

## Case #14: A Wage with Gravity

As co-founder, majority shareholder, and CEO of Gravity Payments, a credit card processing company, Dan Price was disturbed when one of his employees accused him of underpaying workers. It was 2011, and the employee was making \$35,000 a year at the time. But the employee felt exploited. Price had just shepherded his company through the 2008 recession, where revenue fell by 20%. Gravity Payments had made a turn-around and was registering double digit growth each year, yet employee pay had remained relatively stagnant. In 2012, Price decided to do something about the disparity and implemented an across-the-board 20% pay increase.<sup>1</sup>

The following year, productivity increased by 30-40%, and Gravity Payments' profitability increased. Price's yearly pay at the time was \$1.1 million or "about 23 times the \$48,000 average at Gravity." On April 13th, 2015, still disappointed with the quality of life of his employees, Price announced that starting pay for all positions at Gravity would begin at \$70,000. The plan to increase minimum wages would roll out over three years and would be funded in large part by reducing CEO pay to the new firm minimum.<sup>2</sup>

The move to increase Gravity's minimum wage upset several executives, who felt undervalued since they now earned the same amount as entry level sales clerks. Similarly, when Walmart increased minimum wages, one employee wrote, "It took me four years to get to \$10.80. When minimum wage goes up we don't receive a pay increase unless we are under the minimum. Now our 2 newest associates are making \$10.75 and my annual raise is going from 40 cents down to 26 cents. Apparently experience doesn't get rewarded."<sup>3</sup>

Although there were some initial worries that Gravity would lose midlevel employees over the pay increase, only two workers have left since the new minimum wage was announced. A greater concern for the financial services company is the growing rift and legal battle between Dan Price and his brother Lucas. Lucas Price is a partner in the company, and has sued his brother over excessive CEO compensation and reduced value of the company. According to Lucas, the dispute is unrelated to Gravity's new minimum wage, but, as a shareholder, he may have a legitimate concern that Dan is not meeting his fiduciary duties.<sup>4</sup> For his part, Dan says, "My 40-year goal is to create a world where values-based companies suck up all the oxygen and take over the economy."<sup>5</sup>

---

<sup>1</sup> Paul Keegan, "Here's What Really Happened at That Company That Set a \$70,000 Minimum Wage," Inc. Magazine, November 2015, <http://www.inc.com/magazine/201511/paul-keegan/does-more-pay-mean-more-growth.html>

<sup>2</sup> Patricia Cohen, "One Company's New Minimum Wage: \$70,000 a Year," *The New York Times*, Business Day, April 13, 2015, <http://www.nytimes.com/2015/04/14/business/owner-of-gravity-payments-a-credit-card-processor->

[is-setting-a-new-minimum-wage-70000-a-year.html](#).

<sup>3</sup> Aimee Picchi, “Why Walmart’s pay raise is backfiring,” *CBS Money Watch*, August 7, 2015, <http://www.cbsnews.com/news/why-walmarts-pay-raises-are-backfiring/>.

<sup>4</sup> Todd Bishop & Taylor Soper, “Gravity Payments dispute intensifies as Dan Price, the \$70k CEO, challenges his brother’s suit in court,” *GeekWire*, April 1, 2016, <http://www.geekwire.com/2016/dan-price-summary-judgment/>.

<sup>5</sup> Dan Price, “Purpose – Not Profit – Driven Companies Will Take Over the Economy,” *The Huffington Post*, The Blog, November 2, 2015, [http://www.huffingtonpost.com/dan-price/purpose-not-profit-driven\\_b\\_8454612.html?utm\\_hp\\_ref=the-b-team](http://www.huffingtonpost.com/dan-price/purpose-not-profit-driven_b_8454612.html?utm_hp_ref=the-b-team).

Case from the 2016 Regional Ethics Bowls

© **Association for Practical and Professional Ethics 2016**