

**Corporate Responsibility & Governance**

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### Abstract

This paper intends to assess the corporate social responsibility practices of Walmart. Social reporting practices followed by the company has been described in the paper. Moreover, changes adapted by the company over the years in terms of its CSR practices has been described in the paper. Some of the recommendations have also been provided to improvise the CSR strategy of Walmart.

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### **Introduction**

It will be instantly approved if one states that the concept of corporate governance has existed since the existence of any form of organization (Aras & Crowther, 2012). The idea of corporate governance serves as a model that encompasses the means through which organizations prepare their conduct of business conduct. Over the recent past the term corporate governance has come to the vanguard of public attention largely due to the ongoing issues related to governance that have cropped up both at the national level as well as the economic level where it concerns the organization.

At the same time governing bodies have also stated the importance of considering the needs and determinants of the society while conducting business. As has been mentioned by Adrian Cadbury, the best way of explaining social responsibility is to state that the sustained prevalence of organizations is supported by a mutual accord between the organization and the community. Sir Adrian Cadbury (2002) has also argued that the core meaning of the agreement between the business and the society is that organizations should not go after achieving their immediate profit making objectives by compromising with long term needs and requirements of the community. Therefore it can be seen that corporate social responsibility has gradually become an integral aspect of the mainstream corporate governance (Word Press, 2013).

It is with regards to this fact that the researcher will be attempting to analyze the corporate governance model and corporate social responsibility (CSR) practices of Walmart in order to adjudge its efficacy in the contemporary business environment. Moreover, the researcher will also be analyzing the institutional and regulatory environment in the US in order to assess its impact on the corporate governance model adopted by Walmart. Finally the researcher will be emphasizing on the changes in Walmart's CSR practices over time in order to provide feasible recommendations.

### **Institutional Environment in the US**

The US being a free market economy has proven to be one of the most favourable business locations for not only the home country organizations but for companies based in other countries as well. However the institutional and regulatory environment can become very daunting for the businesses that have been established here (Fagan, 2014). The last two decades have been witness to various catastrophic events that not only questioned the integrity of the companies which were involved in those events but also highlighted the loopholes that existed within the US institutional environment. The WorldCom and Enron failure as well as the financial crisis in 2007-08 revealed the ineffectiveness of the US institutional environment. It is after the unfolding of such catastrophic incidents that the US regulatory and governing bodies decided to make manifold changes in their institutional framework (Covington and Burling LLP, 2013).

The US institutional environment requires organizations to have a robust corporate governance framework in order to ensure that business operations are conducted with lucidity. The regulatory and governing authorities have clearly specified that organizational

managers will have put the interest of the stakeholders ahead of their own interest (Henisz & Delios, n.d). Organizations have been stipulated to conduct strict supervision of their business operations and to report any suspicious activity that is identified. The institutional environment in the US has assumed the responsibility of evaluating the corporate governance frameworks of the US based as well as the foreign companies as well as to assess the extent to which these companies engage in CSR activities. In order to operate in this environment, companies need to review their corporate governance frameworks and CSR practices periodically with the underlying aim of identifying the loopholes within the frameworks and areas of improvement within the CSR practices (Próchniak, 2013).

The regulatory authorities require organizations to communicate their corporate governance codes as well as their CSR scope and objectives to their employees so as to make sure each and every employee with an obligation to comply with the US institutional environment has a clear understanding of his/her responsibility in terms of upholding the corporate governance and CSR codes of their respective organization. The US institutional environment has increased their benchmark for corporate governance and CSR practices for companies. They have clearly specified the importance for companies to work in close coordination with the community. Regulations have been enacted that obligates companies to understand and the respond to the interest of the community in which the business operates alongside pursuing their profit making objective (Grenville, 2010).

Organizations that fall in the scope of the US institutional environment have to provide succinct reports regarding their corporate governance frameworks. In these reports the companies highlight the integrity with which the companies conduct their business operations. This reporting is done publicly in order for the stakeholders of the company and other interested third parties to adjudge the efficacy of the company in terms of conduct transparent business. Companies are obligated to report the accounting procedures that they follow in order for the readers to understand the extent to which the managers have complied with the regulations stipulated by the regulatory authorities (Goodpaster, 2009).

Companies based in the US will also have to report their CSR endeavours within the annual reports in order for the stakeholders and other interested readers to assess the extent to which companies are caring for the community. It is extremely important for companies to abide by this rule of providing social reports as this highlights the areas in which the managers have excelled as well as the areas that require improvement in the field of CSR practices (Czinkota, 2009). The underlying essence of this rule is to maintain the balance between the interests of the community and the needs and requirements of businesses established in the US.

### **Corporate Governance Model of Walmart**

In Walmart's governance model, the CEO is primarily responsible for the overall management, control and supervision of all business operations and affairs associated with the company. The CEO works in close coordination with other board level executives with the underlying aim of executing all board level directives as well as resolutions. The

chairman of the company supervises all board level meetings and thereafter provides suggestions to the CEO regarding improvements to be made in the company's operations. According to the Walmart's managers the separate CEO/chairman governance structure has proven to be extremely beneficial to the company as it enables the CEO to oversee the complex business operations and the chairman to manage matters that are associated with the responsibilities of the board level executives. The governance structure of the company stipulates the board members to have face to face communication as it removes any form of communication barrier. Moreover, face to face interaction enables the executives to delegate the responsibility amongst each other and to the subordinates effectively (Walmart, 2013a).

The organization realizes the significance of board independence as per the requirements stated by the New York Stock Exchange. That is why majority of the directors in Walmart are independent. The directors serve on one or more than one board committees which includes the global compensation committee, audit committee, strategic planning and finance committee, compensation, nominating and governance committee as well as the technology and ecommerce committee. Each of these committees is managed by a written charter which specifies all the key corporate governance codes that enables employees to comply with the business standards and ethics (Walmart, 2013a).

The robust corporate governance in Walmart has allowed the managers to be very consistent in their commitment to achieve business sustainability. The board members have emphasized a lot on the need to attain sustainability by assigning key responsibilities to the compensation, nominating and governance committee. The committee is mainly responsible for providing valuable recommendations to the board executives regarding sustainability, social and community initiatives. The board members also discuss regarding their charity giving strategies and other legislative issues. The governance framework in Walmart also stipulates the managers to frequently discuss about the public policy engagement strategy. The company believes in upholding transparency and integrity in terms of their business conduct. The managers focus a lot on improving the services offered to customers, shareholders and other associates (Walmart, 2013a).

### **CSR Practices of Walmart**

#### **Objectives**

Ensuring environmental sustainability has been one of the fundamental objectives of Walmart since its establishment. In addition to that, the company has always emphasized a lot answering to all the needs and requirements of the community in which it operates. The managers in Walmart have acted in the best interest of the customers thereby developing products that not only save their money but also help them preserve the internal and external environment of their house. The long term CSR objective of Walmart is to be supplied 100% renewable source of energy. In addition to that the managers have also emphasized on decreasing the company's digital foot print thereby creating zero waste from their production and lastly their fundamental goal is to sell those products that help them to sustain the environment as well as their customers (Walmart, 2015).

## Scope

In order to be supplied 100% with renewable sources of energy, Walmart is making considerable amount of investments in the research and development field so that solar panels can be developed all across the company's operation and production facilities. This will not only help the company to reduce the consumption of energy but will also allow them to decrease their digital footprint. In addition to that the managers in Walmart have also emphasized a lot on introducing effective packaging system so that waste is reduced. Moreover, the managers have also promoted the agenda of reducing the use of plastic bags and recycling handbags. Another scope of the company's CSR initiatives lies in its efforts to lead the retail industry in testing clean technology. This will not only help the company to reduce the consumption of fuel in its logistic vehicles but will also bring down the rate of air pollution. The managers of Walmart have also made constant endeavours in order to bring down food waste thereby assisting the farmers to increase the efficiency of their production (Walmart, 2015).

## Activities

Walmart's endeavours to source 100% renewable energy have enabled the company to source 21% of the company's electricity supply through renewable sources of energy (Walmart, 2013b). This made the multinational corporation the biggest green power generator on site in the US. Walmart and Walmart foundation has constantly emphasized on increasing women empowerment by introducing training and development programs, access to market and new career opportunities for close to 1 million women all over the world (Walmart, 2013b). The company has been actively engaged in charitable activities by donating more than \$1 billion for the purpose of development of the community (Walmart, 2013b). In addition Walmart became the world's first company to donate 1 billion meals as a part of their Feeding America campaign as a means to fight hunger (Walmart, 2013b).

## Social Reporting Practices

Walmart's managers have always strived to provide enhanced disclosure of its social practices and initiatives. The company's CSR initiatives are broadly explained every year in its global responsibility report. The report details all the social activities that have been performed till date, the results fetched from those activities, the initiatives to be taken for the future and the investments that have been proposed for each and every initiative. The enhanced social disclosure practices have been lauded by organizational leaders, market analysts, agents, stakeholders and academic scholars. Walmart's social reporting practices has been regarded as a benchmark by many large as well as small companies who try and follow the same path as that of Walmart. The enhanced social disclosure done by Walmart allows the stakeholders to evaluate the company's efforts till date to sustain the environment as well as the community. In that way stakeholders can give recommendations to the company in terms of improving their social initiatives so as to the preserve the balance between the environment, community and the business.

Enhanced social disclosure has become one of the most integral aspects of a company's brand value in the contemporary business environment (Aras & Crowther, 2010).

Customers have been more loyal to those companies that have actively engaged in activities that are aimed towards the development of the community (Banerjee, 2011). The company's active participation in its quest to make the world a better place has enabled the managers to create an emotional attachment between the brand and its customers which in turn has paved way for the managers to create a sustainable revenue stream. The outcome as well all know is the company's position as the largest organization in the world in terms of revenue generation. The enhanced social disclosure practices have also allowed the company to enhance its transparency in terms of communicating vital information to the stakeholders. It shows the company's integrity towards serving its customers as well as the community.

### **Impact of the US Regulatory Environment on Walmart's Corporate Governance Model**

The regulatory environment in the US has had a positive impact on the corporate governance model of Walmart. Given the fact that the company operates under the US institutional jurisdiction, the managers are obligated enhanced disclosure of their corporate governance framework and CSR initiatives to the stakeholders. The institutional environment in the US has enabled the managers of Walmart to ensure that each and every business operation is being conducted with absolute transparency and integrity. It is extremely important for the managers to curb corruption within the company and make sure that uninterrupted service is being provided to the customer as well as the community in general. The legislations enacted by the regulatory bodies in the US have enabled Walmart's internal auditors to scrutinize the company's accounting procedures in order to identify any form of misinterpretation or miscalculation.

In addition, to make sure that accounts are not being manipulated, Walmart is required to provide enhanced disclosure of the accounting procedures and principles followed within the company. Moreover, the strict measures enacted by the government especially in the field of corporate governance have made it a requirement for companies like Walmart to establish a robust corporate governance structure. By following the legislations the managers of Walmart has been able to clearly convey the organizational goals, business ethics and codes to the employees in order for the latter to be able to gauge their limitations and flexibilities. This has made it possible for the manager of Walmart to channelize the efforts of the employees in the right direction thereby preventing the occurrence of any unethical practices or wrong doings.

### **Changes in Walmart's CSR Practices over Time**

Walmart's CSR activities underwent unprecedented development and have closely complimented the company's recognition through the world. With every step of the company's success, the managers have decided to increase the scale of its CSR activities. The fundamental objective of the managers was to provide a return to the community for the support that the company received. That is why the company's endeavours were not only limited to the preservation of the environment but was also regarding making the world a better place. During the initial phases of the company's operational life cycle, the emphasis was solely on preserving the balance between the nature and the business. However, following that the managers realized that the need and requirements of the entire community



needs to be considered. The marked evidence can be seen in the way the company changed its course for being only focused towards reducing its carbon footprint to emphasizing towards reducing resource wastage and fuel consumption.

Walmart has also focused a lot on women empowerment over the last decade or so. The managers have introduced many training and development programs and career opportunities in order to encourage women to excel in their personal as well as professional life. In addition to that the company has also engaged actively in several charitable activities. This is marked by the amount of investment that the company has made for the purpose of community development till date. Walmart was responsible for providing 1 billion meals as a part of the company's Feed America campaign. This has not only enhanced the company's brand image but has also allowed the company to contribute significantly towards the development of the community. Therefore, it can be seen that Walmart's CSR initiatives have changed considerably over the past decade or so. However there are still certain areas where the company could make some contribution. Those areas will be appropriately highlighted in the recommendation section.

### **Conclusion**

The study revealed that Walmart has positioned itself as a pioneer company especially in terms of following a robust corporate governance framework. The company has strictly complied with the rules and regulations stipulated within the US regulatory environment. This has not only enabled the managers to convey the organizational values, business ethics and codes to the employees but has also enabled the managers to channelize the efforts of the employees in the right direction thereby preventing the occurrence unethical business practices. Walmart has also actively engaged in several CSR activities in order to help develop the community. The company's activities have changed considerably over time and have been focused more on the development of the society and the environment in general rather than being focused on the organization itself. The researcher was also able to learn that the US institutional environment has had a significant on the company's governance framework model and its CSR practices which in turn has helped the company to enhance its business practices considerably over the last decade or so.

### **Recommendation**

As far as bringing about improvements in Walmart's corporate governance and CSR practices are concerned, the only area that the company needs improvement is in its research and development facility. Given the fact that one of the fundamental objectives of the organization is to source all of its electric supplies from renewable sources of energy, the company should look forward to invest much more in the research and development in order to develop innovative technology that will provide electric supply to all operational and production facilities of Walmart through 100% renewable energy. This will not only enable the company to reduce non renewable energy consumption but will also allow the managers to preserve the environment thereby reducing the carbon footprint from the operations.

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