California's Supermarket Strike: Corporate Social Responsibility nowhere to be found.

Wal-Mart's famous and most Darwinian brand of capitalism is setting the standard in U.S. supermarkets. But California grocers have a great opportunity to go the right way and beat Wal-Mart by gaining consumers' trust and loyalty

Álvaro J. de Regil[i]

On January 12th, California entered its fourth month in the strike between supermarket workers represented by the United Fruit and Commercial Workers (UFCW) and three major grocery store chains. Initially launched against Vons and Pavilion's Stores, owned by Safeway, Inc., the strike expanded the next day when Ralphs, owned by Kroger, Co. the largest supermarket chain in the U.S., and Albertson's locked out their employees and joined Safeway. About 70,000 workers and 852 stores from the three chains are involved in the strike.

The conflict looms around the grocers' intent on increasing the share of the health insurance premiums born by their workers, and decreasing the quality of their health plans coverage, and offering a lower wage scale for future workers. The three companies argue that they need to cut their operating costs in order to remain competitive and prepare to protect their business from the imminent entrance of Wal-Mart. The giant company barely sold food eight years ago, but it now plans to build 40 stores in Central and Southern California within the next two years. Wal-Mart is not only the largest retailer in the world but it is now the largest corporation in the world in revenue (Fortune 500 global, 2002), ahead of General Motors and Exxon-Mobil. It is a company that takes away market share in every community it enters by providing the most competitive stand. This position is based on its famous rock-bottom prices, very efficient product sourcing logistics and the negotiating power of its sheer size.

¿But how is it that a company that began in rural United States, in Bentonville, Arkansas, has become so successful and so threatening to all its potential competitors worldwide? Well, Wal-Mart uses the most Darwinian kind of capitalism in the world. In the U.S, it is within its power to not allow any of its employees to form or join a union, it pays exploitative wages and it resorts to every available tactic to deter unionization, from illegal firing to getting judges to issue restraining orders against unions attempting to engage Wal-Mart's workers. In California, the average supermarket wage is $13 an hour and senior clerks earn about $18, whilst Wal-Mart pays equivalent workers $8 an hour less than unionised workers according to a report commissioned by two Los Angeles city councilmen. Wal-Mart is also known for the paternalistic culture, almost evangelical, it imposes on its employees, which has sparked, at times, accusations of discrimination and sexual harassment as evidenced in various court cases. In this way, Wal-Mart has earned a reputation for destroying entire communities by eliminating all retailers and paying very low wages to its workers. Wal-Mart emerged from rural America, where it concentrated on eliminating independent retailers, its only kind of competition, and then moved on to fight the discount chains and destroy them as it nearly accomplished with Kmart. Wal–Mart then moved to become global and currently it has presence in nine countries but, so far, it has been successful only in North America where it is the largest retailer in both Canada and Mexico, and is gaining ground in Britain. However, it has failed in several other markets, especially in Germany, which, not surprisingly, is one of the most highly unionised countries in the European Union.

The struggle is therefore between upholding the current compensation and health-care benefits enjoyed by the three chains' workers or allowing the three employers to curbe labour costs to strengthen their upcoming engagement of Wal-Mart, and, concurrently, setting the precedent for the supermarket industry of using Wal-Mart's Darwinian business model as the standard. There is no sign of any consciousness of corporate social responsibility (CSR) in their thinking to be sure. Evidently, the three retailers are attempting to go the apparent easy way out, judging from their four-month standoff with the UFCW, for it is a short-term strategy to trim their operating cost with no future of becoming sustainable. Nonetheless, the true question, the question with long-term consequences for all –business, labour, governments and communities– is how to deal with the most savage kind of capitalism and concurrently behave socially responsible and remain competitive. Let us briefly discuss the two possible alternatives from a CSR and overall sustainability perspective and envision the possible outcomes.

The position held by the three grocers since the start of the strike is that they cannot afford to maintain the current labour endowments. Of course, this does not mean that they would be placed in financial peril if they do not cut their labour costs. It means that they would not be able to meet the performance demanded by financial markets' investors. That is, they would not be able to deliver on their shareholder value forecasts, for if they lower their prices to remain competitive with consumers and do not lower their operating costs, their profit margins would be negatively affected. Thus, their business thinking takes them immediately to the idea of reducing the labour endowments, which, by the way, has become, in the last twenty years, the standard measure of first recourse to increase profitability. Before the 1980s, laying off people or reducing their compensation was a measure of last recourse when companies were in financial peril, but now it is the first measure used to remain competitive or simply boost profits. Remaining competitive means offering high shareholder value. There is no qualm in crippling the quality of life of their employees and no sense of a corporation's social responsibilities, for this strategic thinking is ingrained on a culture of the survival of the fittest, the fittest in business profitability, where financial markets are upheld as the masters of the universe.

However, even from the perspective of a Darwinian capitalist ethos, this is a very short-term strategy that may help them deliver on their financial expectations just for the next few quarters. On a long-term basis, this strategy will have very negative consequences for corporations, workers and their communities and will not be sustainable. If major U.S. grocers establish Wal-Mart's business model in their industry, they will be lowering the quality of life of millions of workers and their families and taking them increasingly closer to wages no longer of a living wage standard, as in the wages of Wal-Mart's workers (Wal-Mart alone has over 1.2 million U.S. workers). No one can live a dignified life with a wage a few dollars above the minimum wage. In this way, if millions of workers in their industry suffer a reduction of their labour endowments, a reduction of aggregate demand will be experienced in their communities and this will in turn set in motion further reductions in the expansion of aggregate demand on a national scale. Yet, a continuous expansion of aggregate demand is fundamental for the continuous growth of a market economy. When consumers have less disposable income to spend, aggregate demand shrinks, sales decrease, no new jobs are created and many workers get laid off. Thus, we enter a vicious cycle of decreasing demand and recession.

One may argue that recessions are part of an economic cycle. Yet, the reason this reduction of demand occurs is because a continuous process of competition and efficiencies, that intentionally uses as its main factor the reduction of the labour endowments, induces it; and this overwhelmingly, and negatively, affects the future expansion of demand and of economic growth. In this way, a model attempting to achieve consumer and financial competitiveness by systematically decreasing labour endowments impairs the capacity of expansion of consumer demand and, thus, cannot become sustainable. When Wal-Mart is matched in rock-bottom prices by all major grocers, it will attempt to lower them further and it will make use first of a cut in their workers' compensation. This will trigger in turn another move by the other grocers in the same direction in a continuous escalation of a low-pricing war.

One may also argue that this is just one industry that cannot affect demand on a national scale. However, Wal-Mart is just an icon on a global trend to use labour endowments as a measure of first recourse to boost efficiencies and profitability in virtually all sectors of the economy. This is one of the mantras of neoliberal globalization. According to the Economic Policy Institute (EPI) in Washington, labour compensations have consistently decreased in the U.S. over the past three decades, and the only reason why demand has managed to expand is because U.S. households are working an average of five additional months a year. Most of the increase in hours is coming from working wives in order to protect their families' standard of living. The EPI also reports that, despite strong wage increases in recent years, the median male wage in 2000 was still below its 1979 level, even though productivity was 44.5% higher in 2000 than in 1979. The EPI provides as one major reason an increase in corporate profitability at the expense of compensation growth.[1]

One may argue as well that the decrease in labour endowments is compensated by a healthy competition that drives prices down, and that this in turn increases the real value of wages. But the fact is that, despite tremendous increases in productivity, real wages are still below 1979 real wage levels and families have lost a lot in quality time by spending 800 more hours a year working to sustain their material standard of living. Furthermore, in 2003 we experienced for a second time a clear trend of a jobless economic recovery. Thus, clearly, corporations are basing more and more their competitive edge on the lesser use of manpower as much as possible, and despite much talk about CSR standards, their workers and their communities' welfare is certainly not on their CSR list.

Currently, the three grocers involved in the strike are enduring a consumer boycott provoked by the UFCW. Despite their initial allegations that their revenue had not been substantially damaged, market analysts estimated their loses at $660 million at the end of November.[2] Many people downplay the value of consumer boycotts and dismiss them as only marginally affecting the image of the corporations in conflict. Nonetheless, the boycott in the last three weeks of October cut deeply into Kroger's third-quarter profits, with a 57% drop from $254.6 million in 2002 to $110.2 million for Q3 2003.[3] Albertson's reported that the strike eroded a surprisingly $70 million of its gross profits for the same quarter. And this was done with no concerted effort from workers to gain the moral support of consumers other than maintaining their picket lines.

Many consumers have stayed away from the stores more so because of feeling ashamed to cross the picket lines or being simply afraid of strikers rather than because of a genuine moral support. Thus, grocers claim that their image has not been too eroded by the strike before consumers and the community. However, the fact is that the strike has been costly where it hurts the most and they are missing the opportunity to change the tide in their favour and gain the support of consumers through a clear show of corporate social responsibility. If profits have plummeted more than 50% for an entire quarter due to the first three weeks of the strike, they should think about the financial benefits and competitive edge they would gain if they reach a reasonable agreement with their workers and then ask consumers to go against Wal-Mart instead. Wal-Mart is where the real enemy is for both grocers and the UFCW, and both seem to miss the point.

If they reach an agreement not to cut benefits and wages, why not educate consumers and work together to increase the competitive edge of the grocers by increasing the loyalty of consumers and the repudiation of Wal-Mart? A whole public relations program to educate consumers can be put in place, with the help of the union and organised civil society, where their newly acquired CSR behaviour is depicted, so that consumers understand that by supporting better-paid jobs, everyone benefits, even if prices are not as low as the rock-bottom prices of Wal-Mart. With some effort, consumers would clearly understand that well-paid jobs keep communities healthy and more jobs and opportunities would be generated, whereas, Wal-Mart wages only hurt communities. In this way, as in the case of fair-trade coffee, it is better to pay a little more for groceries, because benefits will come to all ranks of society in many different ways.

The grocers have not disclosed how much they pretend to save in wages and health benefits. However, if Kroger alone lost $144.2 million and it has about 24,000 workers in 293 California stores, its total annual payroll at the highest union rate of $18/hour would be $898 million. Considering that only a small portion of workers earn the highest rate, the savings in wages and health benefits has to be a fraction of this cost in a year. This suggests that the loss in profits is already likely to be greater than the savings in wages and health

[1] The State of Working-America 2002-2003, Executive Summary, Economic Policy Institute
[2] James F. Peltz, Strike Knocks Huge Hole in Supermarket Revenues, December 6, 2003, Los Angeles Times
[3] James F. Peltz, Grocery Strike Cuts Deeply Into Sales at Ralphs, December 10, 2003, Los Angeles Times

benefits for a whole year. Thus, it seems that the grocers' motives lie more in the realm of changing long-term employer-labour relations by ending the conception that good U.S. employers cover the bigger part of health benefits for their workers. It appears to be a further move in the direction of savage capitalism and away from the social responsibilities of business in democratic societies. Despite twenty years of neoliberal economics on a global scale, health care is guaranteed 100% by the state through social security in Europe and many other countries, but in the U.S., the push continues to be in the opposite direction.

In this way, corporations keep missing not only the opportunity to incorporate a genuine and comprehensive CSR –with the welfare of their own workers as a top priority– but they also miss the opportunity to become more competitive from a business perspective. Corporations are missing the point that good corporate citizenship, beyond the moral issue, can provide a far more sustainable long-term financial outcome than the current Darwinian highly speculative ethos where financial markets dictate very short-term rules of the game, imposed on a quarterly basis, to demand their dividends. In their old business ways, they keep in oblivion a true commitment to the sustainability of their workers, the communities and their own business. They keep envisioning everything on a very short-term basis. Thus, they do not consider the fact that better wages do not mean higher costs but a long-term investment to increase competitiveness through consumer support and the more efficient work of a motivated workforce. Better wages, per se, increase the probability of a sustainable economic growth through a higher probability of sustained growth in aggregate demand than the current speculative ethos. As demand expands, markets expand and corporations will have a far higher probability of enjoying an expanding business. However, by using CSR as a key element of business strategy to increase competitiveness, they will also enjoy the opportunity to gain market share against those refusing to behave socially responsible such as Wal-Mart. Thus, higher wages is a permanent investment in greater competitiveness. The key is to change the current short-term business culture to long-term and the probability of greater returns on investment for financial investors will become significantly higher. It is highly desirable that corporations embrace a genuine preoccupation for their social responsibilities. Nonetheless, even if they lack an altruistic sense, paying better wages and educating consumers, with the help of unions and organized civil society, is a far smarter business strategy than the current speculative one.

People want choices in their consumer decisions. If they are well informed and educated, they will support corporations with consumer brand names they perceive to be friendlier to their workers, society and the environment. The welfare of all ranks of society is a central feature of democratic societies, and corporate greed cannot be above true democracy. This is why consumers, in the latest annual survey by Cone, Inc., when asked about their reaction to acts of corporate social irresponsibility, 76% said they would boycott the offenders and 91% said they would consider switching brands.[4] In Europe, CSR Europe found that 70% of European Consumers say that a company's commitment to CSR is important when buying a product or service, and 1 in 5 would be very willing to pay more for products that are socially and environmentally responsible.[5] These findings reflect the natural tendencies of consumers in favour of good corporate citizenship with little effort from society and business to educate them. There is tremendous potential to tap on consumer support for good corporate citizenship. The three grocers in California and the UFCW are missing the opportunity. Nonetheless, they still have time to show the political will to think long-term and incorporate CSR into their strategic business model. It is a question of business savvy and political will to tap into the consumers' natural disposition to support the good guys and punish the greedy robber barons, if they are informed. Nonetheless, if grocers choose Wal-Mart's Darwinian way, they will risk a consumer backlash to be sure, as organised civil society informs consumers of their greedy ways. The opportunity is for their taking.

[4] Cone, Inc. 2002 Cone Corporate Citizenship Study, Boston, United States
[5] CSR Europe, The First Ever European Survey of Consumer's Attitudes towards Corporate Social Responsibility, MORI, September 2000

[i] Alvaro J. de Regil is Executive Director of The Jus Semper Global Alliance