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WAL-Mart: the living wage[[1]](#endnote-1)

Robert Eames wrote this case solely to provide material for class discussion. The author does not intend to illustrate either effective or ineffective handling of a managerial situation. The author may have disguised certain names and other identifying information to protect confidentiality.

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By 2017, Wal-Mart Stores, Inc. (Wal-Mart) had shaped purchasing power for more than a million U.S. workers.[[2]](#endnote-2) Wal-Mart’s economic muscle was so profound that one could assume that the corporation’s wage policies had had a significant impact on the struggle for a living wage in the United States—but did this assumption have any merit? Wal-Mart had set the benchmark for low-cost retail labour practices. Understanding how Wal-Mart set the agenda with wages invited the investigation of a few pertinent questions: What socio-economic forces were in play and what was the environmental context that shaped Wal-Mart’s approach to managing its labour force? What were Wal-Mart’s wage-related practices, and how did the hourly rate paid to workers by the corporation affect prevailing wage rates? Finally, what were the benefits for Wal-Mart if it pursued a progressive wage rate agenda related to a living wage, and what were the disadvantages if it did not?

Background

The living wage discussion was not unique to the United States, nor was it solely a contemporary topic. In 1906, John Ryan, noted professor of moral theology and industrial ethics at the Catholic University of America, declared that a living wage was not merely a right, but a *natural* right possessed by any labourer. Ryan asserted that a clear distinction existed between a personal right and a social right, and argued that a living wage was not something society owed to a worker or something that should be provided to a worker for reasons related to the common good, but rather, a condition where the worker was entitled to a living wage as a moral and natural right.[[3]](#endnote-3)

For many people in 2017, a living wage had become an idea synonymous with economic justice.[[4]](#endnote-4) The notion of a living wage had its genesis among industrial workers in the United Kingdom in the 1870s, when organized labour used the living wage campaign to challenge the prevailing supply and demand policy of the time.[[5]](#endnote-5) This situation influenced the progressive movement in the United States as well as contemporary events involving the minimum wage that transpired in both Australia and New Zealand, where the idea of a living wage was embraced by trade unions and minimum wage laws were enacted in the 1890s. The idea of a living wage subsequently spread to the United States and Canada.[[6]](#endnote-6)

One definition of the living wage argued that a living wage should be a standard of living substantial enough to ensure that no more than 30 per cent of one’s working income would be spent on housing.[[7]](#endnote-7) Although the precise method of calculation varied with the contextual variables chosen, a living wage was calculated by identifying annual living expenses and then translating that information into an hourly wage rate appropriate to the specific geographical context of the worker. Typical annual expenses used in this calculation included food, child care, medical costs, housing, transportation, miscellaneous expenses for personal care items, and income taxes.[[8]](#endnote-8) The hourly wage was further refined after the household was categorized (that is, as one adult, one adult and one child, two adults with one working, and so forth).[[9]](#endnote-9)

The Living Wage Discourse

The first living wage municipal ordinance was enacted by the city of Baltimore in 1994, but it affected only a scant 1,500 workers.[[10]](#endnote-10) This victory for higher wages resulted from activism by a coalition of interfaith religious denominations, labour organizations, and community groups. Organized at the grassroots level, a combination of 50 Baltimore churches had joined forces with the union of American Federation of State, county and municipal employees, and various lower-wage workers. This church activism was a response to soup kitchens and food pantries that were full of the working poor.[[11]](#endnote-11) These workers not only needed ongoing assistance from churches in the Baltimore area, but were also frequently forced to turn to public assistance (i.e., food stamps and subsidized housing).[[12]](#endnote-12)

Opponents of a living wage argued that the practice established a wage floor that caused companies to hire fewer employees. The result of this wage floor would be higher unemployment and a deadweight loss, a cost society endured because of market inefficiency. According to this thinking, overpaying a worker prevented other low-skilled workers from finding a job. Supporters of the living wage disagreed and argued that higher wages had other benefits, such as more satisfied employees, a lowered turnover rate, decreased recruiting costs, improved morale, and higher worker productivity.[[13]](#endnote-13)

Moreover, opponents of a higher wage standard also predicted that many businesses that could not afford to pay a higher wage would have to close, or be forced to lay off workers—in short, wage increases made it much more challenging for businesses to operate and for low-skilled workers to find jobs. Others pointed out that the federal wage level had not considered regional variations in the cost of living.[[14]](#endnote-14) Some states reacted to this cost of living discourse; by 2014, for example, 11 states had indexed the minimum wage standard to the cost of living.[[15]](#endnote-15) There was evidence that instead of causing a reduced workforce, paying a higher wage caused employers to cut labour costs in other ways. In the United Kingdom, for instance, after raising hourly wage rates, some employers later reduced overtime pay rates, removed premiums for evening or weekend work, ended meal allowances, or even reduced pension contributions.[[16]](#endnote-16)

Some opponents predicted that an increase in prevailing wages would affect the cost of food. It was further suggested that a rise in food prices resulting from the cost of higher wages would vary by industry. One study found that food prices would likely increase overall by about 4 per cent if the federal minimum wage increased by 10 per cent, and suggested that price increases in the fast food industry would probably increase the most, by about 10 per cent, with the same percentage increase in wages.[[17]](#endnote-17)

Proponents of a living wage argued that higher wages would grow the economy by creating new jobs.[[18]](#endnote-18) There was a precedent that paying higher wages increased profits and turned workers into consumers with more money to spend, but the lessons that had been learned in that scenario in the past were not applicable to 2017’s global context. In the early 20th century, Henry Ford had doubled the daily wage of his assembly line workers to what he considered a living wage amid widespread criticism from business leaders and stockholders; the move dramatically reduced turnover and reaped Ford even greater profits, while he turned his workers into consumers of the product they produced.[[19]](#endnote-19)

Minimum-Wage Workers and the Living Wage

The struggles for a living wage and the federal minimum wage movement in the United States were related. Essentially, economists and researchers were at odds about whether a mandated minimum wage grew or destroyed jobs. Confusing matters further was the impact that inflation had in eroding wages. In 1968, for instance, a US$1.60[[20]](#endnote-20) per-hour minimum wage was worth $10.56 per hour by 2017’s standards, yet the 2017 federal minimum wage standard was $7.25.[[21]](#endnote-21) By 1996, because of inflation, the impact of the minimum wage had deteriorated about 30 per cent, while simultaneously, wages continued to stagnate, forcing many low-wage workers onto community and public assistance.[[22]](#endnote-22) Since 2009, U.S. worker productivity had increased while wages declined—and those workers at the lowest end of the pay scale were affected the most. Despite the efforts of some cities and counties, economists remained divided over the issue of a $15-per-hour minimum wage. Some argued that the replacement of workers with technology was a bigger issue, others stressed the need to proceed incrementally with any wage increases, and still others cautioned about the risks to industries that did not pay the rate and provoked a general slowdown in hiring.[[23]](#endnote-23)

Contrary to widespread belief, minimum-wage workers were not mainly teenagers working their first jobs while still attending school.[[24]](#endnote-24) Besides young people entering the job market, minimum-wage workers quite often included part-time workers, older workers, and women of any ethnicity. Overall, in 2012, minimum-wage workers comprised about 2.1 per cent of the hourly workforce—approximately 1.5 million workers. More than 60 per cent of those workers were concentrated in the retail/wholesale, leisure, and hospitality industries.[[25]](#endnote-25)

When hourly workers at or below minimum wage were classified by gender, ethnicity, and work status, it was noteworthy that in every category, women greatly exceeded male workers as recipients of minimum wage or below. In 2012, about 5.2 per cent of hourly workers in the private sector were at or below minimum wage, compared to 1.9 per cent of public sector hourly workers. Additionally, there were differences in workers at or below minimum wage between industries in both the private and public sectors. The percentage of workers at or below minimum wage in the leisure/hospitality industry was especially great when compared to other areas of the private sector, and was more than four times greater than the wholesale/retail industry, which followed the leisure/hospitality industry in number of workers at or below minimum wage.[[26]](#endnote-26)

Local living wage ordinances differed from federal minimum wage legislation in their ability to have an impact on a large number of workers.[[27]](#endnote-27) Most living wage ordinances at the local level were limited in their scope, and especially in the number of workers affected. The context was often about companies that had received contracts from a municipality or local government entity,[[28]](#endnote-28) or some type of business assistance in the form of grants, low-interest loans, tax abatements, and so on.[[29]](#endnote-29) Thus, in huge cities such as Los Angeles and San Francisco, only a small minority of the overall workforce benefited from local legislation, and in smaller towns and rural areas, the number of workers affected was inconsequential.[[30]](#endnote-30) In fact, these local ordinances had little impact on workers with low skills or those living at the poverty level,[[31]](#endnote-31) although there was some evidence that the poverty rate was lower in locations benefiting from the ordinance, where city contractors received meaningful assistance.[[32]](#endnote-32)

State minimum wage laws often contained provisions to induce employers to provide health insurance, holiday pay, or even to index the wage to inflation.[[33]](#endnote-33) Many cities developed their own wage ordinances. In Los Angeles in 1997, for instance, the Los Angeles Living Wage Ordinance included a provision that allowed employers to put a small portion of the hourly wage into employee health benefits, but research indicated that the practice had little effect on persuading employers to provide health care benefits. The ordinance seemed to have reduced turnover and absenteeism, but it may also have prompted the employment of a greater number of part-time workers.[[34]](#endnote-34)

By 2001, all locally enacted living wage ordinances in the United States affected only about 100,000 workers. Despite this number, some people continued to view the living wage movement with optimism. The largely grassroots approach created a sort of national momentum for the concept, and living wage activist organizations sought to expand the idea into the national discourse more forcefully.[[35]](#endnote-35)

Wal-Mart and the Living Wage

Wal-Mart’s wage policies affected taxpayers (who were ultimately the payers for public assistance programs) and the public sector, which faced increased demand for services. Wal-Mart’s low wage employment model did not provide workers with enough income to contribute to meaningful consumer spending, and thus became a negative drag on the economy. At a wage of $10 per hour, even a full-time worker in the average state made only slightly more than half the income needed to support a family. Americans for Tax Fairness declared that employees who made $10 per hour still needed taxpayer assistance in the form of food stamps and Medicaid to survive.[[36]](#endnote-36)

One way to explore the notion of a living wage was to compare what a corporation said it would do regarding compensation to what it actually did. This comparison was essentially a discussion about espoused versus enacted values. Wal-Mart clearly understood the impact this discussion could have on public opinion and on its corporate reputation. On Wal-Mart’s corporate website, for instance, the section titled “Opportunity & Advancement”positioned Wal-Mart regarding a living wage and provided a detailed, reasoned, and deliberate exposition of its strategy. Wal-Mart asserted that it offered competitive pay—but especially stressed that the corporation offered upward mobility.[[37]](#endnote-37)

A similar promotional piece on Wal-Mart’s corporate website touted the $2.7 billion the company had invested in higher wages, training, and education. The website reported that 75 per cent of store managers had started as hourly employees and now earned between $50,000 and $170,000 annually, and that more than 300,000 employees had been with the company 10 years or more. This investment included the development of 200 training academies in the United States, and classroom and sales training for hourly supervisors and department managers. A website infographic indicated that, after one year, the project had resulted in over 200,000 promotions, the conversion of more than 150,000 part-time positions to full-time positions, and 8,000 new department manager positions. Developers expected to serve more than 500,000 trainees at the new academies. When it came to compensation, Wal-Mart had raised the pay of more than 1.2 million workers at Wal-Mart and Sam’s Club stores in the United States.[[38]](#endnote-38) On the other side of the discussion, posted public comments about this information included those by a worker who had inquired about the lack of upward mobility in her department.[[39]](#endnote-39)

Wal-Mart had other contextual challenges: over the past few years, many stores had gained a reputation for having dirty bathrooms, shelves that were either empty or inconsistently stocked, checkouts that were tedious, or employees who provided a generally unhelpful or unfriendly shopping experience. Even though overall revenue in 2015 showed that earnings were positive, sales had plunged for five straight quarters in Wal-Mart stores that had been open for at least a year. Considering that only 16 per cent of stores had met their customer service goals, Wal-Mart executives reevaluated their minimalist approach to workers’ pay.[[40]](#endnote-40)

2015 was a pivotal year for Wal-Mart. Under pressure from investors, the corporation’s new executive team sorted through analysis related to the company’s slide in sales, and the news was unfortunate. Besides the environmental challenges at many of its stores, Wal-Mart’s profits were contested by global currency manipulators, intense competition from brick-and-mortar rivals, and even more intense competition from Amazon.com Inc.’s online juggernaut. Wal-Mart reduced its workforce consistently from 2008 through 2013, even as the square footage of its stores increased by 13 per cent. In February 2015, chief executive officer (CEO) Doug McMillon admitted to employees watching a company-wide video feed that Wal-Mart’s obsession with cutting labour costs had been a mistake and that, accordingly, the company would be making adjustments.[[41]](#endnote-41)

However, certain Wal-Mart labour practices seemed ambiguous in intent; for example, employee hours were restricted to less than 40 hours per week, and 34 hours was considered full-time for in-house practice. These policies meant the corporation did not have to offer benefits such as health care to those employees—a noteworthy practice from the largest private sector employer in the United States, with about 1.5 million employees. At $10 per hour, the annual salary for those workers amounted to less than $18,000. Employees making that annual income could not afford the necessities of life, yet their employer had an excess of $480 billion in gross revenues and more than $16 billion in profits in 2016. In 2015, Wal-Mart’s CEO received a salary of $19.4 million—more than $9,323 per hour based on a 40-hour week.[[42]](#endnote-42)

Some commentators suggested that Wal-Mart could easily afford to pay a $15 per-hour minimum wage, and asserted that the company’s low wages had been subsidized by the taxpayers who paid for public assistance. Wal-Mart’s wage-related policies affected not only those taxpayers, but also the public sector in general, which faced increased demand for services. At $10 per hour, an adult with one child qualified for both the Earned Income Tax Credit and the Supplemental Nutrition Assistance Program; in short, this family was eligible for food stamps.[[43]](#endnote-43) Wal-Mart’s *Walmart 2015 Diversity & Inclusion* report committed the corporation to $10 an hour or more for employees as of February 2016.[[44]](#endnote-44)

Competing claims about Wal-Mart were not always easy to sort out. Wal-Mart’s announcement in early 2016 that it would raise wages again for its hourly employees was largely met with skepticism. A spokesperson for Making Change at Walmart, a labour advocacy group, pointed out that following the much-marketed pay raise to $9 per hour in 2015, workers subsequently saw their hours cut and annual pay raise reduced.[[45]](#endnote-45) Wal-Mart’s sheer size and profitability contributed to the public pressure on the corporation to increase its wages. In fact, even though a considerable amount of minimum hourly-wage workers in the United States worked at smaller businesses, Wal-Mart’s detractors focused on the corporation as one that had engaged in an incredible amount of commerce in terms of sales and paid its CEO a mind-boggling salary, yet still refused to pay higher wages so its employees could avoid having to apply for some type of government living assistance.[[46]](#endnote-46)

Wal-Mart’s detractors included many former employees who published articles and commented in public forums. Alleged abuses of employees included Wal-Mart purposefully capping workers’ weekly hours, which in some instances ranged from 29 to 39 per week. Work schedules were changed almost weekly in many cases, which resulted in chaos for work–life balance when it came to family medical appointments and other life activities common to most workers. Employees were not allowed to leave when their shift ended until the store manager granted permission for everyone to do so after ensuring the store was sufficiently clean. Additionally, employees were not allowed to use their cellular phones to call babysitters during this indefinite period.[[47]](#endnote-47)

Discussion

Proponents who advocated for Wal-Mart to increase its wages pointed out the potential benefits of paying a $15-per-hour wage. Foremost of these was the expectation of a ripple effect of purchasing power throughout the retail industry.[[48]](#endnote-48) Proponents also cited the efficiency wage theory—the idea that paying higher wages than the prevailing rate would translate into loyal, motivated workers with high productivity.[[49]](#endnote-49) Wal-Mart had not paid an efficiency wage in the past, so a shift to a minimum rate as high as $15 would be a game-changing decision. Significantly, Wal-Mart had the economic power to set the retail agenda when it came to wage practice. The corporation’s pay increases to $9 per hour (in 2015) and to $10 per hour (in 2016) were quickly copied by other large retailers including Target Corporation (Target), Ross Stores, and T.J. Maxx Companies.

Target rapidly followed Wal-Mart’s lead on pay increases in early 2015, and matched the increase to $9 per hour for workers, and then in 2016, again matched Wal-Mart with an increase to $10 per hour.[[50]](#endnote-50) According to one source, Target’s move reflected strong competition in the retail industry for workers and was a response to union-inspired pressure in some cities across the United States. A Target spokesperson would not disclose how many of its approximately 341,000 employees received a raise; however, employees who had been making over $10 per hour were entitled to some sort of annual merit raise or pay increase. Yet the move had some downsides for Target: the increased labour costs affected its gross margin projections for 2016, and Barclays analysts downgraded the company’s stock. Further, aside from the anecdotal evidence from part-time employees that Target responded to the rising labour costs by cutting the hours of some employees, Target was also plagued by union-building activities.[[51]](#endnote-51)

Ross Stores followed Wal-Mart’s lead and matched $1 per hour wage increases in 2015 and 2016, and, like Target, experienced lower earnings forecasts.[[52]](#endnote-52) The story was the same for T.J. Maxx Companies, which included Marshalls and HomeGoods, with two pay increases of $1 per hour, matching Wal-Mart’s moves.[[53]](#endnote-53) T.J. Maxx Companies CEO Carol Meyrowitz remarked that the move was needed to retain the best talent and to remain competitive.[[54]](#endnote-54)

Costco Wholesale Corporation (Costco) had already been paying higher wages than Wal-Mart and Target, but it also raised employee wages in 2016. Although not specifically linked to Wal-Mart’s increase, with sales up and cardholders on the increase, Costco’s chief financial officer Richard Galanti remarked that the move was partly because of the physical nature of many of the company’s jobs, and that the company wanted to be known as a premier employer.[[55]](#endnote-55)

Like Wal-Mart, competitors Target and Costco featured expressions of espoused values on their corporate websites. Target was committed to issues such as sustainability, community relations, volunteerism, diversity, and corporate social responsibility.[[56]](#endnote-56) It had an extensive list of benefits and perks available to employees—but what was missing was any reference to the quantity or quality of its compensation for employees, and there was no mention of a minimum or living wage standard.[[57]](#endnote-57) Like Target, Costco made no direct mention of compensation or a minimum wage standard on its corporate website. Costco, too, provided extensive information on employee opportunities, benefits, and career possibilities.[[58]](#endnote-58)

In some regions of the United States, there had long been clear indications that it was time for Wal-Mart to reconsider wage increases. Over time, California and New York, two of Wal-Mart’s most profitable markets, raised their states’ minimum wage to $15 per hour.[[59]](#endnote-59) One prediction for Wal-Mart was that store sales would increase between $4 and $28 for every dollar spent on payroll at that store. By some estimates, the tremendous cost of replacing employees was a bigger issue. Turnover costs at Wal-Mart were estimated to be $4,275 per lost employee, so improving retention through higher pay was possibly a reasonable approach.[[60]](#endnote-60) In sum, Wal-Mart’s wage-related activities had been so important to the U.S. economy that the results of these somewhat tentative pay increases could have far-reaching consequences.

Questions and Choices

Did Wal-Mart’s wage-related practices influence the struggle for a living wage in the United States? There was little doubt this was true for the retail industry, which cut across all regions of the country. Wal-Mart’s competitors had quickly matched each of Wal-Mart’s recent pay raises in the context of competing for workers; Wal-Mart’s wage increases must also have been considered trendsetting moves for other typically minimum-wage industries, such as hospitality and prepared food. It was significant that some states had recently mandated a $15 per-hour minimum wage over the coming few years.

What were the socio-economic forces that influenced Wal-Mart and what was the environmental context? Certainly, the living wage and federal minimum wage movements were active socio-economic forces that continued to affect Wal-Mart deeply. Wal-Mart viewed labour as an area for cost-cutting and savings on operations. Labour was not considered a valued resource for the company, as evidenced by the manipulation of workers’ schedules to keep them below 40 hours per week—a decision that committed the corporation to a reduced workforce—and by the other heavy-handed labour practices used by some managers. Paying low wages resulted in many Wal-Mart workers applying for public assistance. In the political/legal dimension, because the federal minimum wage had proved inadequate for providing workers with a living wage, legislation was passed at the local and state levels that mandated an incremental increase in wages over time, founded on thinking that favoured a living wage.

When Wal-Mart’s wage practices were viewed over time, it was clear to the company’s top leadership that the harsh approach to labour management had failed miserably.[[61]](#endnote-61) It was also evident from publicly posted comments by former employees that Wal-Mart’s labour practices had been a source of tension in some stores.[[62]](#endnote-62) The corporation faced two basic choices: it could return to the mainly cost-cutting and compliance-oriented labour practices of the past, or the corporation could embrace a culture of engagement and participation with its employees. Because of its impressive cash reserves and continued profitable operations, Wal-Mart could likely afford to pay a higher wage, even with the huge number of workers it employed.

The disadvantages Wal-Mart faced if it continued with its past wage practices included loss of morale and loyalty in its workforce, increased union-building efforts, criticism from public sources and loss of reputation, and serious worker retention problems. The advantages for Wal-Mart if it embraced a paid wage closer to a living wage and pursued labour policies of engagement and participation with employees included better morale, higher productivity, lessened union activity, and higher retention of workers. Regardless of what it chose to do, Wal-Mart needed to establish consistency across its stores’ practices. The caveat was a lack of research on the effects of paying an efficiency wage, though it was recognized that higher labour costs caused lowered earnings forecasts. This result seemed to be an obvious outcome, but those labour costs might also have been offset over time by savings from higher retention and increased productivity.

Wal-Mart’s leadership was at a crossroads of strategic choices: how should the corporation proceed?

ENDNOTES

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Wal-Mart Stores, Inc., or any of its employees. [↑](#endnote-ref-1)
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10. Bobbi Murray, “Living Wage Comes of Age,” *Nation* 23/30 (2001): 24–28. [↑](#endnote-ref-10)
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18. “Should the Federal Minimum Wage Be Increased?” op. cit. [↑](#endnote-ref-18)
19. Daniel Gross and Forbes Magazine Staff, *Forbes Greatest Business Stories of All Time* (New York, NY: John Wiley & Sons, 1996). [↑](#endnote-ref-19)
20. All currency amounts in the case are in US$ unless otherwise specified. [↑](#endnote-ref-20)
21. Weissmann, op. cit. [↑](#endnote-ref-21)
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34. David Fairris, “The Impact of Living Wages on Employers: A Control Group Analysis of the Los Angeles Ordinance,” *Industrial Relations* 44, no. 1 (2005): 84–105. [↑](#endnote-ref-34)
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