Case 4: Wal-Mart and Corporate Social Responsibility

Fortune magazine named Wal-Mart the “most admired company in America,” and the Financial Times included it on its “Most Respected in the World” list. Wal-Mart has received various honors and accolades, such as being selected as among the “Top 50 Companies for Diversity” by Diversity Inc., “Top 50 Companies for Executive Women” by the National Association for Female Executives, and “Top 50 Companies for African American MBAs” by Black MBA Magazine—for two years in a row.

As the world’s largest retailer, Wal-Mart has over $360 billion in sales a net profit from continuing operations of over $12.2 billion, and a 3.5 percent profit margin. It operates more than 4,000 facilities in the United States and more than 2,800 more store locations in 11 countries. More than 180 million customers visit Wal-Mart stores worldwide in a week, including 127 million in the United States. In turn, through its relationships with 61,000 U.S. suppliers, it spends more than $250 billion buying merchandise, which the company estimates supports more than 5 million American jobs, including its 1.5 million employees.

Wal-Mart’s astounding success is based mainly on its ability to sell merchandise at low prices. It keeps prices down through cost reductions, which it realizes from a highly efficient supply chain management system, aggressive vendor negotiations, and low overhead. These efforts to control costs save U.S. shoppers an estimated $50 billion in food costs and five times that amount in total merchandise—savings that can be especially important to poor and moderate income families, which spend a greater proportion of their income on food and other basics. The average Wal-Mart customer earns $35,000 a year, compared with $30,000 at Target and $74,000 at Costco.

Low prices and accolades for Wal-Mart also have been countered by a chorus of critics of the company’s sourcing policies, employee wages and benefits, adverse effects on small businesses, and contributions to urban sprawl. Many such concerns are dramatically illustrated in Robert Greenwald’s 2005 documentary film, Wal-Mart: The High Cost of Low Prices. Throughout the documentary, former senior managers tell of being trained to change employee records to avoid paying overtime; supervising factories in Central and South America with deplorable working conditions; and driving through communities to identify small business that would close when a new Wal-Mart store opened.

To illustrate the effects that Wal-Mart stores have on local businesses, the film focuses on H & H Hardware, a family-owned business in a small town in northeastern Ohio. The owner explains that he needs a loan to survive but complains that the local bank has refused his loan application because of the pending opening of the local Wal-Mart store. The film features a headline in the local newspaper, “Wal-Mart Descends On Middlefield,” followed by bulldozers in action.

To offer low prices to its customers, Wal-Mart demands that its 30,000 suppliers continually decrease their costs and prices. Unlike many grocery retailers, Wal-Mart does not charge “slotting fees,” but it does establish strict delivery schedules and inventory levels and exerts heavy influence over product specifications. For some of its suppliers, Wal-Mart represents their primary customer, and suppliers that cannot meet Wal-Mart’s cost and operational requirements risk losing its business. To achieve Wal-Mart’s cost requirements, many suppliers turn to manufacturing facilities overseas, leading Wal-Mart’s critics to assert that the retailer’s pursuit of lower-cost goods contributes to the accelerating loss of U.S. manufacturing jobs to China and other low-wage paying countries while supporting the low standard of living of employees in these countries.

Many communities have taken legal steps to prevent Wal-Mart and other big box retailers from locating stores there. In California, the Alameda County Board of Supervisors and local governments in the San Francisco Bay passed an ordinance forbidding any store that sells grocery items from exceeding 100,000 square feet (Wal-Mart Supercenters range from 150,000 to 220,000 square feet).

These local governments claim that Wal-Mart stores lower the quality of life and standard of living in a community. When a Wal-Mart opens, they contend, traffic increases; small, local retailers are driven out of business; jobs are lost; the tax base shrinks; the number of workers with health benefits declines, and the number of workers eligible for welfare increases. Thus, in the critics’ views, the addition of a Wal-Mart store transforms local retail store owners and family-supporting, middle-class retail jobs into lower-paying jobs that often leave people unable to maintain a reasonable lifestyle. Some economists estimate that Wal-Mart business practices annually cause a $4.7 billion loss of wages for workers in the retail sector.

Greenwald’s film portrays Wal-Mart’s socially unacceptable personnel policies in the person of a middle-aged African American woman, who relates a conversation she says she had with her boss when she was again passed up for a promotion: “He bluntly told me, ‘There’s no place...
for people like you in management!” To which the employee responded, “What do you mean, people like me? That I’m female or that I’m black?” The manager’s reported response: “Two out of two ain’t bad.”

Wal-Mart also has been criticized for its low wages, poor health care benefits, and aggressive resistance to unions. Approximately 70 percent of Wal-Mart’s employees work full time, and full-time workers are eligible for health insurance after they’ve been on the job for six months; part-time workers get coverage after two years. Under fire because fewer than 45 percent of its workers receive company health insurance, Wal-Mart announced a new benefits plan that seeks to increase participation by allowing some employees to pay just $11 a month in premiums. Some health experts praised the plan for making coverage more affordable, but others criticized it, noting that full-time Wal-Mart employees, who earn on average around $17,500 a year, could face out-of-pocket expenses of $2,500 a year or more.

The Maryland legislature passed a bill forcing any company with more than 10,000 workers to spend at least 8 percent of its payroll on employee health care. The law, clearly targeted Wal-Mart, the only company with more than 10,000 employees in Maryland. It thus was ruled unconstitutional, but similar “fair share” bills are pending or planned in 30 other states.

In response to these criticisms, analysts suggest Wal-Mart’s compensation and benefits actually may reflect common practices in the retail and services industries. Companies in these industries tend to hire unskilled employees, use part-time workers to staff the long operating hours, and offer low wages and limited benefits. Wal-Mart’s hourly wage is higher than the average wages in the retail industry, and more Wal-Mart employees are eligible for health insurance than in the retail industry as a whole, as well as slightly more than the nationwide total. Other observers, however, compare the personnel policies of Wal-Mart with those of another successful retailer, Costco, and wonder why Wal-Mart cannot be as generous with its employees. For example, Costco’s average wages are $16 per hour compared with Wal-Mart’s $10; Costco employees pay between 5 and 8 percent of health care premiums; Wal-Mart employees pay 34 percent with a high deductible; and 82 percent of Costco’s employees receive health care benefits, but only 48 percent of Wal-Mart’s employees do.


**DISCUSSION QUESTIONS**

1. **Is Wal-Mart good for society? Would society be better off with or without Wal-Mart?**

2. **Do you support towns banning the opening of a Wal-Mart store to protect local small businesses? Why or why not?**

3. **Should Wal-Mart pay higher wages, offer more health care benefits, and pay suppliers higher costs to improve the plight of workers? Why or why not?**

Source: This case was written by Barton Weitz. University of Florida.