as ultimate impact on profits is needed.

Additional research should address the argument often made by High Road proponents: If firms are pushed to improve their compensation and adopt HPWO systems, they will then respond more broadly by adopting innovations in management, service, and production systems, which in turn will lead to a longer-run boost to profits. This approach implies that the research reviewed above on the benefits of HPWO systems and High Road compensation is incomplete. The argument is plausible in that evidence supports that because of variation in managerial quality as well as lack of information and scarce time, firms suboptimize with respect to their management practices (Raman, DeHoratius, and Ton 2001; Bloom and Van Reenen 2007). Some evidence also shows that a union “shock effect” may lead to better efficiency; although the net impact of unions on profits is, to put it mildly, controversial (Doucouliagos, Freeman, and Laroche 2017). Overall virtually no evidence exists, as opposed to assertions, about how a shock to a low-wage firm’s employment policy would affect a broader range of operational practices and hence the overall costs and benefits of the shock.

Given the state of knowledge, it is premature to specify a policy agenda, but it is useful to consider options based on assumptions regarding the incentives facing employers.

If we assume for the moment that High Road policies are equally as profitable as the alternative, then this points us toward understanding how firms make decisions and how to improve that process. One approach is the idea offered by Bloom and Van Reenen (2010), who view choice of human resource practices in the framework of the broader technology adoption literature. This outlook implies there will be a pattern of diffusion in which some firms are early movers whereas others are slow or may never adopt. In their study of adoption of what they regard as the most effective management practices, Bloom et al. (2017) identified four considerations: the intensity of product market competition, state regulatory policy (in this case anti-union right-to-work laws!), the geographical proximity of best practice examples, and the presence of a university that can train the workforce. These factors are evocative of possible policy ideas but, as the researchers admit, explain only a small fraction of the variation in adoption. Additionally, the firm remains something of a black box in this formulation. Research more directly focused on the internal dynamics of the adoption of human resource practices takes us somewhat further.

There is a scholarly understanding of these dynamics. In a series of papers, Frank Dobbin and his colleagues studied variation across firms in their adoption of diversity and equal employment opportunity programs (Dobbin and Kelly 2007; Dobbin, Kim, and Kalev 2011; Dobbin and Kalev 2013). Public pressure played a role through two channels: directly through regulation and indirectly through doing business with the government. Firms were more likely to adopt if they were “quasi-public” in the sense of doing a good deal of direct business with the government or if they depended on government regulatory approvals. Beyond these relatively obvious considerations, there is good evidence regarding the influence of adopters in the same industry and pressure from two internal groups: personnel professionals who may benefit from a new set of responsibilities and advocates (senior women) in positions of power. Finally, organizational culture proved important both as captured by the values of a firm’s founders and additionally by the extent to which a firm adopted a legalistic style of organizing internal processes.

A related view of the dynamics of firm choice is provided by Osterman (2011), who argued that adoption of specific internal labor market practices is the result of a political contest within organizations in which groups advocate for policies that are in their self-interest. The impact of these groups is shaped by their power within the firm, by the needs of the firm and its competitive environment, and also by resources, regulatory and legal, that are provided by the external environment.

Several practical implications flow from our understanding of the dynamics of employer decision making regarding employment policy. The role of visible examples by leading firms, access to information, and technical assistance are all potentially important. This trio of factors suggests that lead firms working with their supply chains would be one channel for

diffusion. Industry associations can provide information and also help make examples visible to their members. Technical assistance by industry associations or public entities, such as the Manufacturing Extension Service, would be another useful step.

The foregoing also highlights the value of a deeper understanding of the dynamics of specific industries. Why are they low wage in the first place? What combination of labor supply, consumer demand, competitive dynamics, technology, and managerial strategies lead to this outcome? How does the external environment, for example, regulatory policy or the legal framework, influence this outcome? An example along these lines is Osterman's (2017) analysis of home care in which he argued that it is possible to restructure the regulatory system in a way that gives payers (Medicaid and insurance companies) an incentive to push employers (home care agencies) to upgrade the job quality of home health aides.

If, as the current state of evidence suggests, substantial wage increases (even if combined with reorganizing work and operations) are not profit maximizing, then it suggests another set of ideas about how to diffuse the High Road. It implies that some form of stakeholder or value-driven behavior will be necessary to encourage adoption. Such policies fall into three groupings: a change in the incentive structure facing firms, the use of countervailing power, and the development of supportive institutions.

The most well-developed discussion regarding shifts in the incentive structure concerns the role of financial markets in pushing firms to obtain the maximum possible return. The argument is that in the past several decades, firms have been forced to become more responsive to pressures from financial markets, and this has led to a range of practices that undermine job quality. Here, it seems important to note that this literature typically contrasts the current pattern with that of the postwar years prior to the rise of the power of finance. The claim is that this earlier period encouraged or permitted more desirable employer stakeholder behavior. Yet even during this era a large low-wage job market existed, and there is little reason to think that working in hotels, restaurants, nursing homes, and so on was any better than today.

Many believe that investor pressure forces managers to focus on short-term profits and stock movements (Galston and Kamarck 2015; Aspen Institute 2016). However, the claim that a short-term orientation undermines long-run profits, because increased human capital investments would lead to better long-run results, needs to be validated by a stronger research base than we currently have, as this article demonstrates. Nonetheless, if we accept this view, then examples of policies would include limiting gains from short-term stock trading, curtailing some of the financial engineering utilized by private equity takeovers (Appelbaum and Batt 2014), deepening long-term investor relationships, restructuring the investment strategy utilized by firms when they allocate capital (Christensen and van Bever 2014),

or making it harder for senior manager compensation to benefit from short-term stock movements.

If the view is that profit maximization per se is the problem, however, then potential solutions include pushing pension funds and other large capital pools to establish broader goals for their investments or to search for investors who themselves have a stakeholder perspective and who will support firms that adopt this viewpoint. The emergence of a number of socially conscious investor funds speaks to this alternative, although it appears that to date the focus of these funds is more on the environment than on employment practices.

A second step toward diffusing a stakeholder perspective involves countervailing power or, to put it bluntly, coercion. The most obvious example is unionization, which when successful, clearly improves compensation in low-wage industries (Long 2013). Organized public pressure, such as the Fight for Fifteen movement, is another example (Rolf 2016). There is also an important role for modernizing employment law with respect to practices highlighted by Weil (2014), such as the definition of an employee (to deal with the misclassification concerns) and joint employer responsibility to deal with contracting out abuses. The goal here is to limit the use of tactics that reduce job quality and reverse what Kalleberg (2009) has characterized as the increased “precariousness” of employment.

A final element in a potential policy menu is creating a supportive environment that helps sustain stakeholder behavior. Clearly values are important—indeed Zeynep Ton ends her book with a chapter on values with the implicit message that the operational gains she cites are inadequate to diffuse the Good Jobs Strategy. Creating a new widely accepted social contract is one element in this approach (Kochan 2013). In this context, recall that the postwar social contract emerged not through the voluntary goodwill of employers but rather was underpinned both by union power and by union avoidance (Lichtenstein 1995; Jacoby 1997). It is not unreasonable to be skeptical that in the current environment a new social contract is likely. And yet, some signs do indicate that employers are beginning to pay attention to social issues—for example, the recent announcement, framed in terms of social values, by the CEO of JP Morgan of substantial pay increases for the bank’s low-wage employees (<http://fortune.com/2016/07/12/jamie-dimon-jpmorgan-employees-raise/>). The second component of support would be more tangible, for example, a policy of directing government purchasing toward High Road firms. Increased investment in publicly supported skill development would also be a step in this direction.

Some of the ideas sketched above, particularly with respect to financial markets, are controversial and their advantages and disadvantages need to be carefully weighed. Nor is it known whether it is reasonable to expect that these strategies as a group can succeed and lead to widespread diffusion of stakeholder behavior. Clearly, more work needs to be done to fully develop the High Road idea. But the value of the High Road discussion does not

rest only on its immediate practicality. At its core, the High Road idea focuses attention on how employer decision making affects job quality. The strong and consistent evidence of “firm effects” lends credence to the approach and provides the basis for influencing employer policies, alongside human capital approaches, in strategies to improve economic outcomes. Considerable work remains to flesh out the idea and to provide it with a stronger evidentiary base. But, to use for a final time the frame of this article, the benefits of the High Road will likely exceed the costs.

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