

IKEA COMPANY

Student's name

Institution

Date of submission

What are some risks and challenges that IKEA is likely to face as a result of basing its minimum pay on the living-wage formula, rather than just legal requirements and the market rate?

The initiative of IKEA Company to increase wages has risk associated with the strategy; this is because they will be providing jobs for fewer people in society due to the increase in wages where they pay higher rates than their competitors. Due to the increase in wages, the company will be forced to pull down the revenue because they have no intention of raising the prices of their commodities to the deficit the problems associated increase in wages. In case of an increase in prices of the products, this would push the customers away from the company. The company paying more to the employees will gain them a competitive advantage compared to competitors in their environment. A fall in their profits would result from laying off some employees that could lead to joblessness in the community. The time and labor cost will increase drastically, which will negatively affect the company's overall operational cost (Heery, et al 2017).

What are some risks and challenges that IKEA is likely to face as a result of basing its minimum pay on the living-wage formula, rather than just legal requirements and the market rate?

The minimum increase in wages of the company is consistent with its vision which it projects to provide good living standards for the employees. After the program's implementation and the company realizes that its making losses, the company will be obliged to check on the places that are causing losses and embark on cutting back some of the costs that are not essential to make more money from its operations. From the legal provision given by the law of illegalizing cut of the employee wages, in my opinion, if the implementation of the increase in living wages could lead to a collapse of the company, this could force them to cut the pay for the

employees to the minimum required rate that is stated by the legal justice requirement. For the company to sustain the increase in wages of the employees, the management will be forced to increase cost-cutting measures in the company operation.

Reference

Heery, E., Hann, D., & Nash, D. (2017). The Living Wage campaign in the UK. *Employee Relations*.