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CASE 3

Walmart Manages Ethics and Compliance Challenges*

Walmart Stores, Inc., is an icon of American business. From small-town business to multinational corporation, from a hugely controversial company to a leader in renewable energy, Walmart has long been a lightning rod for news and criticism. With 2012 net sales of more than \$443 billion and more than 2 million employees, the world's second largest public corporation must carefully manage many stakeholder relationships. It is a challenge that has sparked significant debate.

While Walmart's mission is to help people save money and live better, the company has received plenty of criticism regarding its treatment of employees, suppliers, and economic impacts on communities. Walmart has the potential to save families hundreds of dollars a year, according to some studies. At the same time, however, research shows that communities can be negatively affected by Walmart's arrival in their areas. Moreover, feminists, activists, and labor union leaders have all voiced their belief that Walmart has engaged in misconduct. Walmart has attempted to turn over a new leaf with emphases on diversity, charitable giving, support for nutrition, and sustainability, all of which have contributed to a revitalized image for Walmart. In fiscal year 2012, the company, along with its Walmart Foundation, donated more than \$1 billion in cash and in-kind contributions. However, more recent scandals such as bribery accusations in Mexico have created significant ethics and compliance challenges that Walmart must address 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 safety. We discuss how Walmart deals with these concerns, as well as 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 it got off to a slow start, over the next 40 years the company grew from a small chain to more than 8,000 facilities in 27 countries.

*This case was prepared by O.C. Ferrell, Jennifer Sawayda, and Michelle Urban. Jennifer Jackson made significant contributions to previous editions of this case. It was prepared for classroom discussion rather than to illustrate either effective or ineffective handling of an administrative, ethical, or legal decision by management. All sources used for this case were obtained through publicly available material and the Walmart website.

The company now serves more than 200 million customers weekly. Much of the success Walmart experienced 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 they got within 10 feet of a customer, 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. Sam's ethics to follow.

In 2002 Walmart officially became the largest grocery chain, topping the *Fortune* 500. *Fortune* named Walmart the "most admired company in America" in 2003 and 2004. Although it has slipped since then, it remains high on the list. In 2012 *Fortune* ranked Walmart as the 24th 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 predatory pricing to put competing stores out of business. Walmart countered by defending its pricing, asserting that 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, are reduced 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. 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 attempted to pass a law that would require stores occupying more than 75,000 square feet to pay their employees a minimum of \$11.75 per hour—despite the city's minimum wage of \$8.25 an hour. While supporters of the law state that it is difficult to live on a wage of \$8.25 an hour, critics state that this gives employees at large retailers more of an advantage than those working at small retailers. Perhaps the most scathing criticism is that Walmart and other big-box retailers are being unfairly targeted by government bodies. 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 costs of packaging and shipping, which lessens costs for consumers. Since 2009 the company has worked with The Sustainability Consortium to

develop a measurement and reporting system known as the Sustainability Index. 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 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) 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 by 2017; (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.¹ If fully achieved, these goals will increase the sustainability of Walmart suppliers significantly. Some critics, however, believe pressures to achieve these standards will shift more of a cost burden onto suppliers. When suppliers do not meet its demands, Walmart may cease to carry the supplier's product or, often, will find another supplier for the product at the desired price.

Walmart's power centers around 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 influence terms with its vendors, and indeed, there are benefits to being a Walmart supplier; as suppliers become more efficient and streamlined for Walmart, they help other customers as well. Numerous companies believe supplying Walmart has been the best thing for their businesses.

However, many others found 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. 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.

This was not founder Sam Walton's original intention. In the 1980s, after learning his stores were putting other American companies out of business, Walton started his "Buy American" campaign. However, the quest to maintain low prices has pushed many Walmart suppliers overseas, and 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.

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 low wages and 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 encouraged the hiring of more part-time workers while also encouraging the hiring of "healthier, more

¹Walmart, "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 April 19, 2013).

productive employees." 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 three-fourths of its employees have insurance (though not always through Walmart). Walmart is quick to point out that the company offers health care benefits competitive in the retail industry.

Despite these improvements, a new Walmart policy eliminates healthcare coverage for new hires working less than 30 hours a week. Walmart also states that it reserves the right to cut healthcare coverage of workers whose work week goes below 30 hours. Some analysts claim that Walmart might be attempting to shift the burden of healthcare coverage onto the federal government, as some employees would make so little that they would qualify for Medicaid under the new healthcare law. It is important to note that Walmart is not alone in this practice; many other firms are moving their workforces to part-time to avoid having to pay healthcare 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 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 American Customer Satisfaction Index, Walmart placed the lowest among discount stores and department stores on customer satisfaction. On the other hand, Walmart claims the dissatisfaction expressed by some customers is not reflective of the overall shopping experience of customers as a whole.

WALMART'S STANCE ON UNIONS Some critics believe workers' benefits could improve if workers become 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 voted against unions in the past.

Although the company officially states 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 pre-cut meat in its Supercenters, getting rid of its meat-cutting department entirely. Although Walmart offers justifications for actions such as this, many see the company as aggressively working to prevent unionization in its stores.

However, Walmart's stance against unions has not always held up in foreign countries. In China, Walmart faced a similar decision regarding unions. To grow in China, it appeared necessary to accept a union. Poor working conditions and low wages generated social unrest, and the government attempted to craft a new set of labor laws giving employees greater protection and giving the All-China Federation of Trade Unions (ACFTU) more power. In 2004 the Chinese Labor Federation pushed Walmart to allow

the formation of unions. As a result, Walmart technically allowed this, but critics claimed Walmart made it increasingly difficult for workers to join a union. In 2006 a district union announced the first formation of a Walmart union at a store in China, and within a week, four more branches announced their formations of unions. Walmart initially reacted to these announcements 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. Walmart also negotiates with unions in 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 is 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 that 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 sixty-three such lawsuits.

Walmart has also been accused of discrimination by employees. 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 plaintiffs claimed Walmart discriminated against them in regard to promotions, pay, training, and job assignments. Walmart argued against the class-action suit, claiming promotions were made on an individual basis by each store. Walmart took the case to the Supreme Court, claiming the suit violates the company's right of due process. The Supreme Court determined that the women in the lawsuit do not have enough in common to classify for class-action status. Although the women can sue Walmart individually, the impact on the company will be far less than if a class-action lawsuit had been allowed to proceed.

In 2010 dissatisfied employees at Walmart started the Organization United Respect 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). According to OUR Walmart, it has 5,000 members who desire to change working conditions at Walmart. Their grievances against Walmart include raising the number of hours needed for part-time workers to qualify for benefits, capping the wages of some long-time workers, and using its work-scheduling systems to decrease hours for employees so they will not qualify for benefits. OUR Walmart arranged protests and picketing at Walmart stores for six months, with a major protest scheduled for the 2012 Thanksgiving holiday. Walmart complained to the National Labor Relations Board and accused the UFCW of anti-labor practices. According to Walmart, OUR Walmart violated rules because, since it is not a union, it is allowed to protest only 30 days before gathering signatures for an employee vote. While the protests did occur, not as many Walmart employees participated as anticipated. Walmart claims this demonstrates that the movement is not as popular as it tries to appear. Walmart filed a lawsuit against the UFCW and others who protested around its Florida stores for illegal trespassing and disrupting customers.

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 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.

Although confidence in Walmart's leadership rose after CEO Lee Scott became CEO, it waned once more after a bribery scandal was discovered in Mexico. In 2012 a significant percentage of Walmart's non-family shareholders voted against the reelection of CEO Mike Duke to the board. They also voted against the reelection of other board members, including former CEO Lee Scott and Robert Walton. While this did not prevent these board members from being reelected, it did signal the disappointment and lack of confidence in the leadership for not preventing the store from getting involved in misconduct. In order to reassure investors, it is essential for Walmart's leadership to demonstrate a renewed commitment toward ensuring the company adheres to ethics and compliance standards.

Problems with Environmental Stakeholders

Like many large corporations, Walmart has been targeted as a violator of safe environmental practices. In 2005 Walmart received a grand jury subpoena from the U.S. Attorney's Office in Los Angeles, California, seeking documents and information relating to the company's receipt, transportation, handling, identification, recycling, treatment, storage, and disposal of certain merchandise constituting hazardous material. In 2013 the retailer pled guilty to criminal charges for dumping hazardous waste materials. It agreed to pay \$81 million to settle the charges. Walmart admits that it failed to train its employees adequately on how to properly dispose of these materials.

However, the greatest environmental concern associated with Walmart has been urban sprawl. The construction of a Walmart can stress a city's infrastructure of roads, parking, and traffic flow. There have been concerns about the number of acres of city green space devoured by Walmart construction (Walmart Supercenters occupy about twenty to thirty acres of land). Another issue is the number of abandoned stores, deserted when the company outgrows locations. Walmart allegedly goes out of its way to prevent other retail companies from buying its abandoned stores.

Walmart's large stores have put it at a disadvantage when trying to expand into urban areas. In places like New York City where space is a significant issue, there is less room

for Walmart stores. As a result, Walmart began testing smaller stores consisting of about 15,000 square feet in urban and rural areas. This strategy of smaller stores is already showing promise, with Chicago's zoning committee finally approving a Walmart on its south side. However, not all big cities are eager to embrace Walmart. Walmart experienced a verbal backlash from officials and citizens of New York City at the mere suggestion of Walmart entering the city. To break into urban areas, the company needs to work on changing how Walmart is perceived among these stakeholders. It may also be difficult for Walmart to open smaller stores in high-income areas such as major cities and still offer its everyday low priced items. As a result, the company is taking a careful approach and is opening these "minimarts" at a slower pace.

Bribery Scandal

The biggest blow to Walmart's reputation in recent years is the discovery of an alleged large-scale bribery ring among its Mexican arm, Walmex. It has been claimed that Walmex executives 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. The Walmex executives covered their tracks with fraudulent reporting methods.

In the last few years, bribery has become a hot button issue for the U.S. government, which has levied its largest convictions 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. On the other hand, the bribery scandal in Mexico was exacerbated by two major considerations: top executives at Walmart appeared to turn a blind eye to the bribery, and bribery among Walmart stores in foreign countries may be more widespread than originally thought.

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, the report to the U.S. Justice Department did not arrive until after an investigation by *The New York Times* revealed that top leaders at Walmart were alerted to the possibility of bribery as early as 2005. That year Walmart received an email discussing the bribery and providing the company with names, dates, and other information. Walmart sent investigators to Mexico City, where they discovered approximately \$24 million in bribes had been paid to public officials to get necessary building permits. Mexican executives and the company's Mexican general counsel were implicated in the scheme. Yet it has been suggested that when they were informed of the bribery evidence, top executives at Walmart, including then-CEO Lee Scott, were reluctant to report the bribery because they knew it would be a serious blow to the firm's reputation. Additionally, Walmart has been successful in Mexico; business in Mexico currently accounts for approximately one-fourth of the company's sales. Revealing bribery could have negative repercussions in this profitable area of growth.

The investigation was turned over to the Mexican general counsel even though it was believed the general counsel had approved of the scheme. This move was against the advice of one of Walmart's top lawyers, who recommended an independent third party investigator. The general counsel cleared the Mexican executives accused of bribery from wrongdoing, and the investigation was closed without anyone being disciplined. It did not reopen until after *The New York Times* began its own investigation.

Such allegations are serious if leaders at Walmart knew of the bribery. It is believed that former CEO Lee Scott and current CEO Michael Duke, who at the time was in charge of Walmart International, may have had knowledge of the bribery. Under the Foreign Corrupt Practices Act (FCPA), it is illegal to bribe foreign officials. Walmart can face millions in fines, and its executives could lose their jobs or face prison time if it is revealed they helped cover up knowledge of the bribery.

The impact on Walmart after the bribery scandal became public was significant. Shortly after the announcement, 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, which has already cost it \$99 million. Its probe revealed even greater possibilities of bribery in other countries. Walmart expanded its bribery probe to China, India, and Brazil.

The bribery probe has taken on particular interest in India. Walmart's Indian joint venture with Bharti Enterprises suspended some of its key executives believed to have engaged in bribery. This investigation halted Walmart's expansion in the country. Indian authorities began investigating Walmart and Bharti to determine if they attempted to circumvent foreign investment laws. Foreign retailers like Walmart are allowed to partner with local businesses and open stores in the country as 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.

Such allegations not only have serious consequences for Walmart, but also for other foreign retailers in the country. Many political officials in India were against allowing foreign retailers to open stores in India. This potential misconduct has added fuel for the opposition. Hence, the operation of other foreign retailers may be threatened. This situation demonstrates how the misconduct of one or two companies impacts entire businesses or industries.

Many shareholders are demanding disciplinary action and compensation cuts against those involved in the bribery scandal. Shareholders are demanding that the leaders of Walmart improve transparency and compliance standards. As part of its compliance overhaul, Walmart announced it would tie 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., has several assembly lines devoted to Walmart apparel. At least one of Walmart's suppliers used the factory to subcontract work for Walmart, but Walmart claims the supplier was unauthorized to do so. Walmart states it removed Tazreen Fashions from its list of approved suppliers months before the incident. It has since terminated its relationship with the supplier that subcontracted the work to Tazreen Fashion. Previous inspections at Tazreen showed many fire dangers, including blocked stairwells and a lack of firefighting equipment. In November 2012 a fire broke out in the factory that 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 to ensure the safety of the factory workers. While Walmart does have auditing and approval mechanisms, 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 doing business with Walmart have complained about harsh working conditions and violations of labor laws. Safety violations are also a common complaint. The situation is complex because these workers are hired 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 to ensure their contractors and subcontractors obey proper labor laws.

The Bangladeshi fire and 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 announced it will make 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 at its suppliers as well as reiterate the company's commitment toward ethical sourcing practices. 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 a factory collapsed and killed 1,127 workers. The tragedy has caused retailers like Walmart to consider new safety plans. European retailers, worker safety groups, and labor unions agreed to a five-year legally binding pact that would improve worker safety in Bangladesh. However, Walmart declined to sign the pact and instead devised its own safety plan for its Bangladesh factories. Its plan includes hiring an independent auditor to inspect Bangladeshi factories, requiring factories deemed to be unsafe to improve safety standards, publishing the audit results of more than 250 factories that have been revoked, and developing an independent call center for workers to report unsafe factory conditions.

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 among college-educated adults. Being a large multinational corporation brings many global risks, including bribery and

supplier issues. In response to the allegations of bribery, Walmart replaced the general counsel in Mexico and is conducting an investigation into the allegations. In addition, CEO Mike Duke assured the public that the company is re-evaluating its global compliance program with assistance from auditing firm KPMG LLP and law firm Greenberg Traurig LLP.

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 of the stores and stated that he plans to slow expansion plans so the company can improve on these issues.

As a form of damage control, Walmart released an advertising campaign to frame the company as an "American success story." After market research revealed Walmart's brand image lost traction among college-educated adults, Walmart developed a multi-million advertising campaign called "The Real Walmart." The advertisements feature customers, truck drivers, and employees sharing their happy experiences with the company. Walmart particularly wants to target opinion leaders so they can convince others of the company's value and brand image. The ads were first released during the Kentucky Derby and also featured on Sunday news shows. Walmart's former executive Vice-President of Corporate Affairs, Leslie Dach, who left Walmart in 2013, also emphasized the company's commitment to healthier food alternatives to fight the obesity epidemic. This advertising campaign is similar to those released by other companies attempting to restore their images, such as Toyota during the recall crisis and BP after the *Deepwater Horizon* disaster. It remains to be seen whether Walmart's advertising efforts and its renewed commitment to corporate responsibility will prove successful toward improving its brand image.

Sustainability Leadership

Among Walmart's 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 created Sustainable Value Networks (SVN) serving to integrate and evaluate efforts in renewable energy and practices. 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 completed 26 fuel cell installations in the United States, providing 65 million kilowatt hours of annual electricity, and are testing micro-wind and solar water heating projects in various locations. Walmart's company value of everyday low cost translates to their renewable energy endeavors through the signing of long-term contracts with renewable energy providers. These contracts finance utility-scale projects in renewable sources, allowing these options to be offered at lower costs not only to Walmart but also to other clients of these providers.

Walmart has also financed its own renewable energy projects. In addition to the company's rooftop solar and fuel cell installations, Walmart has more than 180 projects underway, including micro-wind installations in parking lots and biodiesel generator

sets. Taken together, these projects provide 22 percent of Walmart's electricity needs. Nearly 350 Mexico stores have reduced emissions by 137,000 tons annually through wind power, and the 14 stores in Northern Ireland are powered by wind energy. The Environmental Protection Agency's Green Power Partnership Program ranks Walmart as the second largest purchaser of green power among its U.S. retail competitors and third largest purchaser in the Fortune 500. It is the second largest onsite green power generator in the United States.

To reduce energy consumption, Walmart facilities conserve energy in two major ways. First, most new stores include a "daylighting" feature enabling stores to dim or turn off lights as daylight increases and enters through skylights, thereby reducing the demand for electricity during peak hours. Second, Walmart manages energy consumption by centrally controlling the heating and cooling of U.S. Walmart stores. The company is opening U.S. stores with LED lighting and is in the process of replacing their open freezers with secondary loop refrigeration systems. This is to meet their goal of reducing greenhouse gas emissions by 20 million metric tons globally by 2015. Walmart is attempting to reduce fossil fuel use and sell more "green" products. Through the use of its networks, Walmart is able to ship more products while traveling fewer miles, resulting in a reduction of carbon emissions of 41,000 tons.

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 (produce grown and sold in the same state). At the end of 2012, they increased sales of locally grown produce by 97 percent. Walmart is also investing in medium and smaller-sized farms, particularly in emerging economies.

To measure the sustainability of its products and suppliers, Walmart has launched its Sustainability Index. This index consists of three parts, each with its own goal. The first goal creates a more transparent supply chain in terms of sustainability. As part of the first step to achieving this goal, Walmart surveyed suppliers about their companies' sustainability. The second step involves forming a consortium of universities, suppliers, NGOs, government officials, and retailers to create a database on product life cycles, enabling Walmart and other companies to understand more about the sustainability of their products. The third step involves conveying this information to consumers to help them make informed decisions.

In line with their zero waste goals, Walmart Mexico 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. The company has also been testing recycling methods, which it aims to incorporate into all of its stores over the next three years. Walmart's recycling efforts have allowed the company to reduce its global plastic bag waste by 35 percent since 2007. The company has been able to keep 80 percent of its U.S. operational waste out of landfills.

Although Walmart's environmental overhaul is a step in the right direction, some are skeptical as to whether it can accomplish its goals. Suppliers are worried that products receiving higher "sustainability" rankings might be given preferential treatment over their own. Also, the concept of "being green" is subjective, since not everyone agrees on how it is defined or whether one environmentally friendly practice is more beneficial than another. Despite these obstacles, Walmart has achieved some success in this area because of 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 sustainability 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.

Walmart has also contributed significantly to disaster management projects, economic empowerment for women, and supplier development. The company donated over \$1.5 million in aid for the victims of Hurricane Sandy, including money, food, and goods. Walmart allocates \$2 million in grants for associates whose homes are damaged and created a toll-free number for associates needing help. 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. Additionally, Walmart created the Supplier Development Program, a partnership that works with 100 suppliers annually with the intent to improve their factories' productivity and working conditions.

The company has also 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 include cutting sodium by 25 percent and sugars by 10 percent in food under its Great Value brand over a five-year period. 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 of many consumers, particularly after the financial meltdown of 2008–2009. Although Walmart prospered during the recession while other retailers suffered, the company's U.S. sales have begun to 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, Walmart's domestic sales are experiencing a slump. As a result, Walmart is returning to Sam Walton's

original vision and returning to its "everyday low prices" mantra. The company unleashed a new campaign, "It's Back," to signal the return of the merchandise it removed. Walmart executives are encouraging store managers to compare prices with competitors to ensure Walmart offers the lowest prices.

In spite of these problems at its domestic stores, Walmart's revenues are on the rise thanks to its international stores. While domestic sales remain flat, the company continues to expand internationally to make up for lower growth in the home market. This strategy requires Walmart to 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 closed its stores in Germany and South Korea after failing to interest the local population. 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. Walmart is investing heavily in its Canadian operations and acquired a majority stake in South African firm Massmart Holdings Ltd. Though the company will likely experience several bumps in the road, 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 made efforts to demonstrate it is an ethically responsible company. Although it has faced controversy regarding competition, suppliers, employees, and global corruption, it has also demonstrated concern for sustainability initiatives and social responsibility. Its goals of decreasing its waste and carbon emissions 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 an 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 ethical policies, such efforts will prove fruitless. Overseas bribery scandals and employee discontent has 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 dedicated to social responsibility.

QUESTIONS

1. Do you think Walmart is doing enough to become more sustainable?
2. What are the ethical issues Walmart has faced?
3. How is Walmart attempting to answer concerns regarding misconduct?

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