Wal-mart health care dilemma

Running Head: Case Analysis Case Analysis Report Wal-Mart Wal-Mart Health Care Dilemma There have been some concerns about Wal-Mart's treatment of its employees, suppliers, the environment, and the overall economic impact on communities. Wal-Mart has been criticized by some community groups, women's rights groups, grassroots organizations, and labor unions, specifically for its extensive foreign product sourcing, low wages, low rates of employee health insurance enrollment, resistance to union representation, sexism, and management efforts to pressure employees to vote for specific parties during national elections.

Wal-Mart, one of the world's largest retailers, has the reputation of paying its employees poorly, along with providing inadequate and unaffordable healthcare plans. The Bentonville, Arkansas based retailer is the largest private employer, yet the employees are not treated as the number one priority. Wal-Mart gets the maximum amount of work from its employees and in return, employees were rewarded with high-end rates for insurance and low wages for their time. By keeping unions at bay, Wal-Mart keeps its wages low, even by general industry standards.

According to Representative George Miller (2004), The average supermarket employee makes $10. 35 per hour. Sales clerks at Wal-Mart, on the other hand, made only $8. 23 per hour on average, or $13, 861 per year, in 2001. Some estimate that average " associate" salaries range from $7. 50 to $8. 50 per hour. With an average on-the-clock workweek of 32 hours, many workers take home less than $1, 000 per month. Even the higher estimate of a $13, 861 annual salary fell below the 2001 federal poverty line of $14, 630 for a family of three. About one-third of Wal-Mart’s employees are part-time, restricting their access to benefits (p 4).

These low wages, to say the least, complicate employees’ ability to obtain essential benefits, such as health care coverage. According to “ More of the Same” (2009), to get Wal-Mart’s choice network family plan with a $322. 60 bi-weekly premium, $700 annual deductible, $500 health care credit, and $4000 out-of-pocket medical expenses could potentially cost over $12, 000 a year and the average Wal-Mart employee makes approximately only $20, 000 a year. This makes it almost impossible for a Wal-Mart employee to be able to afford adequate health insurance without worrying about going broke if something was to happen and they need medical attention.

In addition, after finally reaching eligibility after six months or one year, depending on employment status, an employee must wait an additional year to receive full coverage for a pre-existing condition. By comparison, nationally, the average waiting period for health coverage for employees at large firms like Wal-Mart is 2. 6 months (“ More of the Same,” 2009, p 1). Although the wages tend to be higher than minimum wage, the few hours that employees are allowed to work ensure that associates can barely cover living expenses.

This means that the taxpayer has to pay the difference. “ According to ‘ The Case Against Wal-Mart,” a typical Wal-Mart store with two hundred employees cost federal taxpayers $420, 750 per year – about $2103 per employee” (Ferrell, Ferrell, and Fraedrich, 2010, p 297). This pays for things such as free and reduced lunches for Wal-Mart families, additional child tax credits, federal health-care cost, and low-income energy assistance. According to one article, Despite Wal-Mart’s mammoth profits, the company actually burdens us – taxpayers – with its workers’ health care costs.

In a disturbing nationwide trend, more state studies are revealing that Wal-Mart employees are the top recipients of taxpayer-paid health care. The scope of this corporate failure is massive: Wal-Mart is the largest private employer in the United States, with over 1. 3 million associates, yet they fail to give health insurance to 54 percent of its employees (“ Low Prices,” 2009, para 2). Approximately 46% of Wal-Mart’s employees are insured by the company’s health care plan, compared nationally to 66% of employees at large firms like Wal-Mart who receive health benefits from their employer.

Approximately 182, 000 of Wal-Mart employees are left completely uninsured while another 43, 000 must rely on Medicaid and other state run programs (“ More Wal-Mart Workers,” 2010, para5). According to “ Low Prices,” (2009), the information in chart below shows just how much Wal-Mart expensive and unattainable health care plans are costing state public assistance programs. These are not the only states affected. State| Year| Program| Enrolled| Yearly Costs| Alabama| 2005| Medicaid| 3, 864 dependents| $1. 7-$2. 4 million| Arkansas| 2005| Public Assistance | 3, 971 workers| $4 million| Illinois | 2005-6| Medicaid| 1, 132 employees| $2. million| Massachusetts| 2005-6| State health insurance | 3117 workers & 2813 dependents| $8. 8 million| | 2003-4| State health insurance | 823 workers & 1, 656 dependents| $1. 3 million| Pennsylvania| 2006| Medicaid| 7, 577 employees | $15 million| Washington | 2003| low-income health plan| 341 workers| $651, 992| | 2004| low-income health plan| 281 workers| $475, 452|

Wisconsin| 2004| BadgerCare| 1, 813 employees & dependents| $1. 8 million| | 2004| Medicaid| 1, 952 children| (incl. above)| | 2005| BadgerCare| 1, 252 workers & dependents| $2. 7 million|

Wal-Mart’s spending on health care for its employees falls well below industry and national employer-spending averages. “ A Harvard Business School case study on Wal-Mart found that, in 2002, Wal-Mart spent an average of $3, 500 per employee. By comparison, the average spending per employee in the wholesale/retailing sector was $4, 800. For U. S. employers in general, the average was $5, 600 per employee” (Miller, 2004, p 8). Key Stakeholders With any business there are always stakeholders. These people are influenced by businesses. However, they also have the ability to influence businesses.

Consequently, the relationship between businesses and stakeholders is a two-way street. According to Ferrell, Ferrell, and Fraedrich (2010), In a business context, customers, investors and shareholders, employees, suppliers, government agencies, communities, and many others who have a ‘ stake’ or claim in some aspect of a company’s product, operations, markets, industry, and outcome are known as stakeholders (p. 30). Although most corporations have emphasized shareholders as the most important stakeholder group, the failure to consider all significant stakeholders can lead to ethical lapses.

Stakeholders are likely to shift their prospective of a company after unethical actions have been exposed to the public. The key stakeholders in this situation are the Wal-Mart associates, taxpayers, and shareholders. The stakeholder model of corporate social responsibility considers obligations firms may face as moral agents to employees, customers and other stakeholders. Most employees rely on their employer to provide some type of health care benefits because most cannot afford health care premiums on their own. In fact, heath care and other fringe benefits are essential in recruiting employees.

No one can say that Wal-Mart does not provide health care benefits to its employees. However, for the average associate making on $20, 000 per year, Wal-Mart’s health care plans are too expensive, have too many restrictions, and are essentially unattainable. The ones whom are eligible can apply for Medicaid or other government assistance programs, leaving the taxpayer to pick up the slack. But what about the ones whom are not eligible for government assistance and can’t afford Wal-Mart’s healthcare plans? They and their families are left without any type of health care.

Wal-Mart proclaims to the “ everyday low-price leader” and saves its customers as much as $2500 per year (“ American Families,” 2007). However, as stated earlier, a typical Wal-Mart store with two hundred employees cost federal taxpayers $420, 750 per year – about $2103 per employee. Another study showed that Wal-Mart increased Medicaid cost an average of $1898 per worker (Ferrell, Ferrell, and Fraedrich, 2010). Wal-Mart imposes high costs on the taxpayers in the communities where it operates stores. By making its health care plans unaffordable, Wal-Mart is pushing off health care cost onto taxpayers, who are also Wal-Mart customers.

Medicaid and other government assistance program, such as welfare, state children’s insurance programs, and low-income energy assistance, are funded by taxpayers’ dollars. So what about the $2500 Wal-Mart is saving its customer per year? It seems minute in comparison with what Wal-Mart is costing taxpayers in health care and government assistance programs every year. The shareholder model of corporate responsibility emphasizes the primary obligation of managers to the owners of the company. Managers have a fiduciary duty; they are held in trust and confidence to act solely on behalf of the shareholders.

Wal-Mart is able to provide such low prices because it pays its associates low wages and provides unaffordable and unattainable health care plans. The shareholder model of corporate responsibility would allow for diminishing employee health care benefits, if required, to survive in global competition. Therefore, one might think that Wal-Mart was acting in the best interest of the shareholders, even though they claim to be acting in the best interest of the customers. By paying low wages and insuring less than half of it employees, Wal-Mart is maximizing it profits and generating high returns for its shareholders. Legal Analysis Contrary to popular belief, federal employee rights laws do not generally require employers to provide fringe benefits. Providing employee benefits is voluntary for employers. “ For example, no Federal law requires employers to provide employee benefits such as vacation leave, sick pay, paid holidays, rest or meal breaks, or health or life insurance plans” (“ About Employee,” 2010, para 1). Fewer than half the states have laws that require employers to provide rest or meal breaks. Even fewer states have laws that require employers to provide disability insurance benefits, outside of those provided by workers' compensation.

However, after finding out that approximately 54% of Wal-Mart's employees were either on Medicaid or uninsured, " the Maryland General Assembly passed the ' Wal-Mart Bill' requiring employers with more than 10, 000 workers to spend at least 8% of their payroll on employee health care or pay into a fund for the uninsured" (Ferrell, Ferrell, and Fraedrich, 2010, p 293). Following Maryland's lead, states nationwide are trying to pass Fair Share Health Care legislation, requiring large employers like Wal-Mart to meet minimum health care coverage standards for their employees.

Wal-Mart has threatened to end business in regions where such legislation is passed. Ethical Analysis Some people may consider Wal-Mart's actions unethical and others may not. There are several ethical perspectives in which this situation can be evaluated. For example, a consequentialist might not view Wal-Mart's actions as unethical. " Consequentialism says that right or wrong depend on the consequences of an act, and that the more good consequences are produced, the better the act" (" Consequentialism" n. d. , para 1).

The actions of a business are looked at as right or wrong only in terms of whether the result can be rationalized. According to Kusabek, Brennan, and Browne (2009), proponents of this theory judge an act as ethically correct after considering the risks and the benefits and determining if it brings net happiness. By keeping wages and health care cost low, Wal-Mart is able to provide low price to its customers and high profits and returns for its shareholders. Therefore, Wal-Mart’s actions would be justified because a net happiness was provided for customers and shareholders.

However, the “ net happiness” is short-lived by customers. Because Wal-Mart’s employees cannot afford Wal-Mart’s health care plans and most required government assistance, Wal-Mart’s customers end up paying more in federal taxes to fund Medicaid and other government assistance programs. On the other hand, deontologists would consider Wal-Mart’s actions unethical. “ Deontology refers to moral philosophies that focus on the rights on individuals and on the intentions associated with a particular behavior rather than on its consequences” (Ferrell, Ferrell, and Fraedrich, 2010, p 153).

Deontological ethics are concerned with what people do, not with the consequences of their actions. From this perspective, Wal-Mart is intentionally keeping wages low, so that employees can’t afford health care, which makes Wal-Mart’s actions morally wrong. Deontologists may feel that Wal-Mart has a moral responsibility to provide affordable health care to its employees and not shift the cost onto the American taxpayers. In addition deontologists might also feel that Wal-Mart should increase hourly wages, so that its employees would be able to afford the health care premiums.

Proving affordable health care and higher wages to its employees is “ inherently right. ” Another ethical perspective in which this situation can be evaluated is the relativist perspective, more specifically ethical relativism. “ Ethical relativism is the position that there are no moral absolutes, no moral right and wrongs. Instead, right and wrong are based on social norms” (Slick, 2010, para 1). Costco Wholesale Corp, a revival retailer of Wal-Mart, pays 92% of its employees' health-insurance premiums, much higher than the 80% average at large U. S. companies.

However, Wal-Mart only pays 66% of its employee's premiums. Furthermore, Costco health care plans cover 87% of its employee, compared to only 46% of Wal-Mart employees. The national average is 66% (Zimmerman, 2004, para 17). Although Wal-Mart and Costco are not the only companies in the grocery/retail industry, however, when compared to Costco and the national average, a relativist would consider Wal-Mart's actions unethical. " The relativist observes the actions of members of an involved group and attempts to determine that group's on a given behavior.

A positive consensus, for example, would signify that the group considers the action to be right or ethical" (Ferrell, Ferrell, and Fraedrich, 2010, p 156). Wal-Mart needs to make its health care plans more affordable and make sure more associates are insured so that it can be in compliance with social norms. Contributing Factors The culture of an organization is often expressed as " the way we do things around here" and consists of largely unspoken values, norms, and behaviors that become the natural way of doing things.

Corporate culture can be defined as " a set of values, beliefs, goals, norms, and ways of solving problems shared by member of an organization of any size" (Ferrell, Ferrell, and Fraedrich, 2010, p 174). Some may classify Wal-Mart's culture as an exacting culture, which shows little concern for people but a high concern for performance. The central goal of Wal-Mart is to keep retail prices low – and the company has been very successful at this. The frugal culture also plays into Wal-Mart’s success.

They are expected to pinch pennies wherever they can. This has led to the company being criticized for the relatively meager wages and health care plans that it offers to associates. It has also been accused of demanding that hourly workers put in overtime without pay. Store managers often work more than 70 hours per week. Wal-Mart seems to be more concern with providing low prices to customers and maintaining high profits than it is concern with the standard of living that have been set for employees.

Good corporate governance is important to the integrity of corporations. “ To remove the opportunity for employees to make unethical decisions, most companies have developed formal systems of accountability, oversight, and control – known as corporate governance” (Ferrell, Ferrell, and Fraedrich, 2010, p 41). A well-defined and enforced corporate governance provides a structure that, at least in theory, works for the benefit of everyone concerned by ensuring that the company adheres to accepted ethical standards and best practices as well as to formal laws.

From Wal-Mart’s perspective, the emerging consensus is that corporate governance is about maximizing value subject to meeting the corporation’s financial and other legal and contractual obligations. However, in Wal-Mart’s effort to maximize profits, the company has forgotten the importance of their employees and the fact that employees help the company reach high levels of profitability. Instead of rewarding the employees, Wal-Mart has subjected its employees to sub-standard wages and unaffordable health care plans.

Wal-Mart has to be held accountable to its employees and for their well-being.

Recommended Corrective Actions One retail company that seems to know the importance of their employees and providing affordable healthcare plans and decent hourly wages is Costco Wholesale Corp. Costco has won a reputation for having the best benefits in retail. Sam’s Club, Wal-Mart’s wholesale unit, is a close competitor with Costco. Sam’s Club operates under the typical Wal-Mart model. But Costco has a very different business philosophy. According to “ Wal-Mart: A Call for Corporate Social Responsibility” (2005), Costco * pays high wages ($15. 7 an hour compared with $11. 52 for full-time workers at Sam’s Club), * provides health insurance to 82% of its workers compared with 47% at Sam’s Club, * gives much broader and better retirement benefits, and * 20% of Costco workers belong to a union. So what does Costco get for these extra costs? Costco has higher profits per employee and higher sales per square foot. Costco’s higher pay boosts loyalty. “ Its employee turnover rate is 24% a year. Wal-Mart’s overall employee turnover rate is 50%, about in line with the retail-industry average” (Zimmerman, 2004, para 20).

High turnover creates added expense for retailers because new workers have to be trained and are not as efficient. According to Costco’s Chief Financial Officer, “ paying higher wages translates into more efficiency” (“ Wal-Mart, 2005, p 2). This directly impacts the bottom line. Wal-Mart could drastically transform their business practices to benefit of workers and communities, and still satisfy their shareholders. Wal-Mart should re-evaluate its treatment of it employment. Although Wal-Mart can afford to offer better wages and more affordable health care plan, the company is more focused on maximizing profits.

And to do so, Wal-Mart has started employing more part-time workers and has adopted wage caps (Greenhouse and Barbaro, 2006, para 11). Instead of hiring 10 part-time employees, Wal-Mart should, for example, hire 5 full-time employees. If this is done, then Wal-Mart could offer higher hourly wages to the 5 full-time employees than it could to the 10 part-time employees. In addition, this would mean that Wal-Mart could offer better, more affordable health care plan to less employees and pay more of the premium for employees. In conclusion, no company is immune to problems.

The companies that survive are the ones that can spot ethical issues and correct them before they become problems. Wal-Mart's unethical business practices have hurt the company's reputation. If Wal-Mart wants to survive the company will have to try hard to improve its image. That is, Wal-Mart will need to show that it care about ethics by treating employees fairly. Wal-Mart should definitely study Costco's strategy regarding offering higher wages and more affordable health care plan. As a result, it will attract good employees and people will have no reason to complain about the company.

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