

# The Analysis of the Effect of Compensation Strategy on Corporate Performance: An Example from Walmart

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**Abstract.** Using Walmart as a case study, this paper examines the relationship between compensation policies and company performance. Specifically, the paper focuses on how various compensation strategies, ranging from base salary to comprehensive benefits and incentives, affect Walmart's key performance indicators. The study delves into the issue of employee motivation and evaluates various important factors of Walmart's compensation program. The analysis focuses on the impact of various compensation strategies (including wages, benefits, and rewards) on Walmart's performance metrics. By using a variety of methods and combining them with data analysis, the study reveals the deeper role that Walmart's compensation policies have played in making it one of the world's leading retail companies. In addition, the study mentions the correlation between employee satisfaction and long-term business results. The results of the study provide valuable insights for business leaders and policy makers, emphasizing the need to balance employee needs with corporate goals. The results of the study underscore the importance of well-designed compensation policies as a key tool for achieving organizational brilliance and maintaining a competitive advantage.

**Keywords:** Compensation strategy, corporate performance, incentive.

## 1. Introduction

The evolution of corporate compensation systems reflects the growth and complexity of the modern business world. From basic wage structures of the industrial age to the complex, multi-faceted compensation strategies of today's corporations, the journey has been subversive. In essence, the corporate compensation system consists of wages, salaries, and all other forms of employees' earnings provided by an employer in exchange for work or services.

Employees' incomes usually consist of basic salary, incentives, benefits and allowances. The purpose is to motivate employees to do a better job and to retain the right people. Typically, the core of such a compensation system is actually its framework and policies and the common purpose is to align the company's goals with the employees' needs for compensation. However, it is not the structure of the compensation that is critical, but the policies that govern it. The effectiveness of these strategies depends on a number of factors, including market competitiveness, internal equity, legal compliance and consistency with the overall HR strategy.

The centerpiece of this paper is the contrast and relationship between a company's compensation strategy and its performance. The primary objective of this paper is to delve into this complex relationship such as how a company's compensation strategy affects the company's performance metrics, productivity, job satisfaction, employee retention, and ultimately the direction of the company. A proper understanding of the relationship between the two is crucial, especially in the modern world where competition for talent is intense and employee wage expectations are rising.

The paper is divided into several sections, starting with an analysis of the theoretical background of compensation strategy and its impact on various company metrics. This is followed by an empirical analysis of real-world data, a detailed case study of Walmart, and a comparison with other companies. Through this comprehensive exploration, this paper aims to provide valuable insights into the topic of how compensation strategy affects company performance.

## 2. Literature Review

Over the past decade, our understanding of employee compensation policies and their impact on firm metrics has evolved considerably. The study by Edmans, Gabaix and Jenter provides a comprehensive and effective overview of this development [1]. Their research focuses on understanding the prevalence of performance-based compensation and demonstrates its integral role in aligning executive interests with those of shareholders.

Subsequently, more research has deepened our understanding of how compensation strategies retain talent. For instance, research by Nyberg, Fulmer, Gerhart, and Carpenter, among others, has shown that there is a strong connection between changes in compensation and whether employees choose to stay-on, especially among top performers [2]. This study mainly emphasizes that compensation is not only a financial transaction in exchange for labor, but also an important mechanism for retaining talent in today's highly competitive business world.

In 2016, Bradler, Dur, Neckermann and Non added another layer to this complicated topic [3]. By exploring the importance of non-financial incentives for employees they confirmed that in addition to financial compensation, non-financial incentives can also significantly improve many company metrics such as performance and employee satisfaction.

Not only that, but as compensation policies continue to grow, many studies have begun to emphasize the impact of corporate governance styles on employee compensation. In 2013, a study by Fernandes, Ferreira, Matos and Murphy [4] effectively linked corporate executive compensation to corporate governance. They argued that strengthening corporate governance improves the efficiency of compensation structures and emphasized the importance of internal corporate regulation.

Intrinsic motivation has also been introduced into the discussion around compensation strategies. Cerasoli, Nicklin, and Ford found that intrinsic motivators can increase firm productivity levels when combined with suitable compensation [5].

Finally, these studies collectively emphasize and reflect the complexity and multifaceted nature of compensation policies. It is clear that compensation policies should not be limited to financial pay alone, but should also include factors such as non-financial incentives. Stable corporate governance also has a significant role to play in the establishment of an effective compensation structure. In conclusion, these studies provide many insights into contemporary compensation systems. And it has well deepened our understanding of how compensation policies can stimulate firm performance.

## 3. Analytical Framework

Next this paper will take Walmart as an example, and expose the complex structure of compensation policies and company performance. Walmart's success in the global retail market is not just due to its large number of stores or efficient supply chain management. Rather, it is the result of a complicated interplay between the modern company's carefully planned compensation policies, key incentives, and the ways in which these factors work together to affect company performance.

### 3.1. Modern Corporate Governance Structure

Walmart's unique internal governance structure also largely determines compensation policies. First, in 2023 Walmart had nearly 2.1 million employees (about the population of New Mexico) worldwide and according to statistics, about 70% of them were full-time employees. Second, Walmart emphasizes that compensation is directly linked to individual performance metrics, which increases transparency to the public and motivates employees to perform better. Third, Walmart is a company that cares a lot about the development of its employees. The company cares about the family and emotions of its employees, and offers an attractive salary based on the market. Walmart's investment in its employees also includes various insurances and vacations [6].

### 3.1.1 Basic theory of compensation in Walmart

In Walmart's compensation system, there are three main components, one is the base salary and the other is short-term bonus incentives and long-term equity incentives [7]. When they created these components, Walmart aligned company goals with employee interests. This consistency ensures that employee's skills and compensation can meet the market standards, which also successfully increases a sense of fairness and motivation among employees.

As shown in Figure 1, Walmart has a good mix of market competitiveness and fairness among employees when setting compensation levels. This reflects Walmart's commitment to rewarding employees fairly. All of Walmart's policies and strategies are designed to align compensation levels with current market conditions. This ensures that employees feel comfortable and are reasonably rewarded for their efforts.

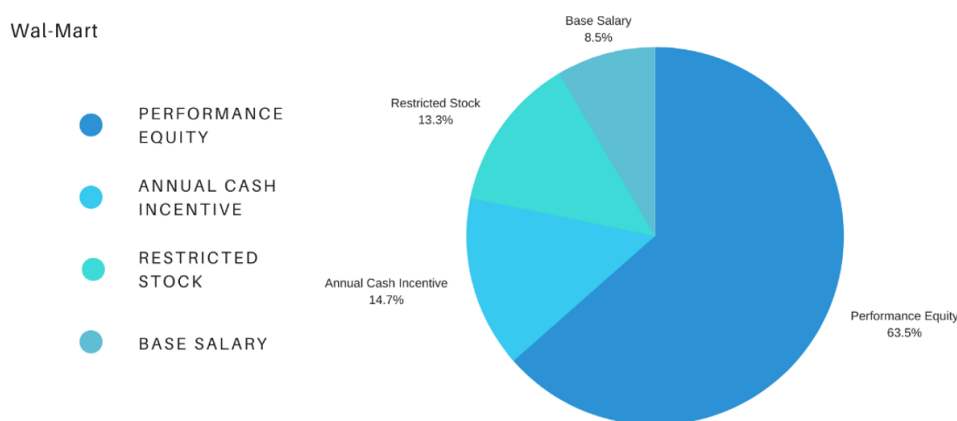


Figure 1. Walmart's executive compensation system [7]

### 3.1.2 Major incentives

First, Restricted Stock Units (RSUs), in short, are the actual shares of stock that Walmart promises its employees. However, according to Walmart's annual report in recent years the way and timing of how RSUs become actual stock has changed: starting in 2023, eight percent of the RSUs will be converted into promised stock and issued to the employee every three months for three years after the employee grants the RSUs. From 2020 through 2022, employees will receive 25 percent in each of the four years they receive RSUs. Finally, until 2020, employees will receive 50 percent in the third year of an RSU grant, with the other 50 percent required until the fifth year [6].

Second, Restricted Stock and Performance-based Restricted Stock Units, which are similar to RSUs but the only difference is that it depends on whether the employee meets the company's required performance. If the employee meets the performance requirements, the original award amount can be increased up to 150%. The similarity between these two types of stock incentives is that they can be converted into actual stock or deferred. In conclusion, stock incentives are a great way to increase employee productivity and retention, and it is clear that Walmart has been utilizing them in a smart way [6].

## 3.2. Relationship Between Compensation Strategy and Corporate Performance

Compensation policy plays a very important role for a company. However, it is very difficult to understand this policy thoroughly, but to summarize it in one sentence, the compensation policy is a system of rewarding employees in return for their services, and this system also has a direct impact on the company's growth and future direction. Now this paper is going to focus on explaining and breaking down the relationship between Walmart's compensation strategy and the company's performance.

### 3.2.1 Walmart's compensation strategy

In the past, Walmart has been criticized by society due to low hourly wages. So in 2015 Walmart made several overhauls to the company's pay policy in order to alleviate social opinion. Walmart first

raised the minimum wage to \$9 per hour for all employees and also raised the wage to \$10 for employees who completed a training program. In 2018 due to tax reform, they once again raised the minimum wage to \$11 per hour. Finally in 2021, Walmart announced that the company's 425,000 employees would be paid an average of \$15 an hour. At Walmart compensation policies have been subject to changes not only in base wages but also in performance-based bonuses, offering stock options, and providing more benefits. These compensation increases not only help align employees with the company's strategic goals, but also reduce turnover and increase employee satisfaction.

### 3.2.2 Effect of compensation strategy on corporate performance

**Employee Retention and Satisfaction:** The main reason why Walmart has been increasing its base salary in recent years is to reduce employee turnover. The company wants to control employee turnover not only because it affects the company's performance but also because of the huge recruitment and training costs. In order to reduce the cost of training new employees, Walmart has directly chosen to offer higher wages and performance-based incentives to attract and retain more skilled and engaged employees. The increase in employee satisfaction and loyalty indirectly increases productivity and service quality.

A performance-based bonus plan has many benefits for a company such as promoting unity among employees and motivating them to achieve company goals, and Walmart is using this policy in a smart way. In 2007 Walmart announced that all employees would be eligible for a performance-based "My\$hare" annual bonus. The bonus is divided into quarterly awards in order to provide more frequent incentives to employees. There are many other bonuses for Walmart employees besides "My\$hare", such as the Servant Leadership Bonus, a new award created in the same year to reward employees who have been working for 20 years or more. By linking bonuses to performance or hours worked, Walmart can both motivate employees to achieve company goals and retain talent. This alignment of individual and organizational goals increases company effectiveness and thus improves financial performance [8]

**Financial Performance Indicators:** In the year 2021, Walmart's data proves that compensation policies have a direct impact on the company's performance. In that year Walmart's financial statements showed net sales of \$559 billion, an increase of 6.7 percent compared to the previous year [6]. This increase occurred during a period of significant changes in compensation policies. First of all, as previously mentioned in this paper, the base salary for all employees was increased to \$15.00. Not only that, Walmart also paid out more than \$700 million in quarterly bonuses in the same year with the aim of adapting to the evolving market rules [9]. Secondly, Walmart also launched the "Live Better U program", Walmart realizes the importance of employee development. The program helps employees to earn a degree with low cost. Lastly Walmart also improved many of its benefit policies in 2020 such as pension and healthcare programs. Walmart has shown that its new compensation policies are working by continuing to gain success in the market [10].

## 4. Limitation and Outlook

The article is a study on the impact of compensation policies on performance using Walmart as the subject of the study. There are also shortcomings in this study. Firstly, Walmart is only a representative company in the industry but not representative of the market as a whole so using Walmart as the subject of the study limits the perspective of the research and may affect the wider industry applicability. Secondly, all the data in the paper is from the public data provided by Walmart, which may not include the company's detailed compensation data which may lead to errors in the analysis. Thirdly the research time of this paper is limited and there is a possibility of error or inaccurate analysis. In the future the scope can be expanded by including more companies of different sizes, industries and regions for comparison. This expansion can help to reach a more convincing conclusion. Not only that but analyzing and understanding data over time can reveal deeper trends and relationships. In conclusion, while this study provides valuable insights into the impact of

compensation strategies on Walmart's corporate performance, the limitations described above suggest that further research could lead to a more comprehensive understanding of this complex topic.

## 5. Conclusion

This study focuses on Walmart as an example to unravel the complex relationship between compensation system and company performance. First of all, this article analyzes other literature and finds that although the content and objectives of each study are different, but one thing can be confirmed is that the company's compensation system has a direct relationship to the company's objectives and performance. Secondly, this paper also breaks down the overall concept and compensation system of Walmart. This consists mainly of financial and non-financial incentives and this paper highlights how both incentives drive employees to work better. Of course, there are some flaws in this paper, such as only taking data from one company, Walmart, to analyze and compare, which is obviously not convincing enough. However, this also confirms that in the future, similar studies need more companies as the basis for analysis.

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