

Analysts are missing the forest for the trees on minimum wages

By Shannon Rohan and Kevin Thomas
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Investment analysts need to ask some hard questions when business groups say the planned increase in Ontario's minimum wage may force companies to raise prices on consumer goods and slash jobs.

In recent analyst calls held by Metro Inc. and Loblaw Cos. Ltd., executives indicated that planned minimum-wage increases in Alberta and Ontario would add significantly to labour expenses and put pressure on the industry in 2018. Both companies are committed to mitigating those impacts by accelerating efficiencies and achieving cost reductions, but the take-away for analysts was that the retail industry is facing a significant cost increase in the short term.

Unfortunately, that echoes the prevailing view among many on Bay Street and in executive suites across the country – that workers are exclusively a cost to the business. That may be why investment analysts walk away from these quarterly calls only having heard – and only having asked, for that matter – about the cost side of the equation.

The other side of the equation warrants much more attention: how paying higher wages and improving workplace practices can be an investment in the business.

There is strong evidence that paying workers more, offering meaningful training and promotion opportunities and providing predictable schedules and hours – in short, the type of labour-law reforms now on the table in Ontario – can result in better business outcomes. Businesses that implement a decent work strategy can benefit from more loyal, hard-working and productive employees. They can realize productivity gains, higher retention

and lower turnover, and ultimately better financial performance.

For example, research conducted by MIT professor Zeynep Ton found that companies that nurture their employees and pursued a good jobs strategy achieved improved operational execution, ultimately resulting in higher sales and profits in the retail stores that she studied.

Similarly, a study by the Boston Consulting Group found that over a 10-year period, companies that appeared at least three times on the Fortune 100 Best Places to Work list outperformed the S&P 500 by 99 percentage points.

In Ontario, a recently formed group of businesses provide living proof that decent work can pay off. The Better Way to Build the Economy Alliance (BWA) is a group of employers that support decent work and are benefiting from greater productivity and profitability for their businesses while at the same time improving job and income security for their workers. These employers will be coming together to share their experiences on Sept. 12 in Toronto at a conference hosted by the Centre for Labour Management Relations and the Better Way Alliance.

We will be there to provide a perspective from the growing number of investors in Canada and around the world that are recognizing the business benefits associated with decent work. We'll be speaking about why investors and investment analysts need to start seeing the forest and not just the trees when considering the implications of labour-law reforms.

To do that, on the next round of quarterly analyst calls, let's ask how companies intend

to take advantage of the positive opportunities afforded by Ontario's Fair Workplaces and Better Jobs Act. How will they capture increases in consumer spending as a result of the boost to the minimum wage? How will they seek to deploy their employees in ways that will improve their customer-service scores? How will they invest in their workers to improve internal promotion and retention rates? How will they manage the short-term increases in labour expenses to make them more competitive in the long run?

These kinds of questions will give us a much more accurate picture of how companies are productively and successfully managing their work forces. They will also help to communicate to corporate executives that investors support innovative strategies that build long-term value and that we understand the benefits of fairer workplaces and a more equitable economy.