

## CASE 3

# Walmart Manages Ethics and Compliance Challenges\*

Walmart Stores, Inc., is an icon of American business. With net sales of nearly \$500 billion and more than 2 million employees, the world's largest retailer and one of its largest public corporations must carefully manage many stakeholder relationships. Its stated mission is to help people save money and live better. Despite past controversies, Walmart has attempted to restore its image with an emphasis on diversity, charitable giving, support for nutrition, and sustainability. The company, along with its Walmart Foundation, has donated \$1.3 billion in cash and in-kind contributions. Walmart often tops the list of U.S. donors to charities. However, more recent issues such as bribery accusations in Mexico have created significant ethics and compliance challenges that Walmart is addressing in its quest to become a socially responsible retailer.

This analysis begins by briefly examining the growth of Walmart. Next, it discusses the company's various relationships with stakeholders, including competitors, suppliers, and employees. The ethical issues concerning these stakeholders include accusations of discrimination, leadership misconduct, bribery, and unsafe working conditions. We discuss how Walmart has dealt with these concerns, as well as some of its recent endeavors in sustainability and social responsibility. The analysis concludes by examining what Walmart is currently doing to increase its competitive advantage and repair its reputation.

### HISTORY: THE GROWTH OF WALMART

The story of Walmart begins in 1962, when founder Sam Walton opened the first Walmart Discount Store in Rogers, Arkansas. Although its growth was initially slow, over the next 40 years the company expanded from a small chain to more than 8,000 facilities in 27 countries. The company now serves more than 200 million customers weekly. Much of Walmart's success can be attributed to its founder. A shrewd businessman, Walton believed in customer satisfaction and hard work. He convinced many of his associates to abide by the "10-foot rule," whereby employees pledged that whenever a customer came within 10 feet of them, they would look the customer in the eye, greet him or her, and ask if he or she needed help with anything. Walton's famous mantra, known as the "sundown rule," was: "Why put off until tomorrow what you can do today?" Due to this staunch work ethic and dedication to customer care, Walmart claimed early on that a formal ethics program was unnecessary because the company had Mr. Walton's ethics to follow.

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In 2002 Walmart officially became the largest grocery chain, topping the Fortune 500 list for that year. *Fortune* magazine named Walmart the "most admired company in America" in 2003 and 2004. Although it has slipped since then, it remains within the top 50. In 2015 *Fortune* ranked Walmart the 38th most admired company in the world.

### Effects on Competitive Stakeholders

Possibly the greatest complaint against Walmart is it puts other companies out of business. With its low prices, Walmart makes it harder for local stores to compete. Walmart is often accused of being responsible for the downward pressure on wages and benefits in towns where the company locates. Some businesses have filed lawsuits against Walmart, claiming the company uses unfair predatory pricing to put competing stores out of business. Walmart countered by defending its pricing, asserting that it is competing fairly and its purpose is to provide quality, low-cost products to the average consumer. Yet although Walmart has saved consumers millions of dollars and is a popular shopping spot for many, there is no denying that many competing stores go out of business once Walmart comes to town.

In order to compete against the retail giant, other stores must reduce wages. Studies show that overall payroll wages, including Walmart wages, decline by 5 percent after Walmart enters a new market. As a result, some activist groups and citizens have refused to allow Walmart to take up residence in their areas. This in turn brings up another social responsibility issue: What methods of protest may stakeholders reasonably use, and how should Walmart respond to such actions? While it is acceptable for stakeholder activists to protest the building of a Walmart store in their area, other actions may be questionable, especially when the government gets involved. When Walmart announced plans to open stores in Washington D.C., for instance, a chairman of the D.C. City Council introduced a law that required non-unionized retail companies with over \$1 billion in total sales and stores that occupy more than 75,000 square feet to pay their employees a minimum of \$12.50 per hour—in contrast to the city's minimum wage of \$8.25 an hour. The terms of the law made it essentially apply only to Walmart and a few other large chains such as Home Depot and Costco. While supporters of the law argued that it is difficult to live on a wage of \$8.25 an hour, critics stated that the proposal gave employees at large retailers an unjustified benefit over those working comparable jobs at small retailers. Perhaps the most scathing criticism was that Walmart and other big-box retailers were being unfairly targeted by a governmental entity. Walmart also responded directly, threatening to cancel its expansion into D.C. if the law passed and emphasizing the economic and development benefits the city would lose out on. The D.C. City Council eventually passed the law, but it was vetoed by the city mayor, and there are now several Walmart stores in D.C. As with most issues, determining the most socially responsible decision that benefits the most stakeholders is a complex issue not easily resolved.

### Relationships with Supplier Stakeholders

Walmart achieves its "everyday low prices" (EDLPs) by streamlining the company. Well known for operational excellence in its ability to handle, move, and track merchandise, Walmart expects its suppliers to continually improve their systems as well. Walmart typically works with suppliers to reduce packaging and shipping costs, which lowers prices for consumers. Since 2009, the company has worked with The Sustainability Consortium, an association of businesses that helps its members achieve sustainability goals, to develop a

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measurement and reporting system known as the Walmart Sustainability Index (discussed in further detail later in this case). Among its many goals, Walmart desires to use the Sustainability Index to increase the sustainability of its products and create a more efficient, sustainable supply chain.

In 2008 Walmart introduced its "Global Responsible Sourcing Initiative," a list providing details of the policies and requirements included in new supplier agreements. In 2012 then-CEO Mike Duke expanded upon these initiatives to set improved goals for increasing the sustainability of the company's supply chain. He highlighted four main sustainability goals: (1) by 2017, purchase 70 percent of merchandise sold in U.S. Walmart stores and Sam's Clubs from global suppliers that use the Sustainability Index to assess and share information about their products; (2) use the Sustainability Index as a model for U.S. private brands; (3) apply new evaluative criteria for key sourcing merchants to encourage sustainability to become a more important consideration in buyers' daily jobs; and (4) donate \$2 million to fund The Sustainability Consortium.<sup>1</sup> If fully achieved, these goals will increase the sustainability of Walmart suppliers significantly. Company leaders stated Walmart was moving into "phase three" of its sustainability plan, which will involve "reshap[ing] entire systems" toward achieving sustainability goals. Further details have not yet been revealed.

Some critics of Walmart's approach note that pressure to achieve its standards will shift more of the cost burden onto suppliers. When a supplier does not meet Walmart's demands, the company may cease to carry that supplier's product or, often, will be able to find another willing supplier of the product at the desired price.

Walmart's power over its suppliers stems from its size and the volume of products it requires. Many companies depend on Walmart for much of their business. This type of relationship allows Walmart to significantly influence terms with its vendors. For example, Walmart generally refuses to sign long-term supply contracts, giving it the power to easily and quickly change suppliers at its discretion. Despite this, suppliers will invest significantly into long-term strategic and business commitments to meet Walmart demands, even without any guarantee that Walmart will continue to buy from them. There are corresponding benefits to being a Walmart supplier; by having to become more efficient and streamlined for Walmart, companies develop competitive advantages and are able to serve their other customers better as well. Numerous companies believe supplying Walmart has been the best thing that has ever happened to their businesses. However, many others find the amount of power Walmart wields to be disconcerting.

The constant drive by Walmart for lower prices can negatively affect suppliers. Many have been forced to move production from the United States to less expensive locations in Asia. In fact, Walmart is considered to have been one of the major driving forces behind the "offshoring" trend of the past several decades. Companies such as Master Lock, Fruit of the Loom, and Levi's, as well as many other Walmart suppliers, moved production overseas at the expense of U.S. jobs. Some experts now estimate as much as 80 percent of Walmart's global suppliers are stationed in China. The challenges and ethical issues associated with managing a vast network of overseas suppliers will be discussed later in this case.

This offshoring trend was not founder Sam Walton's original intention. In the 1980s, after learning his stores were putting other American companies out of business, Walton

<sup>1</sup>Walmart, "Walmart Announces New Commitments to Drive Sustainability Deeper into the Company's Global Supply Chain," October 25, 2012, <http://news.walmart.com/news-archive/2012/10/25/walmart-announces-new-commitments-to-drive-sustainability-deeper-into-the-companys-global-supply-chain> (accessed May 15, 2015).

started his "Buy American" campaign. More recently, Walmart launched a "Made in America" initiative, pledging to increase the amount of U.S.-made goods it buys by \$50 billion over the next 10 years and developing agreements with many suppliers to move their production back to the states. Critics argue Walmart is merely putting a public relations spin on the fact that rising wages in Asian countries and other international economic changes have actually made local production more cost-efficient than outsourcing for many industries. They also point out that \$50 billion is a veritable "drop in the bucket" considering Walmart's size. Still, the symbolic effect of Walmart throwing its considerable influence behind "Made in America" is likely to spur many suppliers to freshly consider or speed up plans to bring production back to the United States.

### Ethical Issues Involving Employee Stakeholders

**EMPLOYEE BENEFITS** Much of the Walmart controversy over the years has focused on the way the company treats its employees, or "associates" as Walmart refers to them. Although Walmart is the largest retail employer in the world, it has been roundly criticized for paying low wages and offering minimal benefits. Walmart has been accused of failing to provide health insurance for more than 60 percent of its employees. In a memo sent to the board of directors by Susan Chambers, Walmart's executive vice president for benefits, she suggested Walmart could slow the rise of benefits costs by hiring "healthier, more productive employees," as well as more part-time workers (who are less likely to be eligible for health care benefits). After this bad publicity, between 2000 and 2005 Walmart's stock decreased 27 percent.

As a result of the deluge of bad press, Walmart took action to improve relations with its employee stakeholders. In 2006 Walmart raised pay tied to performance in about one-third of its stores. The company also improved its health benefits package by offering lower deductibles and implementing a generic prescription plan estimated to save employees \$25 million. Walmart estimates over 75 percent of its employees have insurance (though not always through Walmart). Walmart is quick to point out that the company's health care benefits are competitive in the retail industry.

Despite these improvements, a Walmart policy eliminated health care coverage for new hires working less than 30 hours a week. Walmart also stated that it reserves the right to cut health care coverage of workers whose work week falls below 30 hours. Some analysts claim that Walmart might be attempting to shift the burden of health care coverage onto the federal government, as some employees make so little that they qualify for Medicaid under the new Affordable Care Act. It is important to note that Walmart is not alone in this practice; many firms are moving more of their workforces to part time, and cutting benefits to part-time workers, to avoid having to pay health care costs. However, as such a large employer, Walmart's actions are expected to have more of a ripple effect on the economy.

Another criticism levied against Walmart is that it decreased its workforce at the same time it expanded. In the United States, Walmart decreased its workforce by 1.4 percent while increasing its number of retail stores by 13 percent. Employee dissatisfaction often translates to customer dissatisfaction. With fewer employees it is harder to provide quality customer service. This led some customers to complain of longer lines and fewer items on shelves. In the 2014 American Customer Satisfaction Index, Walmart tied for lowest among discount stores and department stores. Walmart claims the dissatisfaction expressed by some customers is not reflective of the shopping experience of customers as a whole.

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Walmart announced it was raising its employee minimum wage rate across the United States to \$9 an hour in 2015 and \$10 an hour in 2016. The company says this is part of a new employee-oriented initiative that will also include better training and shift scheduling. The wage hike will apply to at least 500,000 employees and is expected to have a noticeable effect on both the industry and the economy as a whole. Whether it is enough to improve Walmart's reputation as an employer and regain the company some goodwill with dissatisfied employees and advocacy groups remains to be seen—some analysts believe the wage increase may be simply a profit-maximizing response to the realities of a changing labor market (necessary to continue hiring and retaining good employees) rather than an employee-oriented or socially responsible decision. Walmart's competitors are also watching closely; considering Walmart's dominance and influence in the sector, other retailers may have to follow suit to remain competitive. Home Depot, T.J. Maxx, Marshalls, and several other companies also announced raises to their lowest-paid workers.

**WALMART'S STANCE ON UNIONS** Some critics believe Walmart workers' benefits could improve if they unionized. Unions have been discouraged since Walmart's foundation; Sam Walton believed they were a divisive force and might render the company uncompetitive. Walmart maintains that it is not against unions in general, but it sees no need for unions to come between workers and managers. The company says it supports an "open-door policy" in which associates can bring problems to managers without resorting to third parties. Walmart associates have at times voted against unions in the past.

Although the company's official position is that it is not opposed to unions, Walmart often seems to fight against them. Critics claim that when the word "union" surfaces at a Walmart location, the top dogs in Bentonville are called in. In 2000 seven of ten Walmart butchers in Jacksonville, Texas, voted to join the United Food Workers Union. Walmart responded by announcing it would only sell precut meat in its supercenters, getting rid of its meat-cutting departments entirely. In 2004 employees at a Canada Walmart location voted to unionize; six months later, Walmart closed the store. In 2014 two internal Walmart PowerPoint presentations were leaked that provided reasons for why unions would negatively impact associates and directing managers to call the "Labor Relations Hotline" if they spot "warning signs" of union activity. Although Walmart offers justifications for actions such as this, many see the company as aggressively working to prevent unionization in its stores, and the U.S. National Labor Relations Board (NLRB) has cited Walmart on multiple occasions for violating labor laws.

However, Walmart's stance against unions has not always held up to the practical realities of doing business in some foreign countries. In China, for example, Walmart found it necessary to accept a union in order to grow. Only one union is legally permitted to operate in China: The All-China Federation of Trade Unions (ACFTU), which is run by the ruling Communist Party. The Chinese government promotes the ACFTU (although the union has been criticized as pro-business and not necessarily looking out for the best interests of workers) and especially seeks to have foreign companies unionized. When poor working conditions and low wages generated social unrest, the government attempted to craft a new set of labor laws providing employees greater protection and giving the ACFTU more power. In 2004 the Chinese Labor Federation pushed Walmart to allow employees to unionize. Walmart initially resisted, and although it eventually complied, critics claimed the company then began making unionization progressively more difficult in practice for its Chinese workers. Despite this, within a span of just two weeks in 2006, the ACFTU was able to establish union branches at five separate China Walmart locations.

Walmart reacted by stating it would not renew the contracts of unionized workers. However, the pressure mounted, and later that year Walmart signed a memorandum with the ACFTU allowing unions in stores. Some analysts believe Walmart fought so hard against unionization in China, despite the clear unlikelihood of prevailing against the Chinese government itself, because it feared workers in other countries would use the precedent to redouble their own unionization demands. Since then, Walmart has permitted or negotiated with unions in several other countries as well, including Brazil, Chile, Mexico, Argentina, the United Kingdom, and South Africa.

**WORKPLACE CONDITIONS AND DISCRIMINATION** Despite accusations of low employee benefits and a strong stance against unions, Walmart remains the largest nongovernment employer in the United States, Mexico, and Canada. It provides jobs to millions of people and has been a mainstay of *Fortune's* "Most Admired Companies" list since the start of the twenty-first century. However, in December 2005, Walmart was ordered to pay \$172 million to more than 100,000 California employees in a class-action lawsuit claiming that Walmart routinely denied meal breaks. The California employees also alleged they were denied rest breaks and Walmart managers deliberately altered time cards to prevent overtime. Similar accusations began to pop up in other states as well. Walmart denied the allegations and filed an appeal in 2007. In 2008 Walmart agreed to pay up to \$640 million to settle 63 such lawsuits. This is only one example of the many lawsuits filed against Walmart; in 2005, it was estimated that the company was sued at least 5,000 times per year.

Walmart has also been accused by its employees of discrimination. Although women account for more than two-thirds of all Walmart employees, they make up less than 10 percent of store management. Walmart insists it trains and promotes women fairly, but in 2001 an internal study showed the company paid female store managers less than males in the same positions. In 2004 a federal judge in San Francisco granted class-action status to a sex-discrimination lawsuit against Walmart involving 1.6 million current and former female Walmart employees—the largest gender discrimination class action lawsuit in U.S. history. The plaintiffs claimed Walmart discriminated against them in regard to promotions, pay, training, and job assignments. Walmart fought the class-action suit, claiming there was no such pattern of discrimination and promotions and other employment decisions were made on an individual basis by the managers of each store. Thus, the company as a whole could not be held liable for any discrimination that might exist. Walmart took the case all the way to the Supreme Court. The Court declined to rule on the merits of the case itself but instead determined that the women in the lawsuit did not have enough in common to qualify for class-action status and would have to re-file as smaller qualifying class-action groups or individually. Although many of the original plaintiffs are now attempting to do so, they have found limited success; even narrower class-action attempts, such as a suit on behalf of 150,000 female employees in the company's "California region," have been dismissed as still too broad to qualify, and many civil rights lawyers will not take on individual employment discrimination cases because the likely payout will be too small even to cover the legal fees. Even if some of the women do end up successful in their claims, the impact on the company will be far less than if the nationwide class-action lawsuit had been allowed to proceed.

In 2010 dissatisfied Walmart employees started the Organization United for Respect at Walmart, or OUR Walmart. Although not a labor union, OUR Walmart receives much of its funding from the United Food and Commercial Workers International Union (UFCW), which has been trying to unionize U.S. Walmart employees for years. Eventually realizing it needed a different approach, UFCW backed the idea of a non-union advocacy group and

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hired a market research company to develop OUR Walmart's brand message and activism strategy. OUR Walmart claims support from at least 5,000 members, all current or former associates, who desire to change working conditions at the company. Their demands include lowering the number of hours needed for part-time workers to qualify for benefits, removing caps on the wages of some long-term workers, and ending the practice of using work-scheduling systems to decrease hours for employees so they will not qualify for benefits. In 2011 100 OUR Walmart members traveled to Walmart's headquarters and presented a 12-point declaration of their demands to the company's senior vice president for global labor relations. Since then, OUR Walmart has arranged a variety of protests and pickets. They have especially targeted the busy holiday season, organizing demonstrations and walkouts at many Walmart stores on every Black Friday since 2012.

Walmart's position is that OUR Walmart is a small, fringe movement that does not represent the views of the average associate, most of which are satisfied with their jobs. The company has repeatedly complained to the National Labor Relations Board, claiming, among other things, that OUR Walmart used illegal methods and that it is actually a union in disguise. Walmart has also accused the UFCW of anti-labor practices and filed at least one lawsuit against the UFCW and others who protested around its stores for illegal trespassing and disrupting customers. Walmart may have made a tactical error by choosing to acknowledge OUR Walmart as a threat. The number of OUR Walmart members is very small compared to the number of U.S. Walmart employees as a whole, and not as many Walmart employees have participated in protests as anticipated. Although Walmart claims this demonstrates that the movement is not as popular as it tries to appear, the company may have unintentionally granted it legitimacy and a large amount of free publicity by responding so directly and forcefully. OUR Walmart has claimed credit for Walmart's recent minimum wage hike to \$10 starting in 2016, labeling it a "victory" and calling for further support to reach their eventual goal of a \$15 minimum wage for all U.S. Walmart associates.

### Ethical Leadership Issues

Aside from Sam Walton, other distinguished people have been associated with Walmart. One of them is Hillary Clinton, who served on Walmart's board for six years before her husband assumed the presidency. However, the company has not been immune from scandal at the top. In March 2005 board vice chair Thomas Coughlin was forced to resign because he stole as much as \$500,000 from Walmart in the form of bogus expenses, reimbursements, and the unauthorized use of gift cards. Coughlin, a protégé and hunting buddy of Sam Walton, was a legend at Walmart. He often spent time on the road with Walton expanding the Sam's Club aspect of the business. At one time, he was the second highest-ranking Walmart executive and a candidate for CEO.

In January 2006, Coughlin agreed to plead guilty to federal wire fraud and tax evasion charges. Although he took home millions of dollars in authorized compensation, Coughlin secretly used Walmart funds to pay for a range of personal expenses including hunting vacations, a \$2,590 dog enclosure at his home, and a pair of handmade alligator boots. Coughlin's deceit was discovered when he asked a subordinate to approve \$2,000 in expense payments without receipts. Walmart rescinded Coughlin's retirement agreement, worth more than \$10 million. For his crimes, he was sentenced to 27 months of home confinement, \$440,000 in fines, and 1,500 hours of community service.

Despite this setback, confidence in Walmart's governance generally rose under the leadership of Lee Scott, who was CEO from 2000 to 2009. However, it suffered another

serious blow in 2012 when a bribery scandal in Walmart's Mexico branch was uncovered that directly implicated much of the company's top management (the scandal is explored in detail later in this case). That same year, a significant percentage of Walmart's non-family shareholders voted against the reelection of then-CEO Mike Duke to the board. They also voted against the reelection of other board members, including former CEO Lee Scott and board chairman Robson Walton—Sam Walton's eldest son. While these board members still received enough support to be reelected, the votes signaled serious investor disappointment and lack of confidence in the leadership for not preventing the misconduct. Since the scandal, Walmart has invested heavily in demonstrating a renewed commitment toward ensuring the company adheres to ethics and compliance standards.

### Bribery Scandal

The biggest blow to Walmart's reputation in recent years has been the uncovering of a large-scale bribery scandal within its Mexican arm, Walmex. Walmex executives allegedly paid millions in bribes to obtain licensing and zoning permits for store locations. The Mexican approval process for zoning licenses often takes longer than in the United States; therefore, paying bribes to speed up the process is advantageous for Walmart but places competing retailers who do not offer bribes at a disadvantage. Walmex apparently even used bribes to have zoning maps changed or certain areas re-zoned in order to build stores in more ideal locations, as well as to overcome environmental or other concerns. The Walmex executives covered their tracks with fraudulent reporting methods.

In recent years, bribery has become a hot button issue for the U.S. government, which has levied its largest fines and penalties ever against firms found guilty of bribery. It is not unusual for large firms with operations in many countries to face bribery allegations at some point considering the size of their operations and the diversity of cultures they do business with. However, Walmart's bribery scandal in Mexico was exacerbated by two major considerations. First, the evidence indicated that the top executives at Walmart, not just Walmex, knew about the bribery and turned a blind eye to it. Second, it gave weight to concerns that bribery by Walmart in foreign countries was widespread and accepted in the company's culture.

Walmart first reported to the U.S. Justice Department that it was launching an internal investigation of suspected bribery at its Mexico stores in December 2011. However, that report to the U.S. Justice Department was not submitted until after Walmart learned *The New York Times* was conducting an independent investigation. *The New York Times*'s final report revealed that top leaders at Walmart had been alerted to the possibility of bribery as early as 2005. That year, Walmart received an email warning of the bribery from a former Walmex executive who claimed he had been involved. The email included cold, hard facts, such as names, dates, bribery amounts, and other information. Walmart sent investigators to Mexico City, who corroborated much of the informant's allegations and discovered evidence that approximately \$24 million in bribes had been paid to public officials to get necessary building permits. Walmex's top executives, including the subsidiary's CEO and general counsel, were implicated in the scheme. However, when the investigators reported their preliminary findings to Walmart's top executives, including then-CEO Lee Scott, the executives were reluctant to report the bribery because they knew it would be a serious blow to the firm's reputation, which was already suffering due to other issues. The prospect of revealing the scandal was especially bitter because Walmart had been drawing media and investor attention for its explosive growth in Mexico as a shining success story.

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Admitting that this growth had been significantly fueled by bribery would look very bad for the company.

Instead, the investigation was turned over to the Walmex general counsel, even though the preliminary report found he had approved of and been involved in the scheme. This move was against the advice of one of Walmart's top lawyers, who recommended an independent third-party investigator and later resigned in protest. The Walmex general counsel's final report found no evidence of bribery or wrongdoing by Walmex executives. The investigation was closed without anyone being disciplined, and no one external to the company was notified until after the *New York Times* began its investigation.

If the top leaders at Walmart did indeed know of the bribery and covered it up, it is a serious ethical and legal violation. The executives that may have had knowledge of the scandal include then-CEO Lee Scott and the CEO after him, Mike Duke, who at the time was in charge of Walmart International. Under the U.S. Foreign Corrupt Practices Act (FCPA), it is illegal to bribe foreign officials, and all those with knowledge of such a crime are potentially implicated. Walmart could face billions in fines, and its executives could lose their jobs or face prison time if it is found they helped cover up knowledge of the bribery. Indeed, many of those that occupied high-level positions when the scandal was unearthed have quietly retired or stepped down since it became public.

The scandal's impact on Walmart was significant. Shortly after the *New York Times*'s investigation was published, the stock lost \$1 billion in value, and shareholders began filing lawsuits against the company and its executives. Additionally, Walmart has had to pay for its own internal probe, not to mention hire a number of lawyers to represent itself and its top management as well as advisors and consultants to help restructure its internal ethics and compliance systems—all of which have already cost it over \$612 million. Costs are expected to continue rising as Walmart's internal probe continues. To date investigations by the SEC and the Justice Department are also still ongoing and may end in official charges.

Walmart's internal probe revealed the likelihood of bribery going on in other countries as well. The company therefore expanded the investigation to include its operations in China, India, and Brazil. For example, at its Indian branch, Walmart suspended some key executives believed to have engaged in bribery. This investigation halted Walmart's expansion in the country. Indian authorities began investigating Walmart and its joint venture partner at the time, Bharti Enterprises, to determine if they attempted to circumvent Indian laws on foreign investment. Foreign retailers like Walmart are allowed to partner with local businesses and open stores in the country so long as they do not own a majority stake in the venture (less than 51 percent ownership). It is alleged that Walmart offered Bharti an interest-free, \$100 million loan that would later enable it to gain a majority stake in the company. Both companies deny they tried to violate foreign investment rules and have since broken off their partnership. Such accusations not only have serious consequences for Walmart but also for other foreign retailers in India. Many Indian political officials are against allowing foreign retailers to open stores in the country at all. This alleged misconduct has added fuel for their opposition. Hence, the operation of other foreign retailers may be threatened. This situation demonstrates how the misconduct of one or two companies can impact entire industries.

In the wake of the Mexico scandal, many Walmart shareholders demanded, among other things, disciplinary action and compensation cuts against those involved. Shareholders are also demanding that the leaders of Walmart continue to improve transparency and compliance standards. As part of its compliance overhaul, Walmart announced it would begin tying some executive compensation to compliance efforts.

## Safety Issues

Using overseas suppliers has also caused trouble for Walmart. Many of its suppliers, both inside the United States and in other countries, employ subcontractors to manufacture certain products. This makes the supply chain complex, and retailers like Walmart are forced to exert more oversight to ensure its suppliers meet compliance standards. Citing safety concerns or telling a supplier not to work with a certain subcontractor is not enough without enforcement. Walmart learned this the hard way after a Bangladeshi factory fire killed 112 workers.

The factory, Tazreen Fashions Ltd., had several assembly lines devoted to Walmart apparel because at least one of Walmart's suppliers used the factory to subcontract work for Walmart. However, Walmart claims the supplier was unauthorized to do so as Walmart had removed Tazreen Fashions from its list of approved factories months before the incident. Walmart subsequently terminated its relationship with that supplier. Previous inspections at Tazreen showed many fire dangers, including blocked stairwells and a lack of firefighting equipment. The fire burned down the building and killed 112 employees, some of whom jumped to their deaths.

Many were outraged that Walmart did not do a better job of ensuring the safety of factory workers that produce merchandise for it. While Walmart does have auditing and approval mechanisms for subcontracted facilities, third parties usually perform the audits. Suppliers often pay for the inspection processes as well. This limits the amount of information that actually gets to the parent company. Critics have also accused Walmart of advocating against equipping factories with better fire protection due to the costs involved. Walmart claims it takes fire dangers and worker safety seriously.

Walmart has also faced criticism on its home front. Workers at warehouses in the United States that do business with Walmart have complained about harsh working conditions and violations of labor laws. Safety violations are also a common complaint. For example, in 2012 a group of delivery packing workers at a warehouse in Mira Loma, California, went on strike and walked for six days to Los Angeles to draw attention to allegedly miserable and unsafe working conditions and to deliver a petition to the Los Angeles Walmart office. The situation is complex because such warehouse workers are hired and employed by staffing agencies or third-party contractors, making it harder for Walmart to assess working conditions. Walmart has argued that these third-party contractors are responsible for working conditions. Yet as the firm hiring the contractors, Walmart has the responsibility and generally the power to ensure their contractors and subcontractors obey proper labor laws.

The Bangladeshi fire and ongoing worker complaints have increased the pressure on Walmart to improve its oversight and auditing mechanisms. Previously, Walmart employed a three-strike policy for suppliers and subcontractors who violated its ethical standards. However, after the Bangladeshi fire Walmart changed its policy to adopt a zero-tolerance approach. Whereas before, suppliers that violated sourcing policies had three chances to rectify problems, now Walmart exerts the right to terminate relationships with suppliers immediately after discovering a violation. Walmart also requires all suppliers to have an independent agency assess the electrical and building safety conditions of their factories. To address domestic complaints, Walmart applies the same monitoring system to U.S. suppliers. Walmart furthermore stated it has begun making unannounced visits to U.S. third-party operated warehouses by independent auditors to check whether they adhere to the firm's ethical standards. Walmart hopes these stricter measures improve compliance by its suppliers as well as reiterate the company's commitment to ethical sourcing practices.

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Yet these measures have failed to appease some critics, who believe that Walmart cannot truly be held accountable until the results of its factory audits are made public.

The controversy of worker safety in Bangladesh intensified after yet another factory collapsed in 2013, killing 1,127 workers. The tragedy caused Walmart and other retailers to consider new safety plans. A group of European retailers, worker safety groups, and labor unions came together to develop and sign a five-year legally binding workplace safety agreement that improved worker safety in Bangladesh by requiring retailers to pay suppliers more so factories could afford to make safety improvements, as well as through the development of a standardized worker complaint and risk reporting process. Walmart declined to sign the agreement, however, and instead devised its own safety plan. Its plan primarily involved hiring an independent auditor to inspect all of the more than 200 Bangladeshi factories that produced goods for Walmart and publishing the results publicly, including which factories failed the audit and were no longer allowed to produce for Walmart, as well as requiring factories that did not fail but still had some unsafe conditions to improve safety standards. Critics argue that Walmart's independent plan is insufficient and much less ambitious than the workplace safety agreement it declined to join.

## RESPONDING TO STAKEHOLDER CONCERNS

Walmart has suffered significantly from these recent scandals. Studies reveal that between 2011 and 2012, consumer interest, customer loyalty, and other factors important to a brand's value diminished 50 percent for Walmart's brand among college-educated adults. The brand's recent decline in value is also due to stagnant company growth, caused by a variety of problems such as increased competition from online retailers like Amazon.com and the simple fact that Walmart has saturated many markets at this point. Walmart's brand has continued to lose value, although it remains by far the most valuable retail brand in the world.

As has been discussed, being a large multinational corporation brings many global risks, including bribery and supplier issues. In response to the allegations of bribery, Walmart quietly replaced many top-level executives in both Mexico and the United States and is conducting an investigation into the allegations. In addition, former CEO Mike Duke assured the public that the company is reevaluating its global compliance program with assistance from top auditing and law firms.

At a pep rally held in May of 2012, Mike Duke emphasized integrity in operations and employee behavior at all levels and rewarded 11 employees for "leading with integrity." In highlighting the actions of these select employees, he reiterated the firm's ethics hotline and open-door policy. He assured employees and other stakeholders that the company is cooperating with the U.S. Department of Justice in order to get to the bottom of the bribery allegations. Mike Duke acknowledged that there were ethical issues in some Walmart stores and stated that he planned to slow expansion so the company could focus on improving these issues.

As a form of damage control, Walmart ran an advertising campaign to frame the company as an "American success story." Additionally, after market research revealed Walmart's brand image had lost traction among college-educated adults, Walmart developed a multi-million dollar advertising campaign called "The Real Walmart." The advertisements featured customers, truck drivers, and employees sharing their happy experiences with the company.

Walmart particularly wanted to target opinion leaders who could then convince others of the company's value and positive brand image. The ads were first released during the Kentucky Derby and were also featured on Sunday news shows. This advertising campaign was similar to those released by other companies attempting to restore their image, such as Toyota during its recall crisis and BP after the *Deepwater Horizon* disaster.

### Sustainability Leadership

Among Walmart's long-term sustainability goals are its intentions to be supplied entirely by renewable energy, create no waste, and sell products that sustain people and the environment. In order to achieve these ambitious goals, Walmart has built relationships with influential people in supplier companies, government, NGOs, and academia. Together they have organized Walmart's environmental goals into 14 Sustainable Value Networks (SVN), from "Global Greenhouse Gas Strategy" to "Packaging" to "Forest & Paper," which allow them to efficiently integrate, implement, and evaluate their sustainability efforts. This approach has served them well. By 2012 Walmart had 115 onsite rooftop solar installations in seven countries providing 71 million annual kilowatt hours of electricity. They had completed 26 fuel cell installations in the United States, providing 65 million kilowatt hours of annual electricity, and were also testing micro-wind and solar water heating projects in various locations. Walmart's company value of everyday low costs translates to its renewable energy endeavors through the signing of long-term contracts with renewable energy providers. These contracts finance utility-scale projects in renewable resources, allowing these options to be offered at lower cost not only to Walmart but also to other clients of these providers.

Walmart has well over 335 renewable energy projects in operation or under development, including micro-wind installations in parking lots and biodiesel generator sets. Their solar installations provided 105 megawatts of solar capacity, the most of any company in the world by far and greater than the total solar capacity of any of at least 35 U.S. states. Due to these endeavors, Walmart can boast that fully 25 percent of its global energy consumption now comes from renewable sources, and it has pledged to double its solar installation numbers by 2020. In addition, nearly 350 Mexico stores have reduced emissions by 137,000 tons annually through wind power, and all 14 of its stores in Northern Ireland are powered by wind energy. The Environmental Protection Agency's Green Power Partnership Program ranks Walmart as the third largest purchaser of green power among its U.S. retail competitors and ninth largest purchaser in the Fortune 500. It is the largest onsite green power generator in the United States.

To reduce energy consumption, Walmart facilities conserve energy in two major ways. For instance, Walmart efficiently manages heating and cooling energy consumption by centrally controlling the temperature of Walmart stores worldwide from its Bentonville headquarters. The company is also opening new stores and retrofitting existing ones with high-efficiency LED and low-mercury fluorescent lighting and is in the process of replacing open freezers with secondary loop refrigeration systems. These improvements will help the company meet its goal of reducing greenhouse gas emissions by 20 million metric tons globally by the end of 2015. Walmart is furthermore attempting to reduce fossil fuel use and sell more "green" products. The company has doubled its fuel efficiency for its 6,000 trucks that cross the United States. Since 2007, Walmart has been able to deliver more products while reducing mileage by 300 million. This improved shipping has decreased carbon emissions by at least 41,000 tons.

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The retailer has also begun selling more products made from sustainable or recycled materials and has taken efforts to reduce packaging. For example, the firm is selling preschool toys made from wood that is Forest Stewardship Council-certified. Walmart also started a program to sell more local produce (defined as produce grown and sold in the same state). According to the company, 11 percent of its U.S. produce is now sourced locally. Walmart is also investing in medium- and smaller-sized farms, particularly in emerging economies.

In line with its zero waste goals, Walmart Mexico (Walmex) has been successful in converting 1.2 million pounds of used cooking oil into biodiesel, soap, and supplements for cattle feed as well as composting over 1,900 metric tons of organic waste. Walmart has also been testing recycling methods, which it aims to incorporate into all of its stores. Walmart's recycling efforts have allowed the company to reduce its global plastic bag waste by over 38 percent since 2007. The company has been able to keep 80 percent of its U.S. operational waste out of landfills.

One of the most unique and well-regarded of Walmart's sustainability efforts is its Sustainability Index, which it developed with the help of a nonprofit coalition known as The Sustainability Consortium. The Sustainability Index is essentially an attempt to rate and categorize all of Walmart's products and suppliers on a variety of sustainability-related issues. Between 2009 and 2012, Walmart worked with researchers to develop the basic categories and determine what information would be required for the Index to work. Then, starting in 2012, it began sending out requests for this information to its suppliers. For example, suppliers of products that contain wheat, such as cakes, cookies, and bread, were asked to provide detailed information about the sourcing of that wheat, from fertilizer use tracking to soil fertility monitoring to biodiversity management. Computer and jewelry suppliers were asked about the mining practices used to extract their materials; toy makers about the chemicals used in their manufacturing processes; and so on. Walmart uses this information to rank its suppliers from best to worst on the Sustainability Index, and then gives that information to those in charge of making Walmart purchasing decisions to use in determining which suppliers to buy from. Presumably, the end result is that more sustainable products end up on Walmart shelves, and suppliers are incentivized to improve their practices to better compete with others on the Index.

The initiative is exciting because Walmart's industry power is so great that a successful implementation could truly drive change throughout entire supplier industries and chains. As actual implementation of the Index is still in progress, details on its workings and effectiveness are still scarce, but industry onlookers and sustainability advocates are watching closely to see what effect it will have on Walmart and its supplier network.

Although Walmart's environmental overhaul is a step in the right direction, some are skeptical as to whether it can accomplish its goals. Many claim that Walmart's apparent sustainability gains are overstated, lacking in critical information, or downright misleading; in other words, "greenwashing" advertising rather than actual change. Some suppliers are worried about the Sustainability Index, including the amount of increased time and expense it will take to provide the required information and the business implications of products that receive higher "sustainability" rankings being given preferential treatment. Also, the concept of "being green" is subjective, since not everyone agrees on how it is defined or whether one environmentally friendly practice is necessarily more beneficial than another. Despite these obstacles, Walmart seems to have achieved some substantial successes in this area through its dedication to its goals and the strength of its partnerships.

## WHAT IS WALMART DOING TO IMPROVE ETHICS AND SOCIAL RESPONSIBILITY?

Walmart is working to improve its ethical reputation along with its reputation for social responsibility and corporate governance. In 2004 Walmart formed its Global Ethics Office and released a revised Global Statement of Ethics. The intent of the Global Ethics Office is to spread an ethical corporate culture among its global stakeholders. The Global Ethics Office provides guidance on ethical decision making based on the Global Statement of Ethics and an ethics helpline. The helpline is an anonymous and confidential way for associates to contact the company regarding ethical issues. Additionally, Walmart has an Ethical Standards Team to monitor the compliance of supplier factories with the company's "Standards for Suppliers" and local laws. Walmart claims that in a period of several months the firm interviewed 1,000 market personnel in various countries, dedicated \$35 million to new processes and procedures, and developed ethical training sessions for more than 19,000 associates.

In response to the bribery scandal, Walmart has completely overhauled its global compliance program. In 2014 it released its first Global Compliance Program Report detailing the changes it has made. The report categorized the changes into three broad areas: people, policies and processes, and systems. The changes include a completely new corporate division that combines ethics, compliance, investigations, and legal matters into a unified organization all reporting to an Executive Vice President of Global Governance. The company has also hired "Subject Matter Leaders" and "Subject Matter Experts" to provide expertise and advice in 14 areas of concern, such as anti-corruption and responsible sourcing. Other highlights are a multi-year compliance training plan, improvements to reporting and collaboration communications channels, establishment of multiple compliance and ethics committees, and a commitment to being completely bribery-free, regardless of the culture Walmart is operating in. Analysts have stated that, at least on paper, Walmart's initiatives are extremely thorough and innovative and deserve close watch to see how they work in practice. Walmart will continue to release Global Compliance Program Reports annually to further detail its accomplishments and the compliance and governance steps it continues to take.

Walmart has contributed significantly to disaster management projects and economic empowerment for women. The company donated over \$1.5 million in aid for the victims of Hurricane Sandy, including money, food, and goods. In 2001 Walmart established The Associates in Critical Need Trust, which provides grants to associates who have experienced unexpected emergencies such as natural disasters or death of a spouse; the trust has given over \$100 million in grants so far. In terms of increasing opportunities for women, Walmart made a commitment in partnering with 150 factories and 60,000 women to teach women valuable skills to help them escape poverty. It has also collaborated with the Women's Business Enterprise National Council to add a unique "Women Owned" logo to products from women-owned businesses so customers can easily identify and support them if desired.

The company has recently embarked on a health initiative to address the growing problem of obesity in America. Walmart U.S. President Bill Simon met with First Lady Michelle Obama to discuss the issue. Walmart announced it would lower the prices of its fruits and vegetables and reduce the amounts of fats, sugars, and salts in the foods it sells. Specifically, the company formulated goals that included cutting sodium by 25 percent and sugars by 10 percent in food under its Great Value brand over a five-year period.

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By putting its weight behind solving the obesity epidemic, the world's largest retailer might be able to create significant change toward healthier eating habits.

## Walmart Today

Walmart remains the preferred shopping destination for many consumers, particularly after the financial meltdown of 2008–2009. Although Walmart prospered during the recession while other retailers suffered, the company's sales in many of its established markets have begun to stagnate or even decline. Walmart itself acknowledged that it strayed from Sam Walton's original vision of everyday low prices in order to court higher-income customers. Several initiatives, such as Walmart's adoption of organic food and trendy clothes, did not achieve much success with discount shoppers. Walmart also underwent a renovation effort that cut certain products, such as fishing tackle, from its stores. These actions alienated Walmart's original customer base. Households earning less than \$70,000 annually defected to discounters like Dollar Tree and Family Dollar. Analysts believe Walmart's mistake was trying to be everything to everyone, along with copying its more "chic" rivals like Target. Because of these blunders, in addition to external pressures such as market saturation and strong competition from other retail giants, Walmart's sales in many markets are experiencing a slump. As a result, Walmart is returning to Sam Walton's original vision and its "everyday low prices" mantra. The company launched a campaign, "It's Back," to signal the return of the merchandise it removed, and Walmart executives are encouraging store managers to compare prices with competitors to ensure Walmart offers the lowest prices. Walmart is also investing significantly into e-commerce as an untapped area of growth in the hopes of competing more directly with Amazon and other e-commerce retailers that have drawn away some of its customer base.

Although Walmart's stagnating domestic sales were counterbalanced for a period by continuing steady growth in international markets, even its growth in many foreign markets has slowed. The company continues to look for new opportunities to expand internationally to make up for lower growth in its established markets. This strategy requires Walmart to continually adapt to different social, cultural, regulatory, economic, and political factors. Walmart is known for its ability to adapt quickly to different environments, but even this large-scale retailer has experienced trouble. For instance, it was forced to withdraw completely from Germany and South Korea after failing to interest the local populations, and still has just a small number of wholesale-only stores in India, one of the world's largest markets, after failing to find a way to navigate the country's complex regulatory environment for foreign retailers to sell directly to the public. Walmart's Brazil branch has also failed to achieve profitability after over two decades in the country, which some attribute to the retailer's everyday low pricing strategy simply being incompatible with the Brazilian shopper culture of always checking multiple retailers for sales. The more Walmart expands internationally, the more the company must decide what concessions it is willing to make to enter certain markets.

Despite the difficulties of operating globally, Walmart has achieved a number of successes. After years of struggling in the Japanese market, for example, Walmart began turning a profit in 2008 through its acquisition of Japanese retailer Seiyu Ltd. It has also recently turned its attention again to India, expressing a new commitment to expanding its operations in the market, and is continually focused on further developing its presence in China, with plans to open 115 new stores in the country by 2017. Though the company will likely experience several bumps in the road, many of its international markets appear to offer strong growth potential.

## The Future of Walmart

Walmart can be viewed through two very different lenses. Some think the company represents all that is wrong with America, while others love it. In response to criticism, and in an attempt to initiate goodwill with consumers, the company has continued to improve stakeholder relationships and make efforts to demonstrate it is an ethically responsible company. Although it has faced controversy regarding competition, suppliers, employees, and global corruption, among other things, it has also demonstrated concern for sustainability initiatives and social responsibility. Its goals of decreasing its waste and carbon emissions and its new Sustainability Index extend to all facets of its operations, including suppliers. These efforts demonstrate Walmart's desire (whether through genuine concern for the environment or for its own bottom-line profits) to become a more sustainable company.

Similarly, Walmart's creation of a sophisticated global ethics and compliance program shows it has come a long way since its beginning, when formal ethics programs were deemed unnecessary. However, without strong monitoring systems and a commitment from top management to enforce the company's ethics policies such efforts will prove fruitless. Overseas bribery scandals and employee discontent have tarnished Walmart's reputation. As a result, the company is working to improve internal control mechanisms and supplier auditing. Both critics and supporters of Walmart alike are waiting to see whether Walmart's efforts will position the company as a large retailer truly dedicated to social responsibility.

## QUESTIONS FOR DISCUSSION

1. Assess how Walmart is managing ethics and social responsibility as one of the largest corporations in the world.
2. Evaluate various ethical issues Walmart has faced and how the company responded to stakeholders.
3. What are Walmart's contributions to improving the well-being of consumers and the economic sustainability of society?

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