

Volume 29, Number 4, April 2023

Practice exam questions

Case study: W is for Walmart

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Check your answer to the question on pp. 14–15 of the magazine.

Sample answer

It is important for a business to motivate employees as this can lead to higher productivity, more creativity and, ultimately, greater profits. Employees who are not motivated risk having a negative effect on the business such as being absent from work for long periods, conflicts over pay and conditions and lower productivity, ultimately leading to fewer profits and less success.

According to Frederick Taylor's theory of scientific management, motivation of employees is mainly through pay. For the northwest supermarket Booths, using financial rewards may maximise profits better than non-financial rewards as employees would have a higher standard of living, encouraging more employee satisfaction. Booths has made the decision to pay the living wage rather than the minimum wage to staff, encouraging increased levels of staff motivation and higher levels of customer service. This may have encouraged Booths' customers to increase their average weekly shopping value and to choose more expensive products from Booths' premium range. As a result, Booths may have reversed the 2018 dip in sales to a 4.4% increase in sales (£12.6 million), helping to achieve £296.7 million in its full-year results to 2 April 2022. In the longer term, customers may be prepared to pay a premium and move from supermarkets such as Asda or Tesco, due to Booths' high levels of customer service.

However, financial rewards under the Taylor theory of motivation — the so-called 'carrot and stick' approach — where employees are treated as an asset rather than part of the team at Booths, may be seen by some employees as demotivating, particularly if Booths decides to adopt bonuses related to sales targets. If Booths tries to maximise sales of more premium products by asking staff to 'upsell' products to customers, this may act as a barrier to motivating staff who do not get the option to undertake this type of sales activity, for example, those employed only to work on the tills.

Financial motivational tools such as piece rate, for example the number of shelves stacked, may also be regarded as demotivating by many staff, who would agree with theorists such as George Elton Mayo, who criticised Taylor's theory of simply motivating staff through financial means. Mayo believed that to truly motivate employees, managers need to consult them, then consider and act on their opinions. For example, Booths may ask staff for suggestions as to what products customers are asking for and then stock the products. This type of interaction — the human relations theory — may motivate staff more than financial rewards and lead to personal satisfaction, resulting in raised levels of customer service as well as the greater stocking of products that meet the needs of customers. Using bonuses and/or piece rate could leave staff feeling Booths is treating them like machines, with some staff having lower motivational levels. It may also result in an overly competitive environment between workers trying to sell more cans of beans than other staff to gain the greatest bonus.

Financial rewards therefore risk demotivating all or at least part of Booths' workforce, leading to poor levels of customer service and alienating customers.

On the other hand, there are many businesses that are successful despite having a poor track record in the pay and treatment of staff. Walmart is the world's largest private employer with 2.2 million employees but has been regularly criticised for its poor treatment of staff, for example offering low pay rates. Despite this, Walmart continues to be a successful business with sales to August 2022 rising by 7.1% to US\$105.1 billion. Consequently, Walmart may be happy to trade off relatively poor staff relations for cheaper average costs gained from lower pay rates compared to competitors such as Costco. This may allow Walmart to offer products at below competitor pricing levels, which may encourage customers to migrate to supermarket.

However, businesses such as Amazon have seen public criticism regarding its approaches to pay, conditions and staffing. In June 2022, a leaked internal memo highlighted that such practices were responsible for its extremely high staff turnover rate. Currently, per annum Amazon loses 150% of its staff or, in simple terms, every member of staff leaves before they have completed a year working for the business. Not only does this impact on staff morale and the ability to work as a team, but Amazon's recruitment, retention and training costs are likely to be significantly greater than businesses such as Booths who are likely to have much higher levels of staff retention. Therefore, average costs are likely to be higher and profit margins on each product lower than competitors. In the longer-term Amazon acknowledges that its staffing policies run the risk of running out of staff who wish to work for the organisation, bringing business to a halt.

In conclusion, the issue of financial incentives for staff and its relationship to overall business success is more complex than it appears. Multinational corporations such as Walmart and Amazon appear to be able to largely ignore financial and other incentives for staff and still grow their businesses, for example in 2021 net sales for Amazon rose by 22% to US\$469.8 billion despite heavy criticism of staff pay and conditions. Smaller business, such as Booths, have made staff conditions a unique selling point in order to offer a much higher level of customer service. Heck Sausages is another relatively small business that has placed staff at the heart of its product offering. It may therefore be that smaller businesses that cannot absorb the extra costs associated with training and high staff turnover have no choice but to invest in their staff. Whereas Amazon can create systems and processes that allow for a high staff turnover that has a relatively low impact on overall costs and its product offering. It may be that in a recession, businesses such as Walmart understand that offering products at lower prices than competitors is much more important than paying competitive rates of pay for the sector.

Sample examiner comment

Mark: 25/25 (Level 4 — an excellent response fully focused on the question)

Demonstrates a depth and range of knowledge and understanding of issues regarding financially motivating staff and its relative contribution to the success of a business.

Application is applied effectively to the context of the question.

The answer demonstrates well-developed analysis, giving cause and effect of a range of issues impacting a business's decision to financially motivate staff to be successful.

The answer then uses evidence to evaluate the relative merits of financial methods of motivating staff to be successful.

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