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IWS Issue Brief - The Good, the Bad,
and Wal-Mart

Maralyn Edid
Institute of Workplace Studies

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The Good, the Bad, and Wal-Mart

What's good for business is good for America. Or so the maxim goes. First asserted 50 years ago by the chair of General Motors Corp. in reference to the relationship between his company and his country, the sentiment has since come to exemplify and rationalize all manner of private sector strategies, policies, decisions, and actions. Federal, state, and local governments, to a large extent, likewise regard this "truth" as self-evident.

Today, the nation's largest company and number one employer would have Americans believe that its interests are synonymous with the public interest. Wal-Mart Stores, Inc., a retailing behemoth with more than 3,700 locations in the U.S., 1.2 million employees, and annual domestic sales of \$228 billion (representing a measurable chunk of Americans' overall spending) stands as consumers' best friend. With unparalleled purchasing power and marketplace heft, Wal-Mart prides itself on driving down costs all the way through the smallest supplier to ensure the lowest prices on everything from electronics to clothing to house wares to edibles. Wal-Mart also takes credit for stimulating economic development, creating jobs, and filling local coffers with sales and property tax revenues through decisions to locate stores in rural communities, small cities and suburbs, and struggling urban neighborhoods.

But there's a contrary view gaining currency across the land; that is, what's good for Wal-Mart is bad for America. Skepticism about Wal-Mart ranges from concern about low wages and suspect workplace practices to perceived threats to the ongoing viability of communities' social and economic infrastructure once the big box store comes to town. The doubts don't end with Wal-Mart but extend to larger questions about changes rippling through the American economy and general anxiety about the nation's dwindling manufacturing base, the disappearance of solid middle-class jobs, and the growing gap between the have's and have-not's. The giant retailer is often the target of critics' ire because it is such a stark and overpowering symbol of the emerging economic order. Its founder, Sam Walton, understood perfectly how the system works, and to this day company executives continue to prove their proficiency in carrying out his vision.

Wal-Mart's rapid and aggressive expansion has proceeded largely unimpeded since its founding in Rogers, AK more than 40 years ago. That seemingly unstoppable momentum has finally hit a bump. A loose coalition of labor unions, community activists, small business owners, environmentalists, religious leaders, and even some politicians are throwing down obstacles. They are challenging Wal-Mart's presumptions as well as its plans – and getting a measure of help from disgruntled employees who have filed suits against the company alleging a variety of illegal workplace conduct.

Few would dispute that Wal-Mart is a model 21st century multi-national corporation. It boasts more than 1,500 stores in nine countries besides the U.S., buys goods produced in

less developed economies, and in many ways is a paragon of the new service economy. Retail analysts marvel at its prowess in harnessing technology for inventory control and distribution, in pressing suppliers to slash costs, in identifying what consumers want and how much they are willing to pay, and in maximally using its human resources. The retailer holds managers to strict cost and profitability standards and expects maximum input and output from employees, called “associates” in company parlance, at all times. In other words, Wal-Mart flexes its internal muscles to sustain the market dominance that enables its target customers (low- and middle-income shoppers) to stretch their hard-earned dollars.

The flip side of the Wal-Mart phenomenon is less exalting. The real cost of the low prices is borne, in part, by low-wage sales clerks and cashiers, stockroom personnel and assistant managers and by production workers toiling in the far corners of the world whose output winds up on Wal-Mart shelves. The burden is felt by employees of rival retailers and allied industries whose wages and benefits flag under the weight of Wal-Mart’s presence. It is carried by independent neighborhood merchants who cannot beat the price advantage that accrues to a competitor with colossal market power. And finally, it bears down on the environment through the sprawl that often follows in Wal-Mart’s wake, with its spur to construction and commercial activity on the fringe of established communities and what critics characterize as its negative impact on the local ecosystem and traffic and housing patterns.

Wal-Mart’s policies and practices in the workplace have drawn particularly strong condemnation. Although Wal-Mart portrays itself as a stand-up employer, offering competitive wages, a benefits package that reflects caring support, and a “family business” environment that fosters commitment to “our people,” critics contend just the opposite. The negative view of the company holds that workers earn poverty level wages, that health insurance and other benefits are inadequate, that workplace control is excessively authoritarian, that workers’ personal well-being is often discounted, that labor laws are sometimes flouted, and that high turnover indicates deep dissatisfaction within the ranks.

Consider wages and benefits. Hourly pay at Wal-Mart averages less than \$10; for a full-time employee putting in 40-hour weeks this translates into an annual income slightly above the national poverty level of \$18,850 for a family of four. On the benefits side, the company contributes 4% of workers’ eligible pay into a profit sharing/401(k) plan, pays bonuses, and offers health insurance. But the cost of participating in the latter is so high relative to wages – approximately \$40 a month for an individual and \$155 a month for a family – that only 40% of the workforce opts to buy in. The remaining 60% either carry no health insurance at all, piggy-back on to the plan of a spouse or partner, or rely on government-sponsored (i.e., taxpayer-subsidized) programs such as Medicaid. One study cited by *The Washington Post* on its Web site late last year found that Wal-Mart employees comprised a plurality of Medicaid recipients in Las Vegas. The UC Berkeley Labor Center reported in 2004 that 23% fewer Wal-Mart workers were covered by their company’s health insurance plan than workers in large retail operations as a whole and that Wal-Mart employees earned, on average, an estimated 31% less. The Labor Center

also found that Wal-Mart workers in California were heavy users of the state's public assistance programs, to the tune of \$86 million a year. As it does so efficiently with suppliers, company critics argue, Wal-Mart squeezes labor costs out of its own system by pushing them on to other entities.

Unions are another hot button topic among Wal-Mart bashers. Even with its expedient acceptance last November of the state-sponsored All-China Federation of Trade Unions as the representative of 20,000 workers at 40 Wal-Mart stores in that country, the retailer is regarded as fiercely anti-union everywhere else. Corporate spokespeople deny Wal-Mart disapproves of organized labor and disingenuously note that many customers are union members and many employees are former union members. Nonetheless, the company insists that unions would not add value in the workplace and would interfere with its ability to connect directly with employees. Its Web site proclaims:

At Wal-Mart, we respect the individual rights of our associates and encourage them to express their ideas, comments and concerns. Because we believe in maintaining an environment of open communications, we do not believe there is a need for third-party representation.

That message has been heard loudly and clearly by employees and unions alike. The United Food and Commercial Workers (UFCW) has maintained low-level organizing campaigns at a number of Wal-Mart stores over the past few years although the return on its efforts is negligible. The union successfully fought a nationwide injunction against soliciting Wal-Mart employees that was issued in 2002 by a state court in Arkansas but has lost representation elections among tire and lubrication workers at several stores, most recently in New Castle, PA and Loveland, CO. It boasted a Pyrrhic victory in 2000 among a small group of butchers in Jacksonville, Texas and the surface appearance of collective bargaining at a store in Jonquiere, Quebec, whose employees embraced the UFCW in August, 2004. The union took a drubbing during a four-month strike in late 2003 by workers at three grocery chains in southern California that were nervous about the planned expansion of Wal-Mart supercenters (which sell grocery items) and held out until the UFCW agreed to a package of lower wages and benefits for new hires.

One plausible explanation for the UFCW's dispiriting record: Wal-Mart shifts into overdrive to ensure that organized labor does not penetrate its operations. The company quashed the butchers' aspirations just one month after the pro-union vote by switching to pre-packaged meat and eliminating the jobs of in-store butchers. In the midst of stalled contract negotiations in Jonquiere, Wal-Mart announced it would close the store, saying the outlet was not meeting financial targets and ongoing labor problems had made the situation worse. According to reports in *The New York Times*, workers at another recently-organized store in Quebec are now worried their jobs will disappear as well. Current and former employees have stated publicly that union organizing efforts are swiftly met by a posse of consultants from corporate headquarters who teach managers how to thwart the union. Managers and supervisors jump into the fray by calling mandatory meetings and showing videos that disparage unions, privately interviewing alleged union sympathizers and firing some, implying the store could close, and hiring

new workers just before an election who are sure to vote against the union. The intensity of management's response, which in some cases involves outright intimidation, invariably destroys the union campaign.

Bowed but undeterred, the labor movement recently decided to switch tactics. Instead of putting its money and energy into organizing, it will focus on publicizing the company's labor practices and dissuading union members from shopping at Wal-Mart. The goal is to raise awareness among the public and then transform that understanding into pressure on the company to boost wages, improve benefits, and otherwise repair its employment relations.

Indeed, Wal-Mart's workplace practices have come under a fair amount of public and legal scrutiny over the past few years. Between 1998 and 2003, frustrated union activists filed 45 unfair labor practice complaints with the National Labor Relations Board, alleging Wal-Mart illegally fired, harassed, and otherwise violated collective bargaining law during union campaigns. Wal-Mart has also run afoul of federal labor and immigration laws for, among other things, contracting out cleaning services to companies that hired illegal immigrants (the company recently agreed to an \$11 million settlement with the U.S. Department of Labor but still faces a civil suit filed by the workers), locking in some overnight workers, not paying overtime to workers who were forced to work off-the-clock, and violating child labor laws by allowing minors to use hazardous equipment or scheduling them to work excessive hours. An internal audit completed in 2004 found almost 1,400 problems involving minors in 128 stores; Wal-Mart recently settled outstanding complaints involving young workers at stores in Connecticut, New Hampshire, and Arkansas and did so with Maine in 2000. The company is now fighting a class action suit involving 1.6 million current and former female Wal-Mart employees that stems from a suit filed in 2000 by six women in San Francisco who alleged sex discrimination in pay, promotions, and work assignments.

The backlash against Wal-Mart often extends beyond workplace concerns, especially now that the company is poised to invade the urban frontier. Voters in Inglewood, California last year rebuffed Wal-Mart's plan to build a store in that community. A loud outcry by a coalition of community and labor activists, merchants, politicians, and religious leaders in New York City convinced a developer to drop Wal-Mart from a proposed shopping complex in Queens. In Chicago as well, criticism of the company's practices and policies pushed the City Council to reject a store on the south side while cautiously approving a store on the west side, where community leaders extracted a pledge from the retailer that they could be involved in some hiring decisions and that certain items would be supplied by local providers.

Is Wal-Mart perhaps a bit humbled by such incidents? Wal-Mart did fire several executives in late 2004 who had been involved with the questionable labor practices and it is waging a public relations campaign intended to burnish its image. But the longer-term effect on company policies and procedures is impossible to predict. Given Wal-Mart's relentless march towards ubiquity, shoppers as workers as citizens can only hope company executives are mindful of the impact their decisions have on the social and

economic well-being of communities large and small. Meanwhile, those shoppers as workers as citizens might consider how and why the system got so out of whack to begin with.

Maralyn Edid
Senior Extension Associate
ILR School
Cornell University
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