Towards a World-Class Service Class: the Role of Toronto's Service Workers in Generating Jurisdictional Advantage

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TOWARDS A WORLD-CLASS SERVICE CLASS: THE ROLE OF TORONTO'S SERVICE WORKERS IN GENERATING JURISDICTIONAL ADVANTAGE

Toronto's next mayor and City Council will inherit a city in a fascinating competitiveness position. Compared to its Canadian peers, Toronto is an economic giant. The city hosts more economic activity than any other city in Canada, and is home to several major firms and national bank headquarters. Toronto also possesses strategic assets within its infrastructure that are closely associated with building a globally competitive city including the country's largest research university, its busiest airport, and the headquarters of its only stock exchange.

While both this national position and these hard assets will endure throughout the next mayoral term, the city has yet to definitively establish a global leadership position. The roster of 'alpha' global cities is easy to name: Tokyo, New York, and London top the list, but below this tier are numerous cities fighting for a global niche. The TSX might be the nexus of Canada's financial trading industry but the New York Stock Exchange and NASDAQ stage many more trades for clients from the world over. And while the city's corporate and bank headquarters perform command and control functions for the entire country, international peers like London and Hong Kong have a distinctly global reach. Toronto can try to capitalize on the strength of its banks through the recent credit crisis but it will not displace New York as North America's centre for global corporate headquarters, at least not for some time. If the city wants to establish a unique niche in the global economic system, then it needs to assess its present strengths and consider alternative avenues toward global economic leadership.

Toronto is a city that has fully made the transition from a goods producing economy to a service producing economy. Recent research by the Martin Prosperity Institute (MPI) has shown that knowledge work and low autonomy service work predominate within most census tracts of the city, while traditional blue collar work is predominate in less than two percent of all census tracts. In the past, Toronto has relied on the presence of a robust manufacturing base to provide a steady source of middle income jobs. Today, manufacturing no longer has the presence that it once did in the city's labour force, and has been supplanted by high earning knowledge workers (the creative class) and low earning service workers (the service class). Work by the MPI, as well as by David Hulchanski of the University of Toronto Cities Centre (2007) has established that the economic divisions in Toronto have a heavily spatial component. This spatial isolation of low wage service workers in turn creates its own disadvantages that have been assessed in "The Geography of Toronto's Service Class" (Martin Prosperity Institute 2010).

This paper seeks to bind two issues that have previously been seen as distinct: economic competitiveness and socioeconomic polarization. We propose that the City of Toronto can establish a specialized competitive advantage by recognizing, nurturing, and promoting high-quality service work. Just as Silicon Valley hosts some of the world's most productive technology workers and Milan is known for its textile industry, Toronto can begin to secure global advantage through a concerted emphasis on improving service work. We hypothesize that a more productive service sector can potentially ease the income-based inequities in Toronto by allowing service workers to demand higher levels of compensation and achieve more autonomy, while also generating more wealth for the city as a whole. While productive service firms and productive workers are the mechanisms by which this advantage can be ultimately achieved, the City has several roles to play in realizing this advantage. The first step will be to articulate a comprehensive Service Class competitiveness strategy. Our goal in this paper is to lay the groundwork for this strategy by establishing three things:

1. There are more opportunities than ever for some cities to perform service class work for other cities;
2. Toronto is strategically positioned to perform high value service class work for other places by virtue of its well-educated and multi-lingual service workforce;
3. Toronto can improve its competitiveness position by improving the productivity of the entire range of service jobs. To do this it needs to see some traditional city functions as part of the competitiveness strategy.

Before we expand on these assertions, we will describe our occupational typology.

DEFINING OUR TERMS: THE SERVICE CLASS

Each job in the economy can be categorized in one of four distinct occupational classes defined in the Martin Prosperity Institute's occupational typology. The "service class" is one of these categories, alongside the "creative class," "the "working class," and the "farming, fishing and forestry class." The service class label applies to workers who perform routine work either directly for or on behalf of clients. This class includes a wide range of individual jobs such as office assistants, food servers, front-line salespeople, call centre workers, cleaners, and couriers (see **Appendix A** for a closer look at service occupations).

The service class, an occupational category, should not be confused with the "service sector," which describes all industries whose final product is a service. A cleaner in a car factory is a service class worker in the goods-producing sector, while a cleaner in a call centre is a service class worker in the service producing sector. The average educational attainment and skill level of workers in the services producing sector will range widely, from managers with MBAs to less educated night watchman. Analysis of workers is better complemented by occupational categorization, what people actually do at work, than industrial classification, where they work. The service class is a useful prism through which to understand educational attainment because everyone within the class performs the same basic function.

The service class is the largest occupational segment of Toronto's economy. Using 2006 Census data, the MPI finds that 45% of the city's labour force is in the service class (~1,145,000 workers), compared to 33% in the creative class and 19% in the working class.

DOING THE SERVICE OF OTHERS

Service class work has traditionally been left out of discussions of competitiveness because economic development is usually devoted to bringing more new income into the community. No one travels from another metropolitan area to get a Big Mac or a manicure—estheticians and fast-food workers rely on the wealth that is generated and circulated within the local economy. The one exception to this has been the tourism industry service class work, which has sometimes been identified and targeted as an economic driver, especially in small economies. For the most part, traditional economic development strategies have been oriented towards attracting manufacturing operations: the very operations that have been disappearing from the city. Recently discussions of workforce competitiveness in Toronto and many other places have tended to focus on the attraction of knowledge or creative workers.

The rise of the exportable service

The advent of increasingly sophisticated communications technology has allowed for firms to "offshore" more services than ever before. This flexibility has created new opportunities for regions like Toronto to bring in economic activity in order to perform services for agents who are not located in Toronto. What types of services could Toronto theoretically deliver abroad? The answer comes via a 2007 report by the United States Bureau of Labor Statistics.

The study evaluated all service-providing occupations (in both the creative and service classes) in order to determine which occupations could be produced from outside of the country, which ones could not, and which occupations were the most vulnerable to offshoring. To get at this, the researchers conducted a survey of labour economists. Economists were asked to rank 515 service-providing occupations based on four criteria (see **Exhibit 1**). The results of the surveys were then averaged to obtain lists of jobs in four categories: service jobs that cannot be offshored, service jobs that are highly susceptible to offshoring, jobs with a medium susceptibility, and jobs with a low susceptibility.

Of the 515 jobs analyzed, a full 69% were deemed to be non-exportable. This substantial list includes those occupations that require that a service provider have face-to-face interaction with the customer (such as barbers), and those services that were closely tied to a client's physical location (such as security guards).

	Very low degree	Low degree	High degree	Very high degree
1. To what degree can the inputs and outputs of the occupation be transmitted electronically, or otherwise be easily and cheaply transported?	1	2	3	4
2. To what degree do the duties of this occupation require interaction with other types of workers?	4	3	2	1
3. To what degree is knowledge of social and cultural idiosyncrasies, or other local knowledge, needed to carry out the tasks of this occupation?	4	3	2	1
4. To what degree can the work of the occupation be routinized or handled by following a script?	1	2	3	4

Source: Bureau of Labor Statistics "Service-providing occupations, offshoring, and the labor market" 2007

Still, the number of services that can be performed from afar is significantly greater than ever before. A full 31% of service job can be exported abroad and 6% were rated as having a high suscep tibility to off-shoring (**Exhibit 2**). Twelve of these occupations, including computer programmers, physicists and biochemists, are considered to be creative class jobs under the MPI's occupational class typology, but a clear majority of these exportable jobs lie in the service class, including several sales, clerking, and customer support occupations. As this type of work grows, the opportunity for regions to specialize in service work and retain the economic benefits from such specialization is also growing.

Toronto's exportable service advantage

Could Toronto begin to attract more of the jobs that are highly susceptible to off shoring? Conventional wisdom holds that "call centre" jobs of the type listed in **Exhibit 2** will go to cities such as Bangalore, India, where the labour prices are lower than in North America. There is certainly some truth to this, and if labour cost was the only determinant of where these jobs become situated, then Toronto would stand to attract and retain very few of them due to constraints on wages and the high cost of living. What is often ignored in discussions of off-shoring and outsourcing is the degree to which the overall quality and efficiency of service output varies from place to place. With this potential for variance of quality in mind, Toronto's diverse and educated workforce is strategically positioned to compete based on the quality of the service provision within the city.

Toronto is frequently praised for being the world's most diverse city, and it can leverage its cultural assets in generating a service advantage. Half (51%) of the service class in the Toronto city-region was born outside of Canada, compared to 31% in Ontario and 21% percent in the country at large. Overall, 45% of Toronto's population was born outside of Canada, making Toronto the most immigrant domi-nated city in North America, an amount that is ahead of Vancouver (39.3%) and well ahead of other immigrant heavy areas like Miami (35%), San Jose (35%), Los Angeles (34%), and Montreal (20.4%).

Moreover, Toronto's immigrant base is much more diverse than American cities, which tend to draw most of their immigrants from Latin American and Caribbean countries. With this tremendous cultural diversity and richness comes an unmatched multilingualism. While 95% of the city speaks

OCCUPATION	OCCUPATION CLASS
Bill and Account Collectors	Service
Billing and Posting Clerks and Machine Operators	Service
Bookkeeping, Accounting and Auditing Clerks	Service
Computer Operators	Service
Computer Support Specialists	Service
Correspondence Clerks	Service
Credit Analysts	Service
Credit Authorizers, Accountants and Clerks	Service
Customer Service Representatives	Service
Data Entry Keyers	Service
Insurance Claims and Policy Processing Clerks	Service
Medical Transcriptionists	Service
Paralegals and Legal Assistants	Service
Parts Salespersons	Service
Payroll and Timekeeping Clerks	Service
Procurement Clerks	Service
Proofreaders and Copy Markers	Service
Switchboard Operators	Service
Telemarketers	Service
Telephone Operators	Service
Word Processors and Typists	Service
Architecture and Civil Drafters	Creative
Biochemists and Biophysicists	Creative
Computer Programmers	Creative
Electrical and Electronics Drafters	Creative
Financial Analysts	Creative
Insurance Underwriters	Creative
Medical Drafters	Creative
Pharmacists	Creative
Pharmacy Technicians	Creative
Physicists	Creative
Tax Preparers	Creative
Title Examiners	Creative

one of the official languages, 47% of the city has a mother tongue other than English or French. For instance, there are 420,000 Chinese speakers (Cantonese and Mandarin), 195,000 Italian speakers, and 113,000 Portuguese speakers in the City of Toronto according to the City of Toronto reporting of Stati stics Canada data.

Toronto's cultural diversity and multilingualism creates the possibility for it to serve as a global support centre, a 'one stop shop' for international service delivery. Instead of setting up multiple service centres in multiple markets, firms could set up global service operations in Toronto that

are capable of supporting products and customers the world over. Not only does Toronto have the language competency that would allow for global service centres, but it has large stocks of workers with the cultural familiarity with other markets that would allow them to provide higher-quality, culturally appropriate service. The ability to perform services like word-processing, bookkeeping, and insurance brokerage from one consolidated office, and not many, represents tremendous cost savings for firms with a global reach.

There is also the potential for Toronto to begin to attract creative services that can be offered remotely. If the city can foster the capacity to perform lower-autonomy service class jobs globally and if it can invest in the infrastructure to begin this serving of other places, then it may, in time, also be able to house the creative services that made the Bureau of Labor Statistics list such as pharmacists, physicists and medical drafters, among others.

The promise of Toronto's service advantage also lies in the education and skill of its pool of service workers. A widely accepted maxim of current macroeconomic theory is that human capital (as measured by educational attainment) is highly correlated to regional productivity, wages, and incomes. By this logic, Toronto's service sector is well endowed to perform highly productive, high-wage service class work. Toronto's service workers have a higher average educational attainment than any other service class in the country. Almost one quarter of Toronto's service workers hold bachelor degrees or higher (21.2%), compared to 13% of service workers in Canada at large.

There are two implications of having such a well-educated service class. The city is well positioned to continue to attract the select service jobs that can be improved with university training. Many sales and customer service jobs support complex products and services. A greater understanding of how the product or service in question works will allow a customer support person to deviate from the script when necessary and deal with unforeseen problems. Training in critical thinking and communication, of the type received in university, is also beneficial to salespeople who must be able to justify their products to skeptical clients.

The second implication is that Toronto's service workers can demand higher wages from their employers by virtue of their academic credentials. Service employers that compete at higher ends of the market do not have to compete on low-cost measures as much as those at the lower end. Their added revenues allow them to bid higher for their workforce, to pay a more substantial salary for a higher level of service. Toronto could be leveraging its educated service class to attract accomplished service-oriented firms like iQor, a presenter at the MPI's *Strength in Services Summit in 2009.*

The IQor Example

iQor provides call centre support to blue chip companies like DirecTV, Capital One, and the BBC. It relies on highly skilled front line service workers to suggest changes to its work process and to generate new business. It also achieves greater per capita productivity than its competitors, and because of this; it pays more than 50% above industry rates. Some service class workers—in this case, telephone service operators—at iQor bring in more than $100,000 a year because they are more productive than the average service worker and because their service skills make the firm more profitable through the continuous improvement program.

GREATER PRODUCTIVITY THROUGHOUT THE SERVICE CLASS

Thus far we have articulated an opportunity for Toronto to perform high wage service work for the world over and suggested that the city could attract high income service jobs in the 31% of job categories that are exportable.[1] The city's economic performance can also be improved by making the other 69% of jobs, the local service jobs, more productive.

There are several mechanisms by which a more productive local sector can improve the output of the entire economy: safety, speed, and waste. More than any other occupational group, the service

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[1]   These are: correspondence clerks, computer support specialists, paralegals and legal assistance, bookkeeping, accounting, and auditing clerks, procurement clerks, credit authorizers, accountants and clerks, customer service representatives, insurance claims and policy processing clerks, parts salespersons, telephone operators, billing and posting clerks and machine operators, computer operators, data entry keyers, work processors and typists, medical transcriptionists, telemarketers, payroll and timekeeping clerks, proofreaders and copy markers, credit analysts, switchboard operators, and bill and account collectors.

class shoulders the burden of making the economy safe, making it fast, and making it less wasteful. If the city and its constituents can cooperate to make service workers better at these functions, then the entire economy can become more productive. We propose that with each factor can contribute to productivity with better implementation of existing policies. To achieve this, the City must consider previously non-economic sectors like Public Health and Transportation as key components of its economic productivity.

Safety is the first means by which a more productive service class can boost city-wide productivity. Poor food handling is one area where the productivity-safety connection is very clear. Anyone who has been sidelined from their work with food poisoning can attest that improper food handling affects worker productivity. Empirical research supports this finding. A recent US study finds that when the costs of food poisoning related physician services, pharmaceuticals, hospital costs, and quality of life are taken to account, the average cost of a food poisoning case is $1,850. Driving is another area where service skill, safety and productivity come together. According to a 2004 Statistics Canada report, transport related injuries represent $3.7 Billion in costs to the entire country annually. If the service workers who are paid to be on the roads (taxi drivers, bike couriers, delivery workers) were able to avoid a fraction of these accidents, then the city would see direct economic benefits.

While the shared responsibility for public safety is certainly not confined to the service class, the service class serves and prepares almost all the food that is sold in the economy, and most people who navigate city roads for a living are also service class members. Sickness, associated health care costs, and the opportunity cost of lost productivity are all undesirable and can be minimized with a more skilled and productive service force. The city's ongoing mission to minimize incidents like traffic accidents and food poisoning should be seen as part of the mission to make it more competitive. Expanded food training programs and increased transportation safety measures, for all their other rationales, make economic sense.

The second mechanism to improve the productivity of the service workforce is speed. Service workers are responsible for:

- The speed of packages and people (couriers, taxi drivers, airline pilots and attendants)
- The speed of food and medical service (food preparers, nurse assistants, administrative assistants)
- The speed of information (administrative assistants, clerks, typists)

If service workers are able to deliver their service(s) at the same or better quality level in a faster manner, then the aggregated productivity of "traded" sectors in the city stands to benefit. Put in more concrete terms, if Toronto's software engineers are just as productive as software engineers in Boston but its workforce delivers food, information, packages, and people in 15% less time, then the engineers in the city will have 15% more time available to assemble those inputs into creative outputs.

We do not want to overstate this argument. Increased service speed will not increase the productivity of creative workers in all cases; simply having more time with inputs does not necessarily mean that outputs will be created any faster. Still, in every city there are creative workers for whom additional time does speed up the production process, and allows for more output. Imagine a downtown Toronto worker who flies regularly to Montreal for meetings. For them, the convenience of departing from the Island airport, rather than having to fight their way through traffic to Pearson Airport in Mississauga, is an obvious productivity gain.

Jurisdictions like the City of Toronto should not see their transportation systems as being separate from their economic competitiveness. The ability to navigate the city is related to the productivity of service workers, which is in turn related to the productivity of the wider workforce. They should also consider policies (like training programs) that will improve the skill of service workers.

The third mechanism is related to physical waste. In a product's lifecycle, it is often the service class that makes the final decision on where a product goes (i.e. recycled, organic waste, or garbage) or what is used in cleaning (which can have other health effects). The Service Class is also responsible for managing the bulk of the paper documents that circulate throughout the economy. When products that can be recycled are wasted, firms end up spending more money than necessary on garbage costs, and the city itself must spend more money to house the garbage. When products are wasted, or underused, then firms have to spend more overhead on them. The extent to which service workers vet waste has a considerable impact on the extent to which firms within the city and the city itself are able to be productive.

The City of Toronto might encourage the service class to reduce waste through the promotion of environmentally friendly practices and products among workers in addition to residents. Service workers would be reducing the formal waste output of the city, but they would also be adhering to the present waste-reduction goals of the city (green bins and increased recycling).

More than anything, this paper has worked to introduce and substantiate the potential for the City of Toronto to compete on the provision of efficient and high-quality service. One part of this will involve capitalizing on a culturally and linguistically diverse workforce that already exists to attract exportable service class jobs from the around the world. Another step requires acting to make the non-exported service class more productive. To close, it will present incipient policy ideas that could help foster a service-oriented competitive advantage.

NEW POLICY TOOLS

This election piece has presented some preliminary connections between productivity in the service-based labour force, through the mechanisms of safety, speed, and waste reduction, and an overall enhancement to labour force productivity. In each of these instances, there is a new opportunity for the city and our next mayor to act.

Improvements in the training and certification of food handlers have improved the safety of the city's food system. The City could build from this certification-based success and replicate the premises of the program for cleaning workers. Workers who provide cleaning services are often marginalized and unable to leverage their skills in the labour market, subsiding at or below minimum wage and without the benefits or breaks available to them. A second way to capitalize on the externality of certification is to credentialize language skills, helping a multi-lingual workforce to leverage their linguistic assets in the workplace. Finally, creating an annual "Service Awards" introduces an incentive for service firm excellence and introduces the recognition necessary to motivate subsequent improvements.

Formalize cleaning work

In 2006 the City introduced an innovative certification program for Food Handlers. Only four years old, the program is an example of a successful service class intervention whereby low-skilled service workers have their (demonstrated) knowledge of proper food handling recognized through an official certificate. Formalization has had a variety of positive externalities: Restaurateurs know that people they hire will be safe and conscientious, and patrons can trust that care is being taken with their food's preparation. Certification also creates a sense of pride and responsibility in workers. Overall, it's a "win" for the City and its citizens.

At a more general level, formalization is a crucial means of recognizing value in service work. Formal recognition of service skill and experience allows for higher paying service employers to be matched with higher value service workers. It is crucial for lower paid service workers who would like to advance to those higher paying jobs. Formalization also serves to increase service skill by encouraging workers to seek more training and experience.

With the success of the food handler certification program in mind, might there be another area of service work that could similarly benefit from the creation of such a credential?

The answer is not immediately obvious. Many other services in the economy have some form of formal certification of the skills required to perform a given service. For instance, hairstylists have schools and training programs, hotels have hospitality services, and bartenders have certification that enables them to safely distribute alcohol, as do restaurant servers. Daycare providers can hold early childhood education diplomas or provincial teaching certificates, and certification is also available to babysitters, security guards, taxi drivers.

Cleaning is one area where this formalization of skill does not exist. Cleaners tend to be poorly educated immigrant females—they clean in hotels, firms, and individual homes. Hired by companies, they are often exploited for low wages and tend to be disenfranchised. It is also often the case that cleaning staff do not interact with others on the job, making it difficult for them to upgrade their language skills, instead reinforcing the use of their native tongue (if they are recent immigrants). These language skills

are vital to help aid in the transition to a new job or to achieve better wages. They are also fundamental as occupational language skills, ensuring that staff can accurately interpret hazard labels.

Cleaning staff could be formally certified and trained in the specifics of safe cleaning; for example, reading safety labels, applying appropriate products, knowing how to safely dispose of hazardous materials, and how to protect and disinfect different materials (wood, granite, porcelain) in a home or workplace. Training and certification would formalize the skill of cleaning services, ensure fair wages, improve mobility opportunities, and give businesses a way to gauge skills.

Consider a language certification program

Many (51%) Torontonians are multi-lingual, reflecting the breadth of diversity that Toronto derives such pride from. Formally recognizing the language proficiency of a range of languages could give workers of all occupational classes more leverage in marketing themselves and their abilities. This would entail encouraging multi-lingual labourers to acquire certification affirming their fluency, or taking a course to develop their fluency as being suitable for the workplace. The formal certification of a second or third language would be a signal of a worker's ability to specifically serve a particular immigrant or ethnic population as well as to better navigate Toronto's rich diversity. Such certification would essentially recognize the flexible communicative skills of a worker (whether providing or receiving services) beyond the individual's claim of fluency that lacks reinforcement without credibility, and could be an avenue towards higher wages. In return, the City of Toronto creates a reliable metric to demonstrate to companies that the Toronto labour force is (officially) multi-lingual. From an implementation perspective, a Toronto-level language-certification program could be largely self-funded through the city (paid for by individuals taking the test), with minimal additional costs supplemented by the City.

Create "Service Awards" that would annually recognize excellence in the provision of a variety of services in the City of Toronto

The Service Awards would incentivize innovation and quality in service work through a concerted survey (and measurement) of the type of service work being conducted throughout the city. The awards would create a platform for the recognition of improvement, excellence, and innovation in a range of service provision. The structure of the awards could mimic "sustainability awards" such as those created by Green Toronto. Additional examples include the Book Awards, Urban Design Awards, Bicycle-Friendly Awards, Community Service Awards, and other awards in the City of Toronto that provide official recognition of firm excellence and individual achievement.

Final thoughts

When thinking about how cities compete with each other and how they might prosper, Toronto would do well to include the service class in these considerations. Toronto's service workers make up the largest share of the labour force, boast a range of skills, and are often multi-lingual. They are an incredible asset if the city expands to begin to perform the services of others. In addition, productivity-based improvements that would help the service class perform its functions faster, safer and with less waste promise to improve the productivity of the entire economy. The city can make these improvements in part by pursuing its other agendas such as transportation, food safety, and waste management, and in part by considering new policy tools.

We have shown that Toronto is already in a position to build a competitive advantage through its service workers; now, the city needs offer better stewardship and study of this dominant segment of the labour force while capitalizing on the ingenuity of other city-builders and stakeholders who will influentially inform the City of Toronto's Service Agenda.

QUESTIONS:

Do you see the development and marketing of a high-quality, efficient and skilled service class to outside businesses and potential tourists to be an asset for Toronto?

Do you see any opportunities for the City of Toronto to improve the working environment for low-paid service workers at the city level? How?

What mechanisms exist at the city level that enables citizens to provide feedback on the quality and provision of city services? How is the information collected? Who reviews it?

What services are provided by the City of Toronto that are of benefit to service class workers and employers?

How would you describe the significance of the service class to Toronto's economy?

Do you consider the multilingual nature of the Toronto workforce to be an asset? How? Is this marketed to outside firms and tourists?

Varieties of service class occupations   Appendix A

Varieties of service class occupations
Advertising sales agents
Cashiers
Counter and rental clerks
Demonstrator and product promoters
Door-to-door sales workers, news and street vendors, and related workers
Gaming change persons and booth cashiers
Insurance sales agents
Models
Parts salespersons
Retail salespersons
Real estate brokers
Real estate sales agents
Sales engineers
Sales and related workers, all other
Sales representatives, services, all other
Sales representatives, wholesale and manufacturing, technical and scientific products
Sales representatives, wholesale and manufacturing except technical and scientific products
Securities, commodities, and financial services sales agents
Telemarketers
Travel agents

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