

Minimum wage hike boosts customer experience

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The ongoing debate over raising the national minimum wage generally focuses on the negative impact it would have on employers, but a new study finds it has a positive effect on a different group: consumers.

A research team that includes Vrinda Kadiyali, the Nicholas H. Noyes Professor of Management in the Samuel Curtis Johnson Graduate School of Management, at the Cornell SC Johnson College of Business, explored a path less traveled in the minimum [wage](#) debate – the potential positive impact on [customer service](#).

Exploiting a natural experiment condition in Santa Clara County, California, the group was able to compare reviews of restaurants where the [minimum wage](#) increased versus those where the wage was unchanged. The group found an improvement in the perceived service quality of those restaurants where the wage rose, including reduced negative discussion of the courtesy and friendliness of workers.

Their paper, "The Impact of Increase in Minimum Wages on Consumer Perceptions of Service: A Transformer Model of Online Restaurant Reviews," published Aug. 25 in the journal *Marketing Science*.

"Our data show that, for a particular class of restaurants, consumers benefit from an increase in [minimum] wage because employees are motivated and owners are motivated to provide better service," Kadiyali said. "The discussion around minimum wage has been all around how prices will go up, and consumers will be worse off. But we find, in our research, that consumers are happier with the overall quality."

Kadiyali's co-authors were Dinesh Puranam, Ph.D. '16, assistant professor of marketing at the University of Southern California's Marshall School of Business; and Vishal Narayan, associate professor of marketing at the National University of Singapore Business School.

For the research, Kadiyali and her collaborators mined data from more than 97,000 online reviews of restaurants in Santa Clara County. In March 2013, the minimum wage in San Jose, California, rose from \$8 to \$10, while the wage in the county's other seven cities (Cupertino, Los

Altos, Milpitas, Mountain View, Palo Alto, Santa Clara and Sunnyvale) was unchanged. Reviews from the 12 months before and the 12 months after the wage increase, posted on a popular online review site, were analyzed.

"Thank goodness for social media, which allowed us to look at aspects that we wouldn't have been able to previously," Kadiyali said. "We wanted to look more from the angle of what happens to consumers' welfare (when minimum wage goes up)."

Santa Clara County's population as of 2015 was 1.92 million, with just over 1 million living in San Jose. According to the researchers, it was estimated that the wages of 24,000 workers, including 7,100 hotel and restaurant workers, increased by 25% when the policy went into effect.

The researchers' primary question: Does a minimum wage increase lead to an increase or decrease in consumer opinions of service quality? Another key question was whether the effects on chain restaurants differed from the effects on independent restaurants, which tend to have greater local oversight and control, and benefit more directly from increased business.

The researchers, in fact, found that negative discussion of the courtesy and friendliness of workers decreased – inferring an improvement in service quality – in San Jose independently owned restaurants as compared with those in the other seven cities. The effect was not seen for reviews of chain restaurants.

The group factored in variables including price increases following the wage hike.

"We think it's an important aspect of the minimum wage concerns: If you pay employees more, they provide better service," Kadiyali said.

"And there's an incentive effect with independent restaurants, which can control the quality more than in national chains where everything is standardized. It's in these kinds of industries where, if you see a change in minimum wage, you can significantly affect the consumer experience."

More information: Dinesh Puranam et al, The Impact of Increase in Minimum Wages on Consumer Perceptions of Service: A Transformer Model of Online Restaurant Reviews, *Marketing Science* (2021). [DOI: 10.1287/mksc.2021.1294](https://doi.org/10.1287/mksc.2021.1294)

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