

MPRA

Munich Personal RePEc Archive

Business Practices of Wal-Mart in Northwest Indiana

Rao, Surekha and O'Dell, CYNthia

IU Northwest, IU Northwest

10 June 2007

Online at <https://mpra.ub.uni-muenchen.de/6628/>
MPRA Paper No. 6628, posted 08 Jan 2008 08:14 UTC

THE IMPACT OF WAL-MART BUSINESS PRACTICES: A REGIONAL ANALYSIS

**K. Surekha Rao
Cynthia O'Dell
Indiana University Northwest**

ABSTRACT

Wal-Mart symbolizes the strength of economic and commercial activity in any region. Wal-Mart has built a business empire on its low-cost model. Customers love Wal-Mart stores for its low prices. At the same time, Wal-Mart is under a barrage of criticism for labor practices and indirect burdens on our social and welfare programs. Some of the business practices of Wal-Mart like the employees' wage-benefits package, and the underemployment of women and minorities are the subject of ongoing debate at the national level. Our main objective is to review this issue within a regional context. We examined whether what is being alleged about the business practices of Wal-Mart at the national level is mirrored at the regional level, like northwest Indiana.

The findings presented are from a survey designed to analyze the impact of the business practices of Wal-Mart on customers and employees. Our results concur with earlier national studies that there are hidden costs for the community which shops and supports Wal-Mart and that a large number of employees are older, work part time, earn below the regional average income, and depend on state welfare programs. We found gender differences in employment, earnings, and career advancement opportunities. The price of low cost goods may be too high for the region economy and it will likely affect women more than men.

INTRODUCTION

What is the probability that you are working full time at Wal-Mart, raising a family, and officially classified as Poor? What is the probability that you are a male working full time at Wal-Mart, raising two children, and taking assistance from FSSA? What is the probability that you are a female working full time at Wal-Mart, raising two children, and be classified as Poor and taking assistance from FSSA? What is the probability that you are fifty or older and you work at Wal-Mart and you are a part time employee? What is the probability that you are a minority female working full time at Wal-Mart and living on taxpayers' supported welfare programs? Ask any of these questions in any combination and permutation, and it is likely that that you would get two diametrically opposite answers. On one end of the spectrum is the view that the probability of such situations in any community with Wal-Mart(s) is very high. On the other extreme there are studies of huge consumer surplus because of low prices set by Wal-Mart.

Wal-Mart is the world's largest company. Wal-Mart has built a \$344 billion dollar business on its low-cost model. Wal-Mart runs 4000 stores nation wide and 2700 in thirteen other countries, and employs a total of 1.8 million people worldwide. Its weekly sales are about seven billion dollars and 175 millions customers shop with Wal-Mart every week. During 2006 alone, it opened over four hundred new stores, adding more than one store a day. The largest employer in the nation plays a significant role for the lives of millions of people nationwide.

Wal-Mart is under barrage of criticism for its labor practices and it is often accused of being bad for the economy. Wal-Mart stands accused of several violations of labor laws and cutting employee benefits, exploiting illegal immigrant labor and gender discrimination. Wal-Mart is the at the center of several lawsuits from many consumer watch groups, trade unions,

feminist groups and human rights groups. Several studies, for example, Quinn (2000), Ehrenreich (2001), Dube and Jacobs (2003), and Fishman (2006) have shown that Wal-Mart's low cost model comes at the expense of the economy. Its pay and benefits drive down those at other companies trying to compete. Its low benefits force its employees to rely on FSSA, Medicaid, Food Stamps, and Temporary Assistance for Needy Families (TANF) as a safety net resulting in a drain on our public resources and an indirect burden on all citizens. These studies also believe that it destroys communities and creates retail sprawl. More than 700,000 women work for Wal-Mart, which makes the Company the largest private sector employer of women in the country and currently Wal-Mart is facing one of the biggest class action lawsuits for gender discrimination (Drogin, 2003 and Featherstone, 2004). Studies have shown that while two-thirds of the company's hourly workers are female, women hold only 1/3 of managerial positions and constituted less than 15 % of store managers. For the same job classification, women earned from 5% to 15 % less than men, even after taking into account factors such as seniority and performance. This divide in pay has been growing over time and is found across many regions.

Studies by Hausman and Leibtag (2005a, b) and Soderquist (2005) discuss the huge consumer benefits and the great positive economic impact of Wal-Mart on our communities. Consumers love Wal-Mart stores for its low prices. Hausman and Leibtag (2005a, b) calculated that minorities and low income households have significantly higher consumer surplus as a result of shopping at Wal-Mart and the effect of Super centers has favorable distribution effects across the population. That supports Wal-Mart's claims of providing an improved standard of living for many low income families by providing food and other products at lower prices and helping control inflation. The company also proudly displays its policy of corporate neighborliness by promoting sustainability, promoting education and other charitable activities in local communities. In the light of these competing claims, questions have been asked focused on whether the presence and growth of Wal-Mart is good for any region and whether the Wal-Martization of a region affects women more than men. Do the regional economic and social impacts of Wal-Mart mirror national trends? We decided to examine these questions for our region in Indiana. Wal-Mart employs 38000 employees at 121 stores in Indiana, so every hundredth worker in Indiana is employed with Wal-Mart.

RESEARCH METHODOLOGY AND SURVEY DESIGN

In the absence of any theory that would allow us to compare the consumer surplus with the hidden cost to the society, we have undertaken a survey based research design. This is a multi-disciplinary study on the business practices of Wal-Mart in Northwest Indiana and its impact on the region's economy with a special focus on gender issues. Both customers and employees of Wal-Mart were surveyed with different questionnaires designed to address several economic issues. Wal-Mart has five stores in northwest Indiana and another one is likely to open in Crown Point. There are about 1200 employees in the five stores in this region. We planned to survey 100 customers and 100 employees for this study. There were two different questionnaires with 25 questions in each of our surveys, that would not take more than 10 minutes and still give us some crucial information about the Wal-Mart employees and customers. Wal-Mart would not let us survey either their employees or customers. Therefore, we did what can be best described as obtaining a convenience sample of both customers and employees. Through flyers in public places and word of mouth and all possible contacts we were able to survey 62 employees and 100 customers. The customer survey included questions focused on the frequency of Wal-Mart

shopping, which Wal-Mart stores they frequented, what aspects of Wal-Mart they found appealing and what they found unappealing, their overall opinion of Wal-Mart, whether they would like another Wal-Mart closer to home, whether a family/friend lost business because of Wal-Mart, estimated monthly savings from shopping at Wal-Mart and finally a series of demographic information. The employee survey included questions focused on employment history, insurance coverage, use of local, state and federal assistance programs, and demographic information. Survey participants were paid a small amount for participating. Student researchers administered the surveys and collected the anonymous data for analysis.

EMPLOYEE SURVEY RESULTS

Employee participants were obtained by placing flyers in retail and education establishments within Northwest Indiana. The employee survey included questions focused on employment history, insurance coverage, use of local, state and federal assistance programs, and a series of demographic information.

A total of 62 employees completed a survey. The percentage of female employees surveyed was 60% and males 40%. In terms of the ethnicity, 65% self-identified as White and 35% as African American, Latino, or Asian. According to the American Community Survey of the U.S. Census (2005), the ethnic profile of Indiana is about 74% White. All other races including African Americans, Latinos/ Hispanics, Asians, Native Americans and others are about 26% of the population. Lake county has a 63% White population and Porter county is 93% white and LaPorte county is 89% white. Thus, our sample is representative of the population demographics of our region.

Traditionally, one of the most vulnerable groups of employees are the teen employees or those between the ages of 16-25 and this group constitutes 50% of all employees surveyed. Overall 92% of the employees surveyed were between the ages of 16-35. Only 8% of the employees were 50 or older. Our data show an interesting pattern such that the older employees (35 and older) are mostly females. It would appear that as male workers age, they may move away from low paying jobs at Wal-Mart to other higher paying jobs that might not be available to female workers.

Table 1 shows the income distribution of the employee households. We find that 62% (39/62) of the employee households surveyed have incomes less than \$20,000. Overall, the income distribution of the employee households is skewed to the left, which is a clear indicator of the standard of living of the Wal-Mart employees.

The average household size, as defined by the American Community Survey, was calculated by taking the simple average of the number of related and unrelated adults and children living under the same roof. The average household size was four. The poverty threshold, according to the Federal poverty guidelines, in 2006 for a household of size four is \$20,794 (U.S. Census Bureau, 2006). Therefore, if you work at Wal-Mart, there is a very high probability that you are among the 13.8% of those classified as Poor in Indiana (U.S. Census Bureau, 2006).

Indiana's poverty rate is higher than Illinois, Missouri and Michigan, our neighboring states. Since every 100th worker in Indiana is employed at a Wal-mart, it is highly likely the case that many of the working individuals classified as Poor in Indiana are employed at a Wal-mart. During the period of the survey in 2006-07, national per capita income in current dollars was about \$45,000 as compared to median family income of 20000 for Wal-Mart employees. It was in 1987-88 that the national per capita income was about \$20,000! Only tiny fractions (12%) of

the Wal-Mart employee households' incomes are comparable to the current national average incomes.

Table 1
Employee Income Distributions

Income	Male	Female	Total
< \$20,000	17	22	39
\$20,000 – 30,000	5	7	12
\$30,000 – 40,000	0	3	3
\$40,000 – 50,000	2	2	4
> \$50,000	1	3	4

As shown in Figure1, there were slightly higher percentages of minorities in lower income levels than the Caucasians. On the other hand, there were no minorities in income levels of \$30,000-\$50,000 levels.

Figure 1
Employee Household Income: Distribution by Race

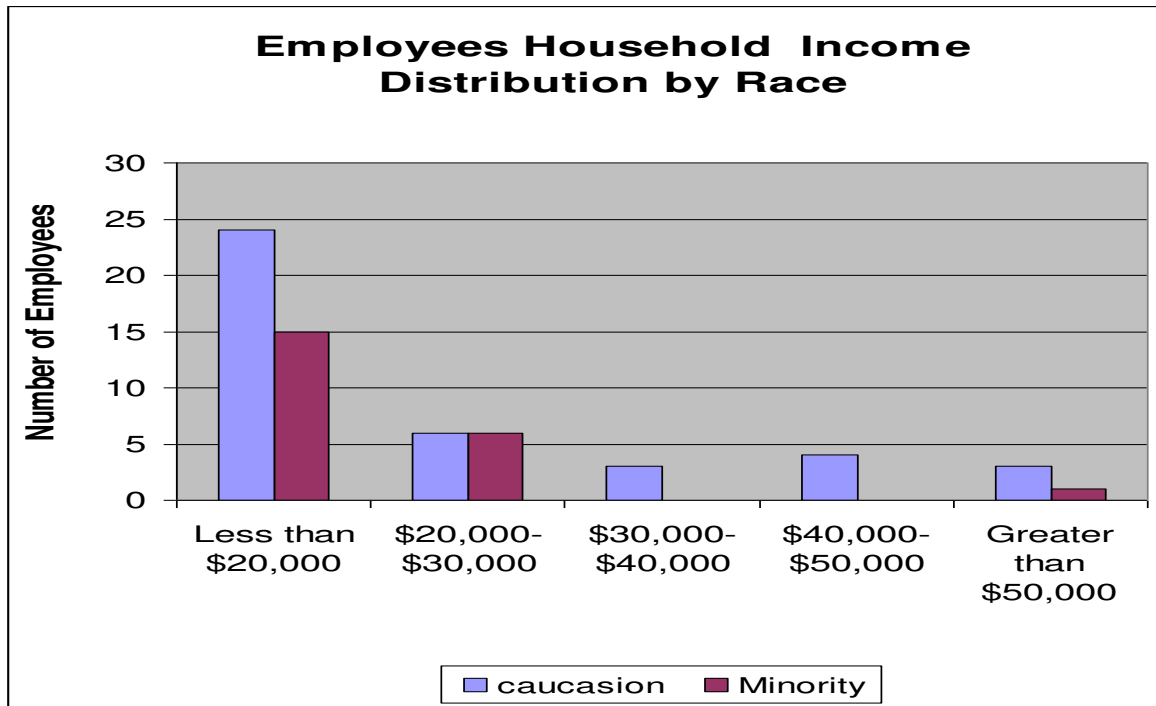


Table 2
Use of State Assistance by Employees

Type of State Assistance	Male	Female
Food stamps	1	11
Medicaid/health care	5	11
Unemployment insurance	2	7
Housing and Community Services	0	2
Domestic Violence	0	5
Temporary assistance of Needy Families	0	1
IMPACT	0	1
Child care	1	2

About 20% of all employees sampled are using the Food stamps program as shown in Table 2. 25% of the employees are on Medicaid. 40% of the employees surveyed do not have health coverage. Nationwide we have 46 million people who are not insured and that is only 15 % of the population. These data suggest that the uninsured are not spread uniformly over the entire population. If the data collected in our survey mirror the larger population of Wal-mart employees, it would appear that a greater proportion of the uninsured are employed at retail stores like Wal-mart than in other occupations. We also found that greater a percentage of male employees were without coverage in our sample, however this may be explained by their relative youth. It is interesting that of all those who had health coverage, about two thirds had their insurance through Wal-Mart.

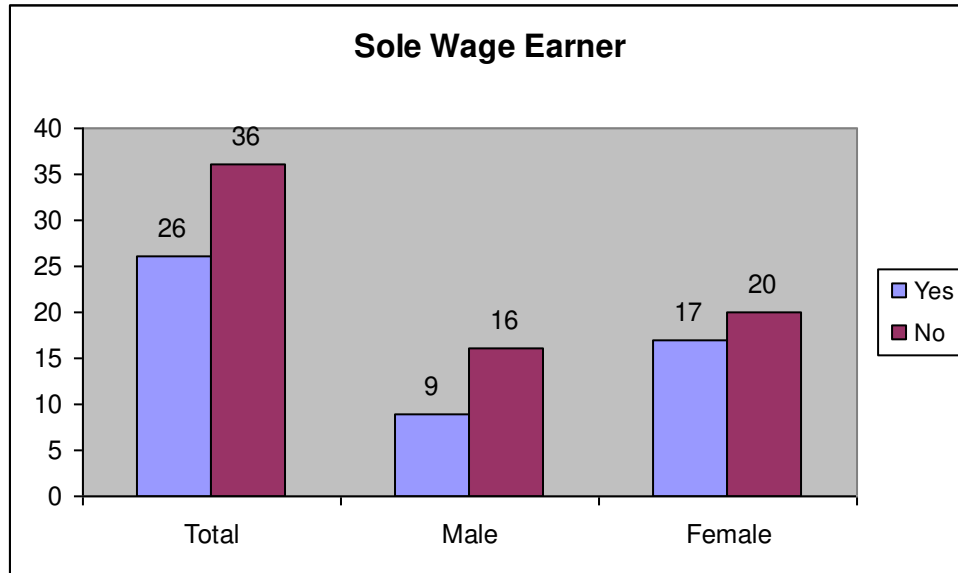
Table 3
Proportion of Insured Employees by Race

Race	N	Proportion
African American	10	.63
Asian	1	1
Caucasian	24	.60
Latino/Hispanic	1	.33
Other	1	1

To explore this question further we examined if there was any correlation between being uninsured and ethnicity of employees. The majority (65%) of those having some kind of coverage were White and only 35% of the minority employees in our sample have coverage. We find that the data described here do not support the hypothesis that part time workers are the uninsured. Thirty five percent of all employees in our sample are part time workers. An expected majority of them are females. Forty six percent of the female employees are part time as compared to 20% of the male workers. When we look at this distribution by age it is striking to note that almost all who were above the age of 50 were working only part time, or the probability of being over 50 and working part time in our sample is 100%. We have yet to investigate if this is by choice or by design.

Next, we examined the question of whether there is a gender bias in employment and other benefits at Wal-mart in our sample and what the impact of its practices on female employees and the economic condition of households with female sole wage earners is. What kinds of jobs do females hold at Wal-mart and do equal advancement opportunities exist for females?

Figure 2
Single Wage Earner Households: Distribution by Gender

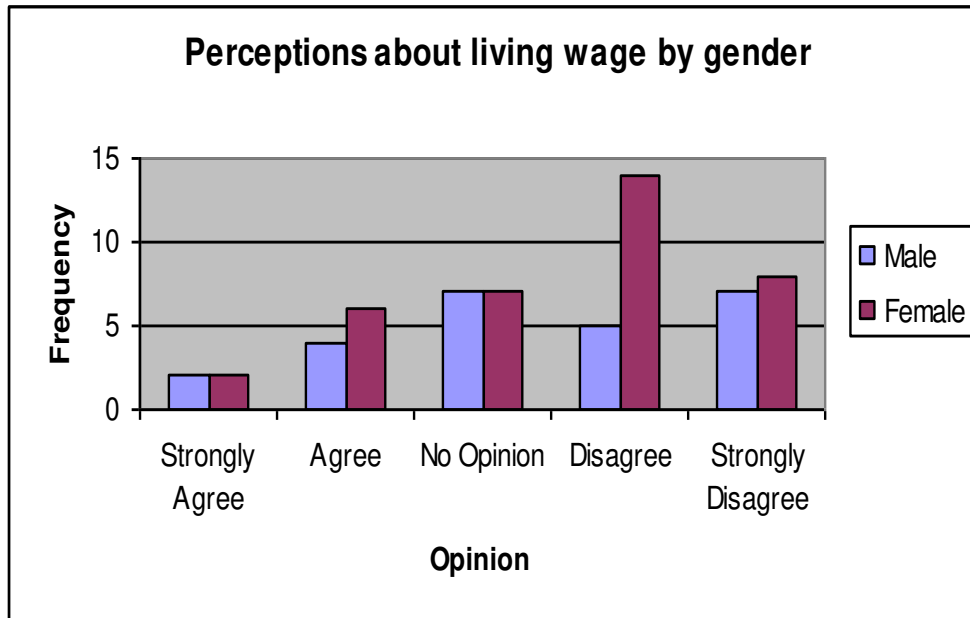


There is much greater proportion of female single wage earners (65%) in our sample as compared to the single male wage earner households (see Figure 2). It is very likely the case of single-mother households. These characteristics of any region will add a larger burden to the state welfare program. When we try to look at the positions or the kind of jobs females hold, we found that more men than women held managerial positions in our sample. Although we had a small proportion in our sample of individuals who hold such positions, we found that it is tilted in favor of men.

Who is using more government welfare programs? Table 2 is an eye opener which shows that female employees are three times more likely than their male counterparts to make use of state assistance programs. Only 26% of the male employees were using some kind of assistance while 74 % of the female employees were. Table 2 also gives a breakdown of the type of assistance and gender of the employees and it was found that Food stamps, Medicaid and unemployment insurance were three very popular state sponsored programs used by Wal-Mart employees.

We can see that many females disagree that Wal-mart pays a living wage to its employees (Figure 3).

Figure 3
Perceptions about the Living wage: Gender Perspective

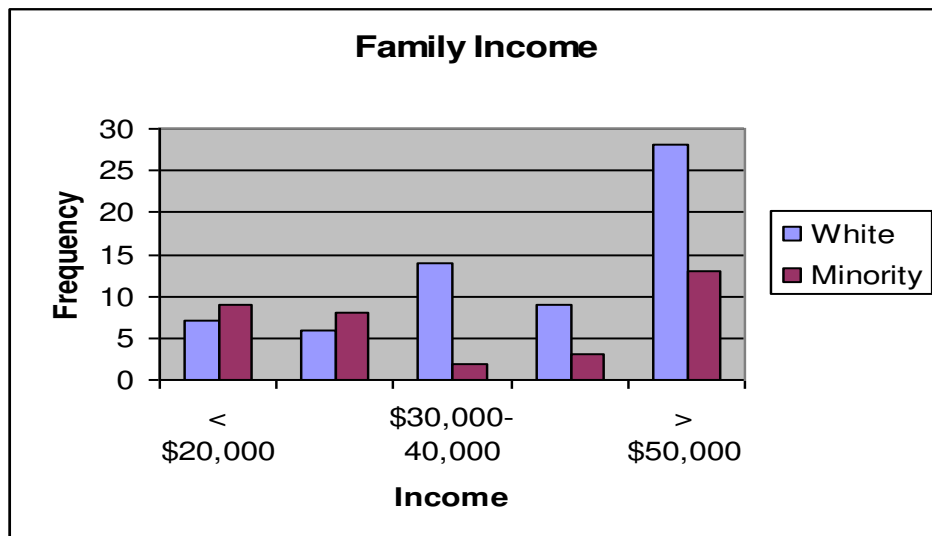


CUSTOMER SURVEY RESULTS

Customers were obtained primarily from undergraduate and graduate business classes at a small regional state university. The customer survey included questions focused on the frequency of Wal-Mart shopping, which Wal-Mart stores they frequented, what aspects of Wal-Mart they found appealing and what they found unappealing, their overall opinion of Wal-Mart, whether they would like another Wal-Mart closer to home, whether a family/friend lost business because of Wal-Mart, estimated monthly savings from shopping at Wal-Mart and finally a series of demographic information.

A total of 100 customers, 47 males and 53 females, surveys were completed. Sixty-four percent of the customers described themselves as White, 16% as Latino (a)/Hispanic, 6% as African American, 9% as Asian and 5% as other. Seventy four percent of our sample were under the ages of 35, and only 6% between the ages of 50-65. Since our customer sample was obtained at a university, our data set is skewed towards younger customers. Forty-three percent of the customers lived in a household without children, followed by 28% having one child, and 5% with more than 3 children. Forty-four percent of the households contained 2 adults, 18% contained 1 adult and 21% contained 3 adults. Seventeen percent of the customers surveyed lived in a household containing more than 3 adults.

Figure 4
Family Income of Surveyed Customers

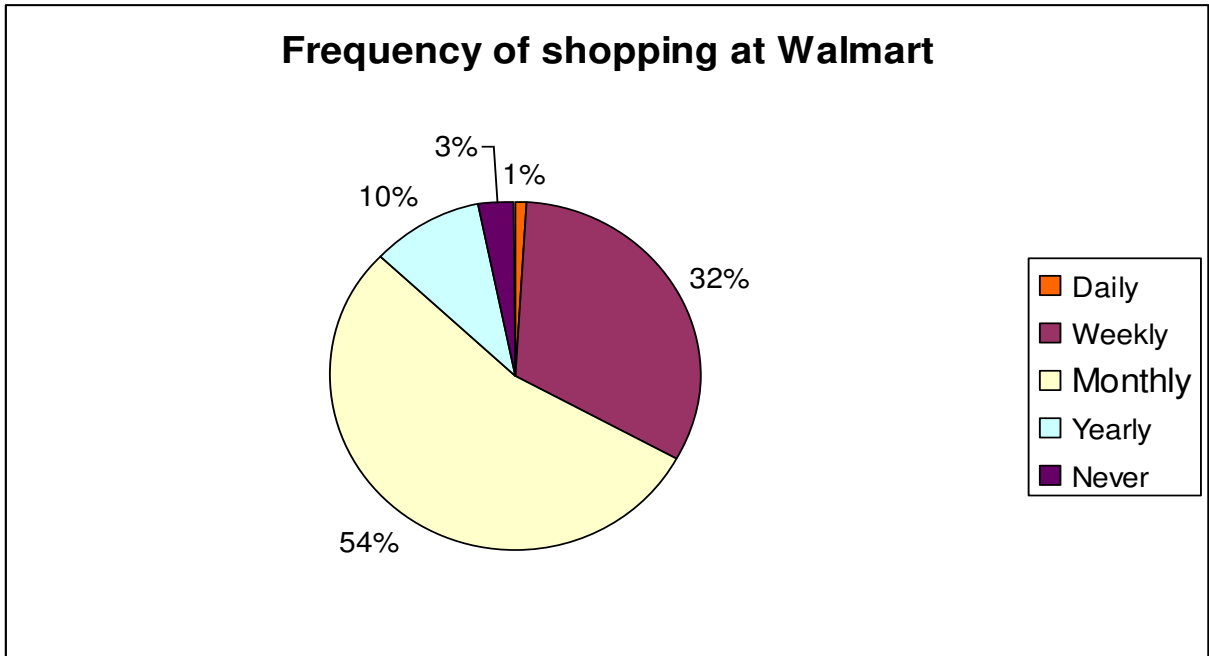


Close to half (41%) of our sample reported a family income of over \$50,000, and 16% at less than \$20,000. Only 23% of the customer sample reported they were presently using a government assistance program. Ethnic Minority customers were more likely to report a lower family income (49% at \$30,000 or less), while European American customers were more likely to report a higher family income (58% at \$40,000 or higher). This is in total contrast with employees' income distribution where the majority (62%) of the employees' household income was less than \$20,000 (refer to Table 1 for more information).

Eighty-three percent of our sample reported having health insurance while only 60% of employees surveyed reporting having health insurance. Seventy-two percent of the sample of customers report owning their own home. Most of our sample of customers live in Lake County, Indiana (77%). Twenty percent reside in La Porte County, IN, 2% in Jasper County, Indiana and 1% in Porter County Indiana. However, 36% report the closest Wal-Mart to them is in Merrillville, IN, 23% report Schererville, IN, and 15% report Hammond, IN for a total of 74%. All of these stores are in Lake County. Eighteen percent of the sample report the closest Wal-Mart is Portage, IN and 8% report that the Valparaiso, IN store is closest for a total of 26%. These stores are located in Porter County, IN. Presumably the customers from Jasper and La Porte Counties are shopping at Wal-Mart located in Porter County as it is the closest geographically. Additionally, the Wal-Mart that customers indicated they shopped at mirror the reports of closest Wal-Mart.

The majority of the customers surveyed report shopping at Wal-Mart weekly or monthly and so can be described as frequent Wal-Mart shoppers as shown in Figure 4. Most (68%) report monthly savings from shopping at Wal-Mart to be within the range of 0-50 dollars, though 24% indicate a savings of 50-100 dollars per month. Customers were most likely to shop at Ultra (20%), Meijer (46%) or Jewel (15%) for food if not shopping at Wal-Mart. Fifty-two percent of the customers surveyed report they shop at Target if not shopping at Wal-Mart, and 20% report shopping at K-mart.

Figure 5
Frequency of Customer Shopping



In general, the customers surveyed had a favorable opinion of Wal-Mart, with 76 percent reporting a favorable, mostly favorable or very favorable opinion. They indicated that positive qualities of Wal-Mart include low prices, one-stop shopping and an increased variety of goods available as shown in Table 4. However, they were significantly less likely to state that Wal-Mart is a good corporate neighbor or a good employment opportunity.

Table 4
Positive Qualities of Wal-Mart

Quality	Percentage
Lower Prices	73
One stop shop	54
Increased variety of goods	28
Good Corporate Neighbor	5
Employment Opportunity	12

Customers indicated that negative qualities of Wal-Mart included lower wages, the cheap quality of goods and a reduction of local business as shown in Table 5. Nine percent of the customer sample reported that family or friends had lost business due to Wal-Mart. Interestingly, while the general opinion of Wal-Mart was favorable in this sample, 76% answered no when asked whether they would like another Wal-Mart in their area.

Table 5
Negative Qualities of Wal-Mart

Quality	Percentage
Lower Wages	34
Cheap Quality of Goods	32
Increased Unemployment	10
Reduction of Local Business	25
Increased Burden on Community	6

DISCUSSION

Let's revisit the questions we opened this article with. What is the probability that you pick an individual at random and he/she has shopped at Wal-Mart? It is near certain that almost everyone (97%) shops at Wal-Mart. What is the probability that you love shopping at Wal-Mart but would not like another Wal-Mart in your neighborhood? The probability that you love shopping at Wal-Mart but would not like another Wal-Mart in your neighborhood is 76%. What is the probability that you are working full time at Wal-Mart, raising a family, and are classified as Poor? Based on our sample, if you work at Wal-Mart, there is 40% probability that you are among the poor. What is the probability that you are a minority female working full time at Wal-Mart and living on taxpayers' supported welfare programs? Female employees in our survey are three times more likely (76%) than their male counterparts (24%) to use state sponsored Assistance programs. The probability of being an ethnic minority female employee working at Wal-Mart and using Government assistance program is 0.45. What is the probability that you are a male under 25 working at Wal-Mart and have no health insurance? The probability that you are a male under 25 working at Wal-Mart and have no health insurance is 35%. What is the probability that you are fifty and older and work part time at Wal-Mart in our sample? The probability that you are fifty and older and work part time at Wal-Mart is 100%.

This study grew out of a sense of professional social responsibility for taking a closer look at the Wal-Mart phenomena and how it impacts our local economy. In particular we wanted to examine if the economic benefits of Wal-Mart to the consumers outweigh the hidden costs of Wal-Mart to the community. Our survey results suggest that many Wal-mart employees in Northwest Indiana are making relatively little money and are depending on state welfare programs. The Ethnic minority females in our sample are among the most disadvantaged group and depend heavily on state sponsored programs. More female employees are part time employees and they are three times more likely to depend on State welfare and Social services. With more than one third of the employees surveyed without any form of health coverage, these employees belong to the lowest income strata and are most vulnerable. Results also suggest that although customers love Wal-Mart they would not like another Wal-Mart in their neighborhood. On balance, our data suggest that the economy and society is paying a very high cost for low prices.

REFERENCES

- Arindrajit, D. and Jacobs, K. (2004). Hidden Cost of Wal-Mart jobs: Use of Safety net programs by Wal-Mart Workers in California. UC Berkeley Labor Center, Briefing Paper Series.
- Drogin, R. (2003). Statistical Analysis of Gender Patterns in Wal-Mart's Workforce. Submitted as an expert report in *Dukes v. Wal-Mart Stores*. Drogin, Kakigi and Associates: Berkeley, CA.
- Ehrenreich, B. (2001). *Nickel and Dimed*. Henry Holt: New York.
- Featherstone, L. (2004). *Selling Women Short: The Landmark Battle for Workers' Rights at Wal-Mart*. Basic Books: New York.
- Fishman, C. (2006). *The Wal-Mart Effect: How the World's Most Powerful Company Really Works--and How It's Transforming the American Economy*. Penguin Books: New York.
- Hausman J. and Leibtag, E. (2005a). Consumer Benefits from Increased Competition in Shopping Outlets: Measuring the Effect of Wal-Mart. NBER Working Paper No. 11809. National Bureau of Economic Research: Cambridge, MA.
- Hausman J. and Leibtag, E. (2005b). CPI Bias from Super centers: Does the BLS Know that Wal-Mart Exists? NBER Working Paper No. 10712. National Bureau of Economic Research: Cambridge, MA.
- Quinn, B. (2000). *How Wal-Mart Is Destroying America (and the World) and What You Can Do about It*. Ten Speed Press: Berkeley, CA.
- Soderquist, D. (2005). *The Wal-Mart Way: The Inside Story of the Success of the World's Largest Company*, Thomas Nelson: Nashville, TN.
- U.S. Census Bureau (n.d.). *Poverty Thresholds, 2006*. Retrieved November 4, 2007, from <http://www.census.gov/hhes/www/poverty/threshld/thresh06.html>.
- U.S. Census Bureau (2006, August 29). *POV46: Poverty Status by State: 2005*. Retrieved November 4, 2007, from http://pubdb3.census.gov/macro/032006/pov/new46_100125_09.htm.

ACKNOWLEDGEMENTS

Adam Castor and Marijana Grgic provided research assistance in survey design, data collection and data analysis. Thanks are due to Professors Don Coffin, Chuck Gallmeier and Patti Lundberg for valuable advice. We gratefully acknowledge funding for this research from a grant from the Lilly Foundation through the Center for Regional Excellence, IU Northwest.

About the Authors:

K. Surekha Rao has a doctorate in Economics from the University of New England, Australia and is an Associate Professor in the School of Business and Economics at Indiana University Northwest, Gary, IN. She has authored papers in econometrics in Journal of Econometrics, International Journal of Production Economics and other quality journals.

Cynthia O'Dell has a doctorate in Psychology from Emory University and is an Associate Professor Women's Studies and Psychology and Director of the Women's Studies Program at Indiana University Northwest, Gary, IN. She has authored articles in gender studies and developmental psychology.