

A ZERO WAGE INCREASE AGAIN?

Karen MacMillan 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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The owner of a large hardware, furniture and building centre faced a dilemma regarding how to manage the upcoming wage review process. After two consecutive years of frozen wages, employees were impatient for financial progress, but there was no spare money in the budget. It was possible to pump savings from upcoming process improvement initiatives into wage increases; however, the owner had limited motivation to channel hard-won funds to underperforming employees. On the other hand, he was eager to reward the people who added value. A plan that rewarded only some employees could result in an angry backlash. He had to decide if he wanted to divert the savings into compensation and if so, he needed an effective distribution plan.

As store owner Mark Coglin walked up to the service desk, he heard Simon, the floor manager, finishing a phone conversation. Mark paused at the counter as he listened to the tail end of the interchange. Simon said, “Are you sure you can’t make it in? This is kind of leaving me in a bind, Dougie. Yeah, I get it. Okay. Hopefully we’ll see you tomorrow.” Replacing the receiver into the cradle, Simon glanced up, shrugged in response to Mark’s raised eyebrow, and said, “That was Dougie Suzor calling in again. He thinks he has the flu.” Mark rolled his eyes and the two men started walking towards the front of the large home hardware and building centre.

Once they were out of earshot of any customers or other staff members, Mark commented under his breath, “It’s funny how that flu bug always seems to hit Dougie the Monday following a long weekend.”

Simon nodded, and said, “He’s not the only one. Four other employees called in before him, and I have a feeling there will be a couple more calls from people whose shifts start in the afternoon.”

Mark sighed loudly in exasperation. “What is it about us that makes people think we are dumb, Simon?” He pointed to his freshly-pressed button-up shirt with the company logo embroidered on the left side, and said, “This says the name of the store is ‘House, Hearth & Home,’ not ‘House of the-ones-who-will-believe-anything,’ right?” Simon chuckled, but didn’t comment or break stride. This wasn’t the first time he had heard this joke. Mark continued, “Do they think we’re not going to notice that they miss every Monday after a long weekend? Especially when they come in on the Tuesday talking about the great road trip they had. Is it really that likely that they will catch the flu for *one day only* every time? Sheesh.”

Simon laughed as he reached for the buzzing cell phone clipped to his belt. After a quick glance at the text display, he paused and shoved several pieces of paper into Mark's hand. Changing direction, he asked over his shoulder, "Would you mind giving these to Donna at the front for me? They're about to send out that order for the Avondale project, and I want to check a few things with Wesley in the yard before it goes." Not waiting for an answer, Simon took off towards the warehouse.

Watching Simon's retreating back, Mark was impressed once again by the dedication he had to doing things right, even though it had unfortunately interrupted his venting. As the floor manager, Simon never had a shortage of issues clamouring for his attention. Somehow he managed to juggle a lot of balls at the same time, very rarely dropping any of them. As one of the owners of House, Hearth & Home, it was very reassuring for Mark to have Simon on the job. He was a key employee.

Mark knew a business as big as his needed employees like Simon. As he made his way to the front of the store, he was able to glimpse only part of the 39,000 square feet devoted to hardware, houseware, and building supplies. An additional 12,000 square feet were filled with home furnishings, leaving 8,000 square feet as warehouse space. No one person could manage the one hundred staff members, the truckloads of inventory, and the annual sales of more than Cdn\$20 million. Although every employee could make a difference in the success of the establishment, there were certain employees who would be very hard to replace and Simon was one of them.

After delivering the papers to Donna and chatting with her for a few minutes, Mark walked towards the kitchen department to check out how the new displays looked. Customers really seemed enthusiastic about the kitchen displays, but they took up a lot of valuable floor space. Mark wanted to reassure himself that the new ones were as nice as or even better than the old ones. As he came around the end of an aisle, he noticed Marie and Anne, two employees from the flooring department, talking and laughing as they stocked a shelf. He could hear they were talking about a television show that had been on the night before. Part way down the aisle, a customer was looking perplexed as she scanned the upper shelves. Annoyed, but trying not to show it, Mark smiled as he paused beside Marie and Anne, and said, "I think you have a customer, ladies." Looking around, they acted as though they hadn't noticed her before. Marie mumbled an apology and jumped up to ask her if she needed assistance.

Mark shook his head as he walked away. He thought, "We have trained our employees to make customer service a priority, yet those two acted like that customer was invisible. Why will certain employees not do the right thing unless someone is standing over them? And why do they think I would be so gullible as to believe they hadn't seen her?"

Before he could find an answer to this question, Mark was distracted by the sight of the new kitchen displays. They looked very impressive and he stopped to congratulate the kitchen designer for her good work. Glancing at his watch, Mark realized it was almost time for his meeting with Aaron, the company controller. As he excused himself and started heading towards Aaron's back office, Mark thought about the reason for this meeting and felt a little nervousness in his stomach. He had asked Aaron to figure out if there was any money for wage increases this year. Mark knew enough about the balance sheet to suspect the news would not be good.

Like many other businesses, the global downturn had negatively affected House, Hearth & Home. Sales had shrunk by almost Cdn\$4 million a year. Profit margins had tightened or disappeared in several areas. Employees had seemed to understand why there had been no raises in 2009 and in 2010. However, Mark felt it would be hard to sell a zero per cent increase for the third year in a row.

As usual, Aaron was behind his desk with a spreadsheet open on his computer and a cup of coffee half-forgotten amongst the many papers on his desk. With the company for over six years, Aaron adeptly handled many of the accounting and human resource issues, freeing up Mark to spend more time out on the floor troubleshooting. He smiled as Mark came in and said, "Hey, you're right on time. Grab a seat. I'm just printing out a little report for our meeting." The printer behind him started to whirr, and Aaron rolled over in his chair to pull two sheets as they emerged.

Rubbing his eyes as he handed one to Mark, he said, "You asked me if I could find any money for raises this year. Well, I've gone over the latest numbers and the quick answer, I'm afraid, is no." Aaron waited a moment to let Mark scan the sheet before he continued. "As you know, sales have been down, we've written off some old inventory this year, and there have been a few unexpected expenses that have really cut into profits. I've laid it out in broad brush strokes in this table. I don't think any of it will be surprising to you."

Mark exhaled loudly as he began to go through each line with Aaron. He was surprised by how disappointed he was feeling. Listening to Aaron as he walked him through the numbers, Mark let a part of his brain consider why he felt such disquiet at the idea of another year with no increases. What was he afraid would happen? A mutiny? A mass exodus? Sabotage?

The sound of the printer running again made Mark realize that he had not been giving the conversation enough attention. He said, "I'm sorry, Aaron. I didn't catch all of that. What was the last part?"

As he handed Mark another sheet, Aaron replied, "I was saying that the first sheet is a fair accounting of the business. There aren't more than a few thousand spare dollars to go towards raises. However, there may be some ways we can 'find' some money in there."

Mark cleared his throat and asked, "Legally?"

Aaron rolled his eyes and said:

Of course. I wouldn't recommend anything the auditors would pull apart. I'm just saying that if we change what we're spending money on, we might be able to divert some towards a wage increase. For example, I've heard you say that we're not getting much of a return from our advertising spending. We could "save" some money there. Or there may be room to reduce our inventory even further. Of course, you may decide that savings made by process improvements should go to things other than wages. The downturn isn't over yet. If we do find some money, there are many other places in this company where you could invest it. For example, we could use a better security system. Or we could pay down some of our debt. Or we could do some overdue building maintenance to ensure we look good for the customers. It's a tough decision. You think about it.

Mark looked at the second sheet with interest. Aaron had listed a number of different areas where they could cut expenses or save some money. Some of them had been raised before, but they had never been presented in such a detailed fashion. Beside each he had given an estimate of the dollar amounts that could be saved. If they were able to implement all of these ideas, there would be enough money to give all employees maybe a 2.5 to 3.0 per cent increase. This was a little higher than the annual inflation rate. This type of increase would not make up for the two years of zero increases, but it would be a movement in the right direction.

Mark waited for a sense of relief to wash over him, but for some reason, he did not feel as excited about this news as he had expected. This didn't make sense. He had been so disappointed the moment before when he thought there was no chance. Aaron had given him an opening to make this raise happen.

Knowing that Aaron had put a lot of work into this idea, Mark made an effort to show some enthusiasm and to thank Aaron for his creative thinking. However, he ended the meeting shortly afterwards with an assurance that he would think about everything Aaron had presented. Mark needed to let his thoughts settle down before he could sort them out.

Walking back onto the floor, Mark decided that some fresh air might do him some good. He headed outside to the side yard where the lumber, drywall, and other large materials were transferred directly to customers or to the delivery trucks. He scanned the yard for Wesley, the yard foreman. An eight year employee, Wes had the responsibility to keep the yard organized and safe. When things got sloppy in the yard, accidents increased, people were more likely to get hurt, and inventory was more likely to be lost or damaged. Like Simon the floor manager inside, Wes was always ready to step up and make sure things were done correctly.

Wesley was in the far end of the yard speaking to a young man on a forklift. As Mark walked closer, he could hear them discussing the best way to prep large customer orders. Instead of interrupting, Mark paused to straighten out a pile of lumber that a customer had just finished picking through. At the sound of the forklift moving off, Mark looked up to see Wes watching him work while leaning against a skid of siding.

With a smirk, Mark asked, "You enjoying yourself over there?"

Wes nodded but stepped over to pick up a few boards that had fallen to the ground. Placing them back with the others, Wes said, "Hey, it's not every day that I get to see you actually working."

Looking at the neat pile with satisfaction, Mark straightened out his back and replied, "From what I can see, that young kid is doing most of the work out here."

Wes laughed out loud and said, "Ouch! But good catch, Mark. Kyle is doing a lot out here. I wish I had 10 more just like him. He just brought me another great idea for doing things better. He has only been here for two months, and he already seems to understand how everything should flow together. There are guys who have been here for five years who can't do that." As Wes talked, they watched Kyle expertly maneuver the forklift as he picked an order of drywall for a contractor.

Looking back at Mark, Wes said, "Hey, I don't think you came out here to pick up boards or talk about Kyle. Did you need me to do something?"

Mark shook his head and replied, "Nah. Just hanging out. Maybe I'm wondering if I could leave my problems inside and get a job with you cleaning up the yard. Seems like it would be a lot less stressful, and I could get lots of fresh air. What do you say?"

Wes laughed again, and replied as he looked down at his cell phone, "Sorry, no openings. You don't really want to work here anyway. Kyle would just make you look bad! Gotta go." Wes turned away to sort out a delivery problem that was holding up a job on the other side of town, and Mark found himself on his own again.

Realizing the answers he sought were not in the yard, Mark wandered back to his office. Shutting the door, he turned off his phone and sat back in his leather office chair so he could try again to straighten out his thinking like he had straightened up the pile of lumber.

Pulling out a blank notepad, Mark wrote down the thoughts that were rolling around his head. He knew it was probably unreasonable to ask his employees to accept a wage freeze for the third year in a row. A subgroup of the employees already seemed to dislike their jobs and it was scary to imagine how hard they would be to deal with if their morale level sunk even lower. There were already issues with “lost” inventory—perhaps the employee theft problem would skyrocket if there was no wage increase. Employees who felt cheated might feel entitled to help themselves to a different sort of raise. The store was full of items that most people would want—it would be easy for a disgruntled employee to smuggle some of the smaller items out of the store in lieu of a raise.

The ideas for cost savings given by Aaron could probably be accomplished, but it would be a lot of work. Thinking about the time and effort that would be necessary to make it happen, Mark wasn’t sure if he wanted it bad enough. He already worked long hours, six days a week. If he was honest with himself, he had to admit that he was not particularly motivated to find a way to give raises to some of his employees. There were certain employees who didn’t even seem to earn the money they were already making. It was hard to justify giving them even more money.

Mark realized that at least 15 per cent of his employees would probably save the company money if they left. These were the people like Dougie who were unreliable, dishonest, incompetent, or always in the middle of the latest workplace drama. It was hard to get motivated to work extra hours for months on end to reward this behaviour.

Of course, there were twice as many really good employees like Kyle. These were the employees that cared about their work and went that extra mile, even when no one was watching. They were the lifeblood of the business. They should be recognized. At the very top of this pile sat Aaron the controller, Simon the floor manager, and Wesley the yard foreman. Mark jotted down a note that it was imperative to show at least these three that they were really appreciated. He also knew that giving a raise to only some people and not others could create new problems.

Mark thought hard about the options scrawled across the page. Should he give an increase to everyone, to no one, or to the deserving minority? Should he do something else entirely? He knew there would be big consequences to any decision he made.