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DOI: 10.1111/jacf.12611

Journal of
APPLIED
CORPORATE FINANCE

ORIGINAL ARTICLE

Living wages revisited: The case of Walgreens Boots Alliance

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INTRODUCTION

In 2022, ShareAction, a well-known British activist responsible investment NGO, tabled a resolution at Sainsbury's one of the UK's largest supermarket chains, demanding that they become an accredited Living Wage employer. I wrote up the case in this journal a year ago in an article titled: "Lessons for ESG Activists: The Case of Sainsbury's and the Living Wage." [1] That proposal was rejected by around five out of every six shareholders at the 2022 Sainsbury's AGM.

So, I was interested to see the investor response to a similar proposal making a similar demand filed by John Chevedden at the 2024 AGM of Walgreens Boots Alliance (WBA).[2] The filing was supported by The Shareholder Commons and ShareAction. Were any of my lessons for ESG activists learned? And what should we make of the case made by the proposers?

THE PROPOSAL

The resolution at the WBA meeting was stated as follows:

> *WHEREAS: Company compensation practices that fail to provide a living wage are harmful to the economy and therefore to the returns of diversified shareholders;*
>
> BE IT RESOLVED, shareholders ask that the board and management exercise their discretion to establish company wage policies that are reasonably designed to provide workers with the minimum earnings necessary to meet a family's basic needs, such policies to include reference to established living wage frameworks and timeframes for adoption and to comply with relevant legal obligations.

On the face of it, this resolution turned out to be even less persuasive than the ShareAction proposal at Sainsbury's: fewer than one in ten of WBA's investors supported it.[3] Set against this is the fact that ESG proposals have always tended to receive less support at US than European companies, and over the last 2 years even more so. So perhaps the support can be considered comparable, all things considered.

Did the proposal reflect any of the lessons that I proposed we learn from the Sainsbury's proposal? Were shareholders right to reject it? I will argue that the answers are "yes, at least in part," to the first question—and "yes, though with regrets," to the second.

REVISITING THE LESSONS LEARNED

In my 2022 article I identified the following four lessons for ESG activists from the case of the Sainsbury's living wage proposal:

- the resolution should not be overly prescriptive;
- the business case needs to be compelling and made with precision and care;
- the nature of investor mandates needs to be taken into account; and
- the engagement strategy needs to broaden, not narrow, support.

How did the WBA proposal stack up against these?

The Resolution Should Not Be Too Prescriptive. One problem with the ShareAction proposal at Sainsbury's was that it demanded that the company become an accredited Living Wage employer. This would have involved signing up to pay staff and contractors a "living wage" as defined by an external body, the

[1] 2023. "Lessons for ESG Activists: The Case of Sainsbury's and the Living Wage. *Journal of Applied Corporate Finance* 35(2): 8–15. https://doi.org/10.1111/jacf.12550

[2] See proposal 7 of the *Walgreens Boots Alliance 2024 Proxy Statement*. https://investor.walgreensbootsalliance.com/static-files/d045de3f-87fe-409b-9485-7e8acb9ae5ca

[3] See result at https://collaborate.unpri.org/group/20691/stream

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Living Wage Foundation. This gave the Sainsbury's Board an easy reason to reject the proposal: it would result in an unjustified fettering of the board's discretion to set pay policy in the best interests of the company. As the board said in their shareholder communications around the time of the AGM:

> Fundamentally, we believe it is right for the Company and our stakeholders to make independent decisions regarding pay and benefits, rather than have them determined by a separate external body.

The Shareholder Commons did seem to learn from this mistake. The WBA proposal is much more loosely framed, explicitly giving the board discretion on how to implement a real wage policy. Although less interventionist than the Sainsbury's proposal, it is likely that this was still too prescriptive for a number of shareholders. As I suggested two years ago, a proposal more likely to succeed in the first instance would have run along the following lines:

> Shareholders request that the WBA board produce a report on the feasibility, costs, and benefits of adopting company wage policies that are reasonably designed to provide workers with the minimum earnings necessary to meet a family's basic needs, in line with established living wage frameworks.

The Business Case Needs to be Compelling and Made with Precision and Care. Two years ago, I was quite critical of the business case put forward by ShareAction to support their proposal. It was very much framed in terms of the benefits to Sainsbury's of paying a living wage, but without compelling evidence to support the case. Indeed, most of the evidence ShareAction cited either was not applicable to the situation or even undermined its own case.[4] They failed to demonstrate that paying higher wages than necessary in a competitive low margin business would help Sainsbury's be more successful.

There are *theoretical reasons* why higher wages can be more than offset by increased productivity, but it is not an automatic result, and the win-win scenario can be quite difficult to pull off. It is not clear that shareholders are better placed than company management to decide whether this can be done in the specific circumstances faced by the company. Indeed, if improving shareholder value was as easy as increasing wages, we would expect more management teams in the retail sector to follow this path, whereas only a small minority do.[5]

The WBA proposal is interesting because its filers take a very different tack, reasoning that:

> By paying so many of its employees below a living wage, the Company may believe it will increase margins and thus financial performance. But gain in Company profit that comes at the expense of society and the economy is a bad trade for Company shareholders who are diversified and rely on broad economic growth to achieve their financial objectives. The costs and risks created by low wages and inequality will directly reduce long-term diversified portfolio returns because a drag on GDP directly reduces returns on diversified portfolios.

Indeed, a response to WBA's rejection of the proposal in its proxy statement goes even further, asserting that:

> …the social and environmental costs created by companies pursuing profits can burden the economy …according to the Economic Policy Institute, income inequality is slowing U.S. economic growth by reducing demand by 2–4 percent…This drag on GDP directly reduces the return on a diversified portfolio over the long term.

What's more, it goes on to say that:

> Walgreens' choices that contribute to a financially insecure labor force threaten its diversified shareholders' financial returns, even if those decisions might benefit Walgreens financially.[6]

This line of argument is notably different from that set out in the Sainsbury's proposal. The proposers are explicitly acknowledging and accepting the possibility that paying living wages might damage WBA's financial returns. Their innovation is to contend that this sacrifice of returns will be more than offset by reduced inequality leading to higher economic growth and therefore improved returns on the investor's diversified portfolio overall.

Some readers will recognize this as an application of so-called *Universal Owner Theory* (UOT), which begins by observing that diversified shareholders end up owning what amounts to a slice of the whole economy. Therefore, externalities created by companies that harm the economy also harm the diversified investor's portfolio. This can justify the investor's efforts to influence those companies to address and limit the effects of such externalities. The costs associated with such efforts are proposed to be offset by the financial benefits from the reduced externalities that show up elsewhere in the portfolio.

An example helps to explain universal ownership theory, and how its magic is supposed to work.

To show how diversified share ownership in theory leads investors to address negative externalities in order to maximize portfolio returns, law scholar Madison Condon uses the example of an investor holding stakes in oil majors and food and beverage conglomerates. The former cause climate change, the latter suffer from it. If the costs to the food and beverage holdings exceed the profits made by the oil majors, the investor might conclude that the value-maximizing action at the portfolio level is to cut

[4] As I discussed in detail at the time. https://www.tom-gosling.com/blog/on-share-actions-evidence-for-sainsburys-living-wage-resolution

[5] The most commonly-cited example in retail is Costco, see for example "Why is Costco so loved?" The Economist, February 15, 2024. https://www.economist.com/business/2024/02/15/why-costco-is-so-loved

[6] https://www.sec.gov/Archives/edgar/data/1618921/000121465923016202/e1210230px14a6g.htm

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emissions at their oil holdings (by forcing production cuts) to preserve value in their food and beverage holdings.[7]

The important thing to note, however, is that UOT claims to be addressing social and environmental concerns *in order to* achieve the highest possible returns in the investor's portfolio overall. In this sense, it differs from the concept of shareholder welfare maximization described by, for example, Oliver Hart and Luigi Zingales.[8] The concept of shareholder welfare (as opposed to value) begins by recognizing that shareholders have non-financial as well as strictly financial preferences, and that investor stewardship should take both of these into account, potentially trading one off against the other. But UOT is different in that it holds out the possibility that a diversified investors' *financial* interests *at the portfolio level* can be *maximized* by managing systemic risks and addressing negative externalities created by companies within the portfolio.

UOT and the Problem of Inequality. I have written extensively elsewhere about the problems that UOT arguments run into in practice when trying to respond to the specific case of climate change,[9] and will just briefly summarize my arguments here. But I find at least four major practical difficulties with the UOT argument presented by Shareholder Commons in the case of Walgreens.

First, even if enactment of the resolution did reduce inequality, it is very difficult to prove that reducing inequality would indeed lead to higher diversified market returns. The Shareholder Commons cites papers highlighting the potential economic benefits of reduced inequality. While I'm personally sympathetic to the idea that *society* would benefit from finding ways to limit inequality, my review of the evidence for the Sainsbury's resolution suggested the difficulty of providing convincing (much less conclusive) evidence that *the economy* would be strengthened by investor efforts to impose such equality. And the evidence that *financial markets* would respond well to such efforts is even less persuasive.[10] The negative relationship claimed by some researchers between inequality and economic growth over the ranges of inequality commonly seen in developed economies seems to be quite heavily disputed. Indeed, over the past two decades, it is the US stock market and economy that has spectacularly outperformed despite its own commonly cited inequality problem.[11]

Second, it is not even clear that introducing a living wage at WBA would indeed reduce income inequality in the United States. There are two possibilities. One is that, following Costco's example, WBA transitions onto a higher-wage, higher- productivity path and helps set a market benchmark for cashier and salesperson pay in the US market. Between them, the two companies employ around 450,000 staff in the United States, of which plausibly some 300,000 would benefit from a living wage commitment. This represents roughly 5% of the total US retail cashier and salesperson employment of around 6.2 million.[12] The big prize would be if WBA's decision forced the behemoth that is Walmart (with its 1.6 million US employees) to adopt a living wage policy. But the other quite real possibility is that WBA simply ends up with a cost disadvantage compared with other retail competitors, loses market share, reduces employment, and makes no contribution to wider reduction in inequality. To be assured of success in its social mission, universal owners would have to be such a dominating presence among US (if not global) investors—and embrace WBA's resolution so completely—that all of WBA's major retail competitors felt compelled to follow suit.

Third, given that the proposers accept that adopting a living wage could reduce profits at WBA, they are asking directors at WBA to take an action that they would very likely view as inconsistent with their fiduciary duties, which are to the company and its shareholders as a whole. As Marcel Kahan and Ed Rock have described in detail, the single-firm focus of fiduciary duties makes it extremely difficult for directors to even contemplate an action that knowingly harms their company's competitive position and value to benefit other companies in an investor's portfolio, however convinced of this socially beneficial outcome.[13] Of course, it might be argued that investors are simply encouraging WBA directors to take the "higher ground" path to value creation followed by Costco. But one might also question whether certain groups of shareholders are better placed than directors to judge whether this would in fact be successful in WBA's case?

Fourth, the prospect of institutional investors imposing their view of economic policy on companies through living wage policies looks dangerously close to the kind of political overreach that can be highly inflammatory, inviting the kind of backlash we've recently witnessed by the US political right. In my discussion of the Sainsbury's case, I argued that living wage policies were an odd fight for shareholders to pick given the very well-established infrastructure in the UK for setting minimum wages involving an independent Low Pay Commission—a body with both with a remarkably high level of cross-party support and a mandate to raise living wages as fast as possible consistent with maintaining economic growth and employment. The Commission's work has resulted in a statutory minimum wage that is actually quite close to the "real living wage."[14] Given the political reality of US "federalism," the process of setting minimum wages in the United States is more fragmented with both federal and state minimum wages and a less clear mandate for how they are set. The Federal Minimum Wage is a clearly inadequate $7.25 per hour, and while most states have a higher minimum wage than this, many do not. And where they do, the shortfall compared with independently calculated living wages is generally much greater than in the United Kingdom.[15] This strengthens the argument that in the United States the minimum wage setting process may not be functioning effectively. Many of us believe that higher worker wages would improve social welfare and that the economic costs of minimum

[7] Condon, M. 2020. "Externalities and the Common Owner." *Washington Law Review* 95(1).
[8] Hart, Oliver, and Luigi Zingales. 2022. "The New Corporate Governance." *Chicago Business Law Review* 1(1): 195.
[9] Gosling, Tom. "Universal Owners and Climate Change." February 2, 2024. Available at SSRN: https://ssrn.com/abstract=4713536 or https://doi.org/10.2139/ssrn.4713536
[10] See note 4 above.
[11] To be sure, one might be tempted to view these returns as teetering on a precipice and on the verge of collapse—and suggest that US performance may well have been even greater if inequality growth had been attenuated. But this is a contested area of political and economic opinion rather than one of clear and unambiguous evidence.
[12] https://www.census.gov/library/stories/2023/12/holiday-retail-workers.html
[13] Kahan, Marcel, and Edward B. Rock. 2024. "Systemic Stewardship with Tradeoffs" *Journal of Corporation Law* 48(3): 497.
[14] The current UK statutory minimum wage is about to rise to £11.44 per hour, as compared with £12 per hour for the living wage outside London and £13.15 per hour within London.
[15] https://livingwage.mit.edu/articles/103-new-data-posted-2023-living-wage-calculator

wages have often been overstated by the economics profession. But this feels dangerously close to an argument about political priorities than one that is rigorously rooted in financial market valuations. The existence of minimum wage legislation does suggest that shareholders would need to step carefully to avoid being seen as imposing their political views on society outside the democratic process. This raises the bar for the strength of evidence required for shareholders to weigh in on this issue in their engagements with companies.

The nature of investor mandates needs to be taken into account

Asset *managers*, both for fiduciary reasons and to avoid the internal conflicts outlined above, will find it very difficult to vote for resolutions that reduce company value unless the possibility of this reduction is very explicitly acknowledged in their mandates. Even if an asset *owner* is committed to the principles and practice of UOT, this would need to be expressed quite explicitly in their asset *manager* mandates—which is almost never the case. It is possible that innovations such as pass-through voting will make it easier for asset owners to express their views on such resolutions directly, rather than via their asset manager. But even then, the asset owner will need to have a clearly articulated, and good faith, belief in the chain of logic that runs from increasing wages at WBA to higher portfolio returns for beneficiaries. Which brings us back to the business case discussed earlier. For many asset owners, this case will not be compelling enough.

The engagement strategy should broaden not narrow support

Discussions around the time of the 2022 Sainsbury's resolution at times became rancorous. Despite the supposed business case relating to shareholder value, ShareAction put its case in stridently political, even moral, terms. As I reported in my article last year, the NGO threw down the gauntlet by describing its resolution as a "litmus test for investors' social commitments amid the cost-of-living crisis." The statement went on to say that "how investors vote will expose their true colours," and "We expect investors to support this resolution. The country will be watching closely to see how they vote."

At times the explanations for the resolution strayed into calls for political action:

> We have seen the Government increasingly criticised for failure to tackle the cost of living. Many have called for an Employment Bill to tackle low paid and insecure work, but one is yet to materialise.

And as they went on say,

> This says a great deal about how thin the UK's social fabric is stretched just now. Thursday's vote at Sainsbury's AGM offers a chance to restore and repair the damage.

What's more, in a fit of pique after losing the vote, ShareAction ensured that Schroders—a large UK asset manager that publicly opposed the resolution—was summarily ejected from the Good Work Coalition, a group of businesses sharing best practice on how to create good and fairly-paid work.

The Shareholder Commons seems largely to have avoided such inflammatory rhetoric and actions. They use strong words in their follow-up to WBA's justification for opposing the resolution in their AGM notice, but nothing that goes beyond the boundaries of robust dialogue. Most importantly, the rationale remained rooted in the interests of long-term, diversified investors. However, this was not enough to attract a strong constituency of shareholder support.

WHERE NEXT FOR LIVING WAGE PROPOSALS?

To sum up then, two high profile living wage proposals on either side of the Atlantic have failed to secure support of more than a small minority of shareholders. The fact that the WBA resolution achieved even less support than the one at Sainsbury's is at one level surprising because it avoided at least some of the problems I identified in the Sainsbury's case. Part of the explanation is the differing attitudes of US and European shareholders—differences that have only been amplified by the recent US culture wars around ESG. But another part is that the fundamental business case remains so unpersuasive (if not implausible). Indeed, the case based on Universal Owner Theory is probably even more speculative than one linked—like a plan to replicate Costco's success—to the prospects of a single retail company. There are simply too many uncertainties and potentially broken links in the chain of logic for many fiduciaries to convince themselves, in good faith, of the merits of the case. For this reason, and given the difficulty of finding conclusive evidence of the connection to portfolio returns, proposals are probably better framed as posing questions that give management the latitude or option—but not the obligation—to act. The focus on "outcomes" from stewardship has led to increasingly prescriptive engagement demands with demonstrable "results." However, particularly in the environmental and social sphere, such forceful stewardship is likely to run into problems with fiduciary duty at every level: between the asset owner and their beneficiary; between the asset manager and the asset owner; and between the directors and the company. The reality is that it will be virtually impossible for shareholders to force directors to take actions that damage their companies' prospects.

Few would discourage the prospect of seeing more Costcos—companies that appear able to combine high wages and high productivity. But perhaps we need to find a different route to get there. The idea of using shareholder resolutions to impose actions on recalcitrant managements seems to be running out of road across the ESG spectrum, and relying on questionable business cases doesn't seem to be helping. Some of this may be more effectively framed in terms of ethics. Even Milton Friedman proposed that in seeking to create as much shareholder value as possible, business should conform to the basic rules of society, including those embodied in ethical custom. And ethical customs evolve. For example, it has become increasingly accepted that business

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should be conducted while avoiding slavery in supply chains, even if that add to costs. By making it known to companies that they view decent treatment of human beings, including avoiding poverty wages, as an ethical norm, shareholders create the space for boards to make different decisions. But by attempting to achieve outcomes that impose burdens on, and reduce the competitiveness of, individual companies, based on rationales that only a few shareholders can in good faith subscribe to, resolutions of the type proposed by ShareAction and The Shareholder Commons are almost certain to understate the level of investor support for fair wage policies. At times, aiming for less is likely to achieve more.

KEYWORDS
ESG activists, living wages, Walgreens, Universal owner theory

How to cite this article: Gosling, T. 2024. "Living wages revisited: The case of Walgreens Boots Alliance." *Journal of Applied Corporate Finance* :1–5.
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