



Wal-Mart's Sustainable Product Index

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As I look back at our progress over the past few years, I think the most difficult challenge has been to measure the sustainability of our products. It's in this area that I believe we can truly accelerate and broaden our efforts...with a more elegant, research-driven approach.

Mike Duke, President and CEO, Wal-Mart (Remarks prepared for Mike Duke at Wal-Mart's Sustainability Milestone Meeting, Bentonville, Arkansas, July 16, 2009, Walmartstores.com/9279)

On 16 July 2009, Wal-Mart CEO Mike Duke announced an ambitious plan to develop a “Sustainable Product Index” that would enable customers to access reliable, standardised information on where its products came from, what resources they required for manufacture and delivery, and how they should be disposed of and/or re-cycled. He went on to explain –

[T]he human footprint, our use of natural resources for everything we grow, eat, drink, make, package, buy, transport and throw away...all of that is outpacing the earth's capacity to sustain us...[Today,] we see only bits of information, but not the full picture across the supply chain. We don't know the patterns, hidden costs and impacts...Nor do we have a single source...for evaluating the sustainability of our products.¹

¹ Ibid.

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For example, as the world's largest jewellery retailer, Wal-Mart planned to work with its suppliers to develop sustainable packaging and create a tracking system regarding the diamonds, gold, and silver used in its jewellery, thereby ensuring that its suppliers adhered to responsible mining criteria.²

Duke was speaking at a meeting of suppliers, Wal-Mart employees (or "associates"), and outside stakeholders. The initiative, he explained, would come in three phases. First, the company would ask 100,000 suppliers to answer 15 questions regarding the sustainability of their operations. Second, Wal-Mart would contribute to the creation of a consortium of academics to collaborate with suppliers, non-governmental organisations (NGOs) and governments to "develop a global database of information on products' lifecycles". Third, this information would be translated into "a simple rating system for consumers" as they made their purchasing decisions.³

In some quarters Duke's announcement was seen as a signal that Wal-Mart was fulfilling its 2005 promise to become a global leader in sustainability. With annual revenues of over \$430 billion, it had surpassed Exxon to become the world's largest company, wielded enormous power over its suppliers and served as a bellwether for the direction global capitalism was taking. Building on a growing record of environmental achievements and consultation with outside stakeholders, the Sustainability Index represented an entirely new departure, empowering consumers as well as embracing a policy of enhanced transparency. It was an additional sign, supporters believed, that Wal-Mart was placing sustainability at the heart of company strategy, initiating a win-win-win cycle that would also increase profits and efficiency. To remain competitive, they argued, other companies would have to adopt similar policies.⁴

However, many of Wal-Mart's critics – from labour unions, social and environmental activists, to a variety of media outlets – took a more skeptical view. They argued that Wal-Mart's methodology was riddled with conflicts of interest and was merely a public relations ploy, in large part to deflect attention from its low wages and harsh labour practices, labor rights issues in its supply chains, and destructive impact on the communities it entered when opening new stores.

Background

Sam Walton, Wal-Mart's founder, grew up during the Great Depression in the Ozarks, the southern Midwest of the United States. It was a poverty-stricken region that was "pre-industrial, pre-urban, pre-immigrant", and strongly Evangelical Christian. The economy was overwhelmingly agricultural, with independent families growing live-stock, grain and fruit on small plots, in contrast to the large-scale mechanized farms that grew commodity crops further to the east.⁵ In 1945, Walton purchased a failing

² Wal-Mart press release, Walmartstores.com/9137

³ Wal-Mart press release, Walmartstores.com/9292

⁴ See Rosabeth Moss Kanter, "Wal-Mart's Environmental Game-Changer," blogs.harvardbusiness.org/kanter/2009/07

⁵ Bethany Moreton, *To Serve God and Wal-Mart: The Making of Christian Free Enterprise*, Harvard University Press, 2009, pp. 11–13.

Ben Franklin 5&10 Store as a franchisee. After 4 years of creative experimentation and careful study of other retailers, he turned it into the most successful branch in Arkansas.⁶ Gradually expanding his Ben Franklin franchises to 16 branches, Walton began to envision a new kind of retail strategy. "Here's the simple lesson we learned," he wrote. "[S]ay I bought an item for 80 cents. I found that by pricing it at \$1.00 I could sell three times more of it than by pricing it at \$1.20...the overall profit was much greater."⁷ When the Ben Franklin supplier-owners refused to allow him to develop this super-discount strategy, Walton decided to start his own chain. On 2 July 1962, he opened Wal-Mart Discount City in Rogers, Arkansas, offering the same items as nearby stores at prices that were consistently 20% lower. By 1985, with over 1,000 stores, Walton was recognized as the richest man in America.⁸

Initial Achievements To implement his strategy of "everyday low prices", Walton and his successors pursued a two-pronged approach: a relentless search to cut costs and the creation of a logistics and distribution system of unprecedented efficiency. Walton's timing was lucky. In the prosperous 1960s, the United States was developing a culture of mass consumption. Retailing was becoming standardised by huge organisations that set a new standard for economies of scale, consumers were enticed to purchase "status" brands by television advertising, and automobiles offered consumers the option of shopping outside traditional downtown commercial centres.

Walton chose rural America as his market, a region his competitors were neglecting.⁹ However, it was his bare-bones management style that enabled the company to grow into the world's largest corporation by 2002. "Now, when it comes to Wal-Mart," Walton wrote, "there's no two ways about it: I'm cheap....We exist to provide value to our customers."¹⁰

Beyond pioneering direct purchase from manufacturers, Wal-Mart cut costs through a number of stringently controlled labour practices. First, to keep wages low and safeguard management flexibility in its employment practices, Wal-Mart opposed organized labour to the point that it would close stores that unionized. Second, the company deliberately understaffed its stores: since there were never enough associates to accomplish their assigned tasks, they had to work very hard, enhancing productivity but also – as many would later charge in class-action lawsuits – forcing them to skip rest breaks and meals, as well as working overtime without compensation.¹¹ Third, Wal-Mart tended to provide fewer benefits, such as health insurance, than its competitors. This was due to the cost of health insurance, which workers with low salaries could not support, an unusually high rate of

⁶ See Robert Slater, *The Wal-Mart Triumph: Inside the World's #1 Company*, Portfolio, 2003, p. 25.

⁷ Sam Walton with John Huey, *Sam Walton: Made in America*, Bantam Books, 1993, pp. 32–33.

⁸ Slater, *op. cit.*, pp. 28–41.

⁹ Susan Strasser, "Woolworth to Wal-Mart: Mass Merchandising and the Changing Culture of Consumption", in *Wal-Mart: The Face of Twentieth Century Capitalism*, Nelson Lichtenstein (ed.), pp. 52–53

¹⁰ Walton, *op. cit.*, p. 12.

¹¹ Ellen I. Rosen, "Wal-Mart: the New Retail Colossus", in *Wal-Mart World*, Stanley D. Brunn (ed.), p. 93.

employee turnover (estimated at over 50% per year) combined with a year-long waiting period for the right to obtain benefits, and (it was alleged) a systematic policy to encourage employees to enter public assistance programmes, from Medicaid to food stamps.¹² Fourth, store managers and executives faced constant pressure to keep costs low, from sharing rooms while on the road to bonuses based on cost containment results and productivity enhancement.¹³

Wal-Mart grew with a small town “saturation” strategy, spreading out slowly, “like molasses”, to nearby communities as distribution centres were established further and further from its Bentonville, Arkansas headquarters. By the late 1960s, Walton had recognized the need to develop an efficient logistics system, not only to warehouse and deliver goods when needed on a massive scale, but as an entirely new system of management control. With a team of information-technology specialists, Walton eventually established a monopoly-like power over its suppliers, which enabled Wal-Mart to:

- Anticipate consumer demand with unparalleled precision, removing a key advantage that producer/manufacturers had enjoyed over retailers;
- Establish a just-in-time delivery system that was far more cost-efficient than its local rivals could achieve;
- Develop integrated solutions along the entire supply chain, in effect shifting much of the risk (of over-production, late delivery, etc.) to its suppliers and middlemen.

While keeping costs low, Wal-Mart was also able to demand a greater variety of goods with pinpoint accuracy in terms of consumer demand, from suppliers. The retailer even began to scrutinize the books of its suppliers in order to impose cost and efficiency “improvements” in their business practices as well as dictating pricing and even marketing strategies to them. For their part, suppliers recognized that they had little choice but to conform to Wal-Mart’s dictates; for example, by 2003 Wal-Mart accounted for 17% of Procter and Gamble’s global sales.¹⁴

The Wal-Mart Way True to its roots in the rural Ozarks, Wal-Mart developed a folksy culture that admirers believed was genuine. As Walton wrote: “We thrive on a lot of the traditions of small-town America, especially parades with marching bands, cheerleaders, drill teams, and floats.”¹⁵ The result was a brand of “pro-corporate populism” of low prices and an oasis where the courtesy and friendliness of Wal-Mart employees were supposed to offer a contrast with the outside world. While not an Evangelical Christian company, many Wal-Mart executives claimed to operate in accordance with “the values of Scripture”.¹⁶ Via intensive training and peer pressure,

¹²David Karjanen, “The Wal-Mart Effect and the New Face of Capitalism”, in Lichtenstein, *op. cit.*, pp. 154–155.

¹³Rosen, *loc. cit.*

¹⁴See Edna Bonacich and Jake B. Wilson, “Global Production and Distribution: Wal-Mart’s Global Logistics Empire”, in Brunn, *op. cit.*, pp. 229–237.

¹⁵Walton, *op. cit.*, p. 207.

¹⁶Moreton, *op. cit.*, pp. 40–41, 89.

Wal-Mart associates learned that they should appear happy and open, to view themselves as “servant leaders”, with reference to Christ’s work, and to expect “equality and solidarity” from their colleagues.¹⁷ During its first few decades, Wal-Mart operated almost exclusively in the conservative rural setting later to be known as the “red states”, where media scrutiny and labour laws were weak, trade unions and government regulation were viewed with suspicion, and consumers were grateful for “low prices”, while employees were described as “appreciating good jobs”. In this atmosphere, outside critics were ignored as a matter of company policy.¹⁸

For their part, Wal-Mart managers and executives faced a number of exacting requirements, some of which were rigorously quantified, others a question of touchy-feely leadership. First, the core of their job was to achieve – perhaps even surpass – their revenue and profit goals, as well as make efficiency gains, all with an eye to the company’s quarterly results. With their year-end bonuses closely tied to meeting these goals, managers were under pressure to perform. Second, they were supposed to act as the guardians of the company culture, which they should instill in their associates. This included an order to “Push responsibility – and authority – down” to regional managers and associates, who were empowered to think on their own. Third, they were mandated to pay attention to economic and social trends that would affect the company, which they were expected to transmit to the top as well as address on their own initiative.¹⁹ Routinely working 60–80 h weeks, including obligatory Saturday morning meetings at headquarters for regional managers, they often suffered “early burn out”.²⁰

The Critics As Wal-Mart grew, its reach and power attracted determined opposition. Critics began to mount protest campaigns against the company. Individual and class action lawsuits from a huge variety of organisations made Wal-Mart the “most sued” company in the world, severely undermining its reputation.²¹ They argued that the company, which competitors felt compelled to imitate if they were to survive, was a principal mover in the “race to the bottom” in the new global economy. They raised a wide range of issues, including the need to:

- Mitigate its impact on the communities it entered. At its worst, they charged, Wal-Mart decimated local retailers who could not compete on price, closed down once-vibrant downtown shopping areas that were also social centres, and generated secondary effects such as increased traffic, reduced demand for local businesses and increased infrastructure demands, while placing outlets beyond the city limits, simultaneously raising costs and lowering tax revenues.²²

¹⁷ A. Jane Dunnett and Stephen J. Arnold, “Falling Prices, Happy Faces: Organizational Culture at Wal-Mart”, in Brunn, *op. cit.*, pp. 82–84.

¹⁸ Moreton, *op. cit.*, pp. 1–5.

¹⁹ See Walton, *op. cit.*, pp. 282–294.

²⁰ Moreton, *op. cit.*, p. 82.

²¹ Slater, *op. cit.*, p. 202.

²² See Bill Quinn, *How Wal-Mart is Destroying America (and the World) and What You Can Do About It*, Ten Speed Press, 2005, pp. 1–26.

- Ameliorate labour practices that they believed were brutal, often illegal, and failed to provide a living wage. In their view, the company should allow associates to unionize, raise wages, offer better health insurance benefits, and treat them more humanely.
- Provide both a more equitable and ethical management of its supply chain, from the treatment of “sweatshop” workers in supplier countries such as China and Bangladesh, to treatment of the company’s truckers.²³
- Loosen its grip on supplier/manufacturers, many of whom bore the brunt of price cuts and risk. For example, Wal-Mart’s pricing policies were alleged to have caused the bankruptcy of the Vlasic pickle company. As it depended on Wal-Mart for 30% of its gross sales, the company had felt compelled to accept the sales price that Wal-Mart imposed, even though it was too low to re-coup expenses and ruined the brand’s reputation for quality.²⁴

Increasingly, critics targeted Wal-Mart’s basic business model, which in their view was the root cause of these issues. To transform itself into a more responsible corporate citizen, some argued, Wal-Mart would have to attenuate its cost-cutting policies and invest far more in the communities it entered and in environmental initiatives. This meant that the company might have to charge its customers more, and that its brand image for “every day low prices” would no longer be tenable as originally implemented. Any other ethical measures, many opponents argued, merely represented a public relations diversion from the real issues.²⁵

The Greening of Wal-Mart

By the mid-1990s, Wal-Mart stores had more or less saturated rural markets in the US. To continue growing, the company would have to enter new markets both in urban areas and abroad. However, these markets differed fundamentally from the Ozarks: they were more cosmopolitan, had pockets of highly-educated consumers who felt politically empowered, and had long operated under stricter regulatory regimes; they tended to have large unions, living-wage controls, and zoning laws to protect parks and other public spaces. When Wal-Mart executives entered these areas, they were shocked to learn that the company was viewed less as a “consumer advocate” promising jobs and lower prices, but rather as a damaging presence to be resisted.²⁶ Moreover, with notable exceptions in Mexico and Canada, Wal-Mart stores proved far less successful in international markets, where they came up against unionized workers with strong political ideologies as well as regulatory

²³ See Liza Featherstone, “Wal-Mart’s P.R. War,” [Salon.com](#), 2 August 2005.

²⁴ Charles Fishman, “The Wal-Mart You Don’t Know: Why Low Prices Have a High Cost”, [Fast Company](#), December 2003, p. 73.

²⁵ Michael Barbaro, “A New Weapon for Wal-Mart: A War Room,” [The New York Times](#), 1 November, 2005.

²⁶ Charles Fishman, [The Wal-Mart Effect](#), Penguin Press, 2006, p. 62.

restrictions that undermined the basic tenets of Wal-Mart's traditional strategies, for example in constructing big box stores in low-tax areas at the edge of towns.²⁷

From 2004, Wal-Mart faced a growing storm of protest in such vehicles as the film "Wal-Mart: The High Price of Low Cost", directed by Robert Greenwald, but also in grassroots campaigns to legally bar the company from opening stores in major urban areas. For example, a broad coalition of activists defeated a Wal-Mart-sponsored referendum in Inglewood, California (in the Los Angeles area) that had sought to turn public into commercial land. Wal-Mart lost a number of similar political battles in other major US cities.²⁸ To take the fight to a national level, union-sponsored organisations such as 'Wal-Mart Watch', devoted themselves to opposing the company in what some saw as an ideological crusade.

Wal-Mart soon found itself the target of higher expectations of corporate social responsibility, the "bad example" that warranted attack from the left. Critics of the company, Wal-Mart's top leadership came to recognize, were beginning to have a serious impact on its long-term prospects. This prompted several Wal-Mart board members to bring the issue up with CEO Lee Scott.²⁹

A New Way Behind-the-scenes developments had long been percolating at Wal-Mart. After a trip to Africa in 2002, the founder's eldest son, Robert Walton, began to seek ways that the family foundation might preserve wilderness areas. This led to a friendship with biologist Peter Seligman, co-founder and CEO of Conservation International (CI), an environmental organization in Washington, DC. CI's advisory clients included Starbucks and McDonald's. Over the next 2 years, Seligman took Robert Walton and his sons on a series of exotic trips, including hikes in Madagascar and scuba diving in the Galapagos. While Seligman was seeking donations for CI, he was also building the case for Wal-Mart to fundamentally transform its business practices in a way that could make the company "a driver of tremendous change". This would involve the "greening" of the company in the areas over which it had control: in the US it was the largest private consumer of electricity and had the second largest truck fleet; its suppliers would strive to meet its demands, whatever they were; and it could influence the buying choices of its regular customers, who numbered some 180 million.³⁰

With disappointing financial results – between 2000 and 2005 its stock price fell nearly 20% – and a series of recent PR debacles in mind, then-CEO Lee Scott was willing to listen to new ideas. Seligman and several CI colleagues came to Bentonville in June, 2004. A greener policy, they argued, would offer a way for Wal-Mart to enhance its efficiency, improve its image, and engage its employees in an exciting mission – a "win-win-win" scenario. Soon thereafter, Scott hired CI and a

²⁷ See Yukio Aoyama and Guido Schwarz, "The Myth of Wal-Martization: Retail Globalization and Local Competition in Germany and Japan", in Brunn, *op. cit.*, pp. 280–286.

²⁸ See Tracy Gray-Barkin, "Southern California's Wal-Mart Wars", *Social Policy*, Vol. 35, Number 1 (Fall 2004).

²⁹ Marc Gunther, "The Green Machine", *Fortune*, July 31, 2006.

³⁰ *Ibid.*

consulting firm, Blu Skye, which would develop sustainability metrics. Over the next year, they measured wasteful practices and put forward a number of “holistic” suggestions for improvement, with the goal of creating a sustainability system rather than a series of discrete actions. Wal-Mart stipulated that their compensation, and that of other NGOs paid by the company, remain confidential.³¹

Scott also hired the PR firm Edelman in early summer, 2005, which specialized in corporate “reputation management”. Edelman created a rapid-response “war room” at Wal-Mart’s headquarters, which was designed to generate rapid responses and “spin” to promote a positive take on stories about the company. The group began to target “swing voters”, the 60% or so of shoppers who had not yet considered boycotting Wal-Mart for environmental and/or labour reasons.³² In addition, Edelman recommended that Wal-Mart adopt a “co-option policy”, in effect bringing critics into the company – they were variously viewed as an early warning system, monitors of public opinion, and generators of innovative ideas at little or no cost. The engagement of these stakeholders, which would expand the collaboration begun with CI, was viewed as a way to legitimize the retailer, particularly if they secured endorsements of their practices.³³

The Katrina Epiphany The war room’s first major test was the company’s response to Hurricane Katrina, which devastated the Louisiana coast on 29 August, 2005. Mobilizing its distribution network, Wal-Mart filled significant gaps in the efforts by various government relief agencies. Its accomplishments – providing food, water, medicine, and temporary shelter – were almost universally praised, achieving a far more positive response from the public than did the governmental authorities involved. Even the ‘Wake Up Wal-Mart’ campaign wrote in a letter to the company that the Katrina measures “brought out the best in Wal-Mart and we applaud your hurricane relief efforts.”³⁴ Beyond screening the media for critical stories about the company, the war room played a crucial role coordinating Wal-Mart’s communications efforts with the actors in the field.³⁵

According to Scott, the Katrina experience represented “a key personal moment” regarding his commitment to environmental sustainability. It was then, he said, that he overcame the “skepticism of the company’s environmental critics... We stepped back... and asked one simple question: How can Wal-Mart be that company – the one we were during Katrina – all the time?” Rather than roll out a toothless programme that was more public relations than substance, he promised to create a truly meaningful sustainability policy. Katrina relief, he said, “was only the beginning”

³¹ *Ibid.*

³² Barbaro, *loc. cit.*

³³ See Jeffrey Goldberg, “Selling Wal-Mart: Can the company co-opt liberals?” *New Yorker*, April 2, 2007.

³⁴ As cited by Kevin McCauley, “Katrina Relief Lifts Wal-Mart’s Image”, *O’Dwyer’s PR Services Report*, October 2005.

³⁵ Barbaro, *loc. cit.*

of Wal-Mart's charm offensive.³⁶ By October, 2005, Scott and his team had articulated a set of three "aspirational" goals for Wal-Mart, including:

- To create zero waste, which promised to save money via a recycling programme;
- To be 100% supplied by renewable energy;
- To sell products that sustain resources and the environment.³⁷

Scott also promised to reduce greenhouse gases produced by Wal-Mart stores by 20% over the next 7 years, his first acknowledgment of the importance of climate change. In addition to engaging with other environmental groups, Scott indicated that Wal-Mart would work with anti-sweatshop groups to improve monitoring of overseas factories to guard against worker and human rights abuses. Measures to improve the treatment of its associates, he said, were also underway: health care coverage would be provided to Wal-Mart associates for \$25 per month. He even called on the US Congress to raise the minimum wage.³⁸ However, just days after Scott's announcements, the *New York Times* reported on a leaked draft memo to Wal-Mart's board. In it, Executive Vice President for Benefits, Susan Chambers, described how many Wal-Mart employees were uninsured or on public assistance for health (and 46 percent of the children of Wal-Mart's 1.33 million US employees were uninsured or on Medicaid), and advocated a strategy to "dissuade unhealthy people from coming to work at Wal-Mart".³⁹

Steps to Implementation Wal-Mart immediately undertook steps to realize Scott's vision. An early hire was Adam Werback, a former Sierra Club President turned consultant. In his first meeting with Wal-Mart executives, Werback was deeply impressed with the interest they showed for his organizational expertise. According to Werback:

*The executives peppered me with questions about how to make sustainability attractive to the broadest set of the American public, how to engage associates, how to measure success, whom I respected, and whom they should be talking to. They spoke candidly about their challenges and called on my expertise in facing them...the company opened its [as yet unannounced] goals to me.*⁴⁰

As part of the "sustainability network" that Wal-Mart was building, Werback and others refined, and sometimes helped to initiate, a number of organizational practices.

³⁶As cited in Gunther, op. cit., July 31, 2006.

³⁷See Erica L. Plambeck and Lyn Denend, "Wal-Mart, a Case Study," *Stanford Social Innovation Review*, spring 2008.

³⁸Pia Sarkar, "Wal-Mart's World View: Giant Retailer Says It's Ready to Tackle Hot-Button Issues," *San Francisco Chronicle*, 26 October, 2005.

³⁹Daniel McGinn, "Wal-Mart Hits the Wall," *Newsweek*, 14 November, 2005.

⁴⁰Adam Werback, *Strategy for Sustainability: A Business Manifesto*, Harvard Business Press, 2009, pp. 157–158.

First, Werback praised Scott's aspirational (or "North Star") goals of October, 2005. Designed to set the company in an entirely new direction, they should also be realistic, employees should see a concrete way to work towards them, and they were connected to the core business, i.e. the distribution network and product selection. Moreover, if Wal-Mart failed to meet them, the company would have to accept the blame.⁴¹

Second, Werback designed a "Personal Sustainability Project" to involve and educate Wal-Mart associates through voluntary activities. It was part of a policy to engage Wal-Mart employee creativity in new ways, to make them "part of the solution" in areas that concerned them. Starting with a personal sustainability project – bicycling to work, skipping fast food meals, replacing incandescent bulbs with fluorescent ones – they would attract the interest of their colleagues, many of whom would learn about sustainability and perhaps develop their own projects. Voluntarism combined with concrete projects, Werback stressed, worked far better than preaching ideals. Eventually, they elected "sustainability captains" to transmit their goals and explain their activities to others. Their numbers grew to half a million, or just under one third of all Wal-Mart employees.⁴²

Third, Werback and others advised Wal-Mart to become "transparent" as a way to advance the company's sustainability goals. In Werback's view, Wal-Mart needed to recognize its environmental "blind spots", which would encourage awareness within the company; this should enhance compliance with norms and laws. Wal-Mart would also release a series of reports on its progress toward the "North Star" goals. This could lead, according to Werback, to complete transparency, which included honest and comprehensive reporting, immediate and candid admission of mistakes by Wal-Mart leaders, and the opening of the company to all constructive outside stakeholders. This would result, Werback argued, in an influx of new ideas for improvement as well as uncover business opportunities that Wal-Mart had not yet considered.⁴³

The Continuing Controversy Many in the activist community praised the steps that Wal-Mart was beginning to take, which they viewed as the opportunity of a lifetime. However, others questioned the motives and sincerity of the company, maintaining the suspicion that it would only lead to "greenwashing", that is, the appearance of environmentally-friendly measures that ultimately had only a marginal impact. Journalists also remained skeptical. Jeffrey Goldberg of the *New Yorker*, for example, observed in a visit to the war room that Wal-Mart managers appeared "tightly scripted" and mistrustful rather than open and available; he was repeatedly instructed "not to write down anything [he] saw".⁴⁴ Perhaps more important, critics feared that the co-option policy would create "corporate front groups" – by taking money from private corporations, NGOs were less likely to pressure their sponsors on issues of concern. Moreover, when NGOs endorsed the measures that these companies were undertaking, it created the appearance of a conflict of interest, that is, a

⁴¹ *Ibid.* pp. 35–36. Werback.

⁴² *Ibid.* pp. 132–135. Werback.

⁴³ *Ibid.* pp. 92–118. Werback.

⁴⁴ Goldberg, *loc. cit.*

stamp of approval upon payment. It was insidiously corrupting, the critics argued. Other NGOs that interacted with Wal-Mart, such as the Environmental Defense Fund, refused contributions from the company as a matter of policy.⁴⁵

Finally, critics raised the problem of what was enough. How could the standard be balanced against the criticisms of Wal-Mart's social impact? Moreover, what did sustainability mean? Definitions varied significantly. For example, in the view of Stuart Hart, "going green" was essentially reactive – an incremental effort to do the minimum in order to avoid sanctions – and merely served to perpetuate the existing industrial paradigm. To be truly sustainable, Hart argued, companies had to become proactive, thinking about how they fit into the ecosystem. Eventually, he believed, as stewards of sustainability at the cutting edge, companies would find or invent entirely new industrial paradigms that would promote clean technologies, reduce their impact on nonrenewable resources to zero, and address the needs of the poor as well as the rich countries.⁴⁶ Wal-Mart, in his view, was beginning to place sustainability at the core of its business strategy, for example with its promotion of a clothing line made from organic cotton.⁴⁷ John Elkington, the visionary author of the 'triple bottom line' concept, argued that corporations must transform themselves from "locusts" – exploiting resources with little regard to their impact – into "honey bees" that worked as architects of environmentalism.⁴⁸ At a minimum, according to Adam Werbach, sustainability must become part of the culture of a company rather than a public relations effort run by a legal or corporate affairs department.⁴⁹

Wal-Mart's Sustainability Initiatives

In 2006, Blu Skye, with the help of Conservation International, engaged in discussions with Wal-Mart executives in an effort to set actionable priorities. By combining Wal-Mart's sales data with environmental impact factors from the Union of Concerned Scientists, they chose 14 areas on which to focus, including product groups as well as functional areas (See Exhibit 3.1). In each of the 14 areas, Wal-Mart assigned an executive vice president as sponsor, along with a "network captain", who was usually a senior vice president charged to build a "Value Network". The captains contacted academics, NGOs, suppliers, and other stakeholders to join discussions on sustainability measures that Wal-Mart might undertake.⁵⁰ The meetings ended with "go-do's", i.e., requests that were directed principally at Wal-Mart's suppliers, who bore the principal responsibility to take action.

⁴⁵Marc Gunther, "Corporate Ties Bedevil Green Groups", *Fortune*, Nov. 14, 2008.

⁴⁶See Stuart L. Hart, *Capitalism at the Crossroads: Aligning Business, Earth, and Humanity*, Wharton School Publishing, 2007, pp. 7–21.

⁴⁷*Ibid.*, pp. 102–103.

⁴⁸See "Enter the Triple Bottom Line", in *The Triple Bottom Line: Does it all add up?*, Adrian Henriques and Julie Richardson (eds.), 2007, pp. 10–13.

⁴⁹Werbach, *op. cit.*, p. 116.

⁵⁰See Erica L. Plambeck, "The Greening of Wal-Mart's Supply Chain", *Supply Chain Management Review*, 1 July, 2007.

Exhibit 3.1 Wal-Mart Sustainable Value Networks

[Greenhouse Gas](#)
[Sustainable Buildings](#)
[Alternative Fuels](#)
[Logistics](#)
[Waste](#)
[Packaging](#)
[Wood & Paper](#)
[Agriculture and Seafood](#)
[Textiles](#)
[Jewelry](#)
[Electronics](#)
[Chemical Intensive Products](#)

Source: <http://walmartstores.com/Sustainability/7672.aspx>

The Value Networks at Work While wide-ranging discussions addressed how to transform Wal-Mart's supply chain, cut costs, and provide benefits to the consumer, the activities of the Value Networks depended in large measure on the energy that their captains devoted to them. The Wal-Mart employees involved still had to accomplish their full-time jobs: with few exceptions, there were no new full-time staff hired to run the Networks. Some of them, such as the packaging Network, had 500 members or more; others, such as that of jewellery, consisted of only 15 or so. According to one Network member,⁵¹ Wal-Mart strove to include relevant stakeholders, regardless of their opinions of the company. In many cases, even determined critics participated.⁵²

By July 2006, Wal-Mart could point to some specific accomplishments. Examples included:

- Savings of \$75 million from a 25% increase in fuel efficiency that also reduced carbon emissions by 400,000 tons. This in effect met one of CEO Scott's original promises.
- The adoption of a web-based sustainability scorecard to facilitate the evaluation of packaging against precise metrics.
- The adoption of sustainability standards for the wild seafood industry, as set by an independent third party, the Marine Stewardship Council (MSC). Wal-Mart committed itself, in three to 5 years, to apply the MSC certification to 100% of its store offerings of wild seafood. The company planned to adopt similar certification standards for other products.⁵³

⁵¹ Author interview with Assheton Carter, then of CI.

⁵² Ylan Q. Mui, "At Wal-Mart, 'Green' Has Various Shades", *Washington Post*, Nov. 16, 2007.

⁵³ Plambeck, *loc. cit.*

While acknowledging the potential of these initiatives, Wal-Mart critics were quick to point out that the principal burden appeared to fall on the suppliers – they were the ones that would bear the cost of the “race to the top” (of new sustainability standards) that Wal-Mart was attempting to initiate. Moreover, many activists continued to refuse to engage with Wal-Mart, which they criticized for failing to meet their basic demands regarding community and other social issues.

Nonetheless, Wal-Mart was developing a number of new processes that were under-reported in the popular press. Beyond the certification and scorecard requirements, members of the Value Networks were beginning to provide a wide range of sustainability expertise to its suppliers. To some observers this represented a fundamental transformation of Wal-Mart's engagement with suppliers: rather than merely impose conditions on end-suppliers regardless of what others downstream had done, Wal-Mart was systematically addressing issues in its entire supply chain. For example, Value Network members were beginning to educate organic cotton farmers on sustainable techniques. In addition, Wal-Mart was developing deeper, longer-term relations with its suppliers, not only by cutting out the middleman as a way to enhance traceability, but also by more carefully selecting suppliers that operated in accordance with its sustainability standards. This entailed the re-training of Wal-Mart buyers, in effect adding sustainability concerns into their job descriptions and offering them the opportunity to specialize in it. However, critics argued, it might require decades to evaluate the effectiveness of these processes.⁵⁴

The Reports Starting in 2007, Wal-Mart began to issue reports on its sustainability accomplishments. For many this represented a step on the way to transparency, further opening the company to outside scrutiny and input. Indeed, if Wal-Mart failed to meet its goals – to reduce plastic shopping bag use by 30% in 5 years, for example, or to double its truck fleet efficiency by 2015 – the results would be very public. However, the reports' deficiencies came in for criticism as well. “Despite numerous programme descriptions, goals and statistics,” one critic wrote, “careful reading reveals a surprising lack of context, undefined metrics, and goals that turn out to be meaningless.” Moreover, she claimed, the reports failed to directly address both the challenges ahead and the concerns of certain stakeholders. Finally, though the report referenced the sustainability guidelines established by the Global Reporting Initiative, Wal-Mart apparently did not use them in any consistent way. “These missteps,” the writer concluded, “raise the question of whether Wal-Mart's systematic lack of clarity is intentional.”⁵⁵

Furthermore, some critics argued that the omissions from Wal-Mart's Sustainability Reports were far more significant than what it claimed to have accomplished. They implied that Wal-Mart had got its sustainability criteria wrong, that its statistics were unreliable or misleading, and that Wal-Mart's growth model by its

⁵⁴ Plambeck, *loc. cit*

⁵⁵ Kathee Rebernak, “What's Wrong with Wal-Mart's Sustainability Reporting”, www.sustainablelifemedia.com, 2 Sept., 2008.

very nature was unsustainable. For example, one report stated that by calculating energy use required for additional consumers –

Wal-Mart's new stores will use more energy than its energy-saving measures will save. Even if Wal-Mart meets its goal to cut 2.5 million metric tons of CO₂ emissions at existing stores by 2013, new stores built in 2007 alone will consume enough energy to add approximately one million tons of CO₂ to the atmosphere [which would add] 28 metric tons of new emissions within the same period.⁵⁶

The report then catalogued Wal-Mart's environmental transgressions, from destruction of wetlands and degradation of water supplies from construction-site hazardous waste, to increased transportation needs. (See Exhibit 3.2 for an example of criticisms.)

Exhibit 3.2 Is Wal-Mart Really A “Green” Company? (Press Release from Wal-Mart Watch)

Over the past 40 years, Wal-Mart has contributed significantly to the degradation of the environment. Then, 2 years ago, McKinsey and Company advised Wal-Mart to do the following:

“Take a proactive stance: shape the external debate by becoming a role model on a significant societal issue.” [August 2004 McKinsey Memo]

Since then, Wal-Mart has taken some commendable steps to clean up its impact on the environment, promising to reduce food product packaging, sell more energy efficient light bulbs, and improve fuel efficiency in its trucking fleet. However, as the following facts show, Wal-Mart's massive size and its voracious need for growth mean that the company's current green efforts are to the health of the planet what cleaning one store is to its global maintenance operations.

Wal-Mart Supercenters Contribute to Sprawl and Pollution

Wal-Mart's Growth Will Offset Its Planned Energy Savings Wal-Mart's new stores will use more energy that its energy-saving measures will save. Wal-Mart hopes to cut 2.5 million metric tons of CO₂ emissions by 2013, by making its existing stores 20% more efficient. New stores built in 2007 alone, however, will consume enough electricity to add approximately one million metric tons of CO₂ to the atmosphere. At that rate, (adding one million metric tons of CO₂ per year because of new stores), by 2013 Wal-Mart will be

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⁵⁶ *It's Not Easy Being Green: The Truth About Wal-Mart's Environmental Makeover*, Wal-Mart Watch, Sept. 2007, p. 3.

Exhibit 3.2 (continued)

offsetting its cut of 2.5 million metric tons of CO₂ by adding 28 million metric tons of new emissions within the same time period. [Stacey Mitchell. "Keep your eyes on the size: The impossibility of a green Wal-Mart." www.grist.org, March 28, 2007.]

Wal-Mart Has Over 2,300 Supercenters in the United States The average Wal-Mart Supercenter is mammoth, averaging 200,000 square feet and occupying 20–30 acres of land – about as large as a football stadium. There are over 2,200 Supercenters in the United States, in addition to thousands of standard WalMarts, Neighborhood Markets, Sam's Clubs, distribution centers and warehouses. It is the largest commercial entity in the United States, both physically and economically, and its stores require massive amounts of land, energy and labor to function. [<http://www.walmartfacts.com>; San Diego Union-Tribune, 5/21/07]

Wal-Mart Leaves Empty Buildings Behind It is estimated that Wal-Mart alone has abandoned over 300 of its stores across the country in order to build newer and larger Supercenters, all the while leaving empty concrete shells behind resulting in over 500 million square feet of unused retail space, the approximate amount of industrial space in the entire city of Atlanta,. [Erin Zeiss, "Wal-Mart devastates the environment," *Eco-Mind, UVM Environmental Council*, 1/23/07; <http://www.southeastbusiness.com/articles/JUN05/cover2.html>]

Wal-Mart Parking Lots Contribute To Water Pollution A Wal-Mart Supercenter may cover several acres, but its parking lot can be three times the size of the store itself, placing its footprint at well over 18 acres. A 2005 report by the Institute for Local Self-Reliance estimated at the time that Wal-Mart stores and parking lots covered roughly 75,000 acres (or 117 square miles) in the U.S., equal to the land size of Tampa, Florida, a figure that has continued to rise as Wal-Mart continued to expand over the last 2 years. Parking lots contribute directly to what is referred to as "non-point source water pollution," the leading cause of water pollution in the United States. [http://www.sierraclub.org/sprawl/reports/big_box.asp; Institute for Local Self-Reliance, 7/21/05; St. Petersburg Times, 3/25/05]

Wal-Mart Is A Major Factor In The Dramatic Increase In Amount Of Distance Americans Drive To Fill Their Shopping Needs Wal-Mart has contributed to a jump of more than 40% in the amount of vehicle miles American households travel for shopping purposes since 1990. The jump is not attributable to consumers going to the store more often, however, but instead that the average trip is two miles longer. Studies also have found that the size of a store is directly related to the amount of traffic it generates.

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Exhibit 3.2 (continued)

Larger stores pull customers from a larger geographic area which results in increased traffic – a 200,000 square-foot Supercenter on average generates over 10,000 car trips during a week, and even more on a weekend . [Institute for Local Self Reliance; Stacey Mitchell. “Keep your eyes on the size: The impossibility of a green Wal-Mart.” www.grist.org, 3/28/07; Big Box Toolkit – Impact of Big Box Stores on Traffic – www.newrules.org]

Wal-Mart Supercenters Use An Enormous Amount Of Energy When Compared To Other Retailers Even with a 15% reduction over the current average energy use, a Wal-Mart Supercenter, open 24 h a , uses 96.5 MBTU or 96,500 British thermal units of energy per or nearly three times the average use by a residential home in the United States each year. This is almost double the rate of energy of Wal-Mart’s nearest competitor’s “superstore,” which opens 12–14 h daily. However, Wal-Mart’s nearest competitors only run a handful of superstores. Wal-Mart’s energy use and carbon footprint, (the company estimates that its U.S. operations were responsible for 15.3 million metric tons of CO₂ emissions in 2005), is significantly more than its competitors stores based on its 24-h operations and push for rapid expansion of the Supercenter format. To put Wal-Mart’s 15.3 million metric tons of CO₂ emissions in perspective, this number represents the approximate emissions of Chile and is larger than Rhode Island, Vermont, South Dakota, and Idaho. [Aly Courtemanch and Lani Bensheimer, Conservation Biology, April 29th, 2005; F-E-S Associates, APD Engineering, Northern Ecological Associates, “Draft Environmental Impact Statement for Wal-Mart Supercenter.” Submitted to Town of Potsdam, NY, October 19, 2004; Target Developer Guide Edition 2.7; www.grist.org, 3/28/07; Carbon Dioxide Information Analysis Center, 5/31/06; www.eredux.com]

Wal-Mart Truck Fleet Adds Major Traffic to the Roads and Pollution to the Air For example, a Wal-Mart Distribution Center in Merced, CA Is Projected To Have 900 Daily Truck Trips. Using average emissions rates calculated by the EPA, the 900 truck trip estimate works out to around 2.4 extra tons of particulate matter and 83 extra tons of nitrogen oxides entering the atmosphere each year because of Wal-Mart trucks. Since Merced is an area with significant air pollution problems already, residents living closest to this distribution center would be at an increased risk. Wal-Mart currently has 135 distribution centers in 38 states, which translates to approximately 120,000 daily truck trips or equal to the approximate number of vehicles that use the Lincoln Tunnel on any given in New York City. [<http://www.warnwalmart.org/index.php?id=126>; <http://www.mercedalliance.org>; <http://www.walmart-facts.com>; <http://www.nycroads.com/crossings/lincoln/>]

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Exhibit 3.2 (continued)**Wal-Mart Violates Environmental Laws**

Environmental Fines Across the Country In 2004, Wal-Mart faced fines for violations of environmental laws in nine states: California, Colorado, Delaware, Michigan, New Jersey, South Dakota, Tennessee, Texas and Utah. [[Associated Press](#), 5/12/04; [New York Times](#), 4/13/05]

Air Pollution Claims in Eleven States In 2004, Wal-Mart agreed to pay \$400,000 to the government to settle claims that Sam's Club had flouted federal air pollution regulations in eleven states. [[The Business Journal](#), 1/30/04]

Widespread Water Pollution In 2001, the EPA and Justice Department for the first time fined a company – Wal-Mart – for violating newly adopted standards for storm water runoff. Wal-Mart paid \$5.5 million in fines for violations at construction sites in four states: Massachusetts, New Mexico, Oklahoma and Texas. Four years later, however, Wal-Mart signed an agreement with the Connecticut Department of Environmental Protection over storm water violations occurring over 7 years at 20 stores, and agreed to pay \$1,550,000 in penalties. [[Underground Construction](#), 8/1/01; [Forbes](#), 8/15/05]

Contaminating Water in Georgia Georgia's Environmental Protection Division (EPD) fined Wal-Mart for letting polluted storm water run free into state waters – resulting in \$170,000 in penalties for pollution at two sites. Wal-Mart failed to take basic steps to help clean storm runoff, such as maintaining silt fencing around construction zones, installing ponds to catch storm water, and failure to keep records. The fines ranked among the highest paid in Georgia for violations of the Clean Water Act. [[Atlanta Journal-Constitution](#), 2/10/05]

Oil Storage Problems in Florida Florida forced Wal-Mart to pay \$765,000 in fines for operating outside safety restrictions on petroleum storage at its auto service centers. The Florida Department of Environmental Protection flagged the company for failing to register its fuel tanks with the state or install devices that prevent gasoline overflows. According to the state, Wal-Mart also failed to perform monthly safety checks, lacked current technologies to prevent overflows, blocked state inspectors from reviewing records and failed to show proper insurance documentation. [[Associated Press](#), 11/18/04]

Wal-Mart Under Investigation Regarding Hazardous Waste

Wal-Mart Is Under Investigation For Environmental Violations Related To Hazardous Waste Wal-Mart, Inc., is currently the target of criminal, civil and administrative investigations for environmental violations by the United States Attorney's Office for the Central and Northern District of California (U.S. Department of Justice), Nevada Attorney General, California Attorney General, the Los Angeles County States Attorney and The California

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Exhibit 3.2 (continued)

Department of Toxic Substances Control. The company is accused of violating the Resource Conservation and Recovery Act (RCRA, 42 USC §6901), The Clean Water Act (33 USC §1251), and the Hazardous Materials Transportation Act (49 USC §5101). The company is also accused of violating state environmental and transportation laws in California and Nevada. [Wal-Mart 2006 Annual Report, p 44]

What is Wal-Mart's hazardous waste policy? Wal-Mart's official policy is to ship all unsold and returned products to "Return Centers" and sort out the products for disposal there. Wal-Mart has used company vehicles to do this task. [Las Vegas Review-Journal, 12/21/05]

What exactly did Wal-Mart do wrong? Wal-Mart is under investigation for ignoring laws designed to protect the public from the dangers of hazardous materials to human health and the environment, including:

- **California Hazardous Waste Laws.** California state law requires businesses to handle and dispose of hazardous waste in a specific way, including paying fees for disposal and using designated hazardous materials trucks for transport. Wal-Mart may have avoided paying disposal fees, and is being investigated for using its own trucks to transport hazardous waste.
- **Nevada State Law.** Wal-Mart may have violated Nevada law by bringing hazardous waste into the state and disposing of it in a facility permitted to only accept waste that originated inside Nevada.
- **Federal Law.** Federal law prohibits transporting potential hazardous waste across state lines without a permit. Wal-Mart may have violated these statutes by bringing hazardous waste into Nevada from California.
- **Federal Clean Water Act.** Wal-Mart is also accused of violating the Federal Clean Water Act, a law designed to preserve the integrity of lakes, rivers and wild lands. The fact that Wal-Mart has been accused of violating this Act points to questions of more serious environmental infringements.

In spite of these criticisms, many stakeholders defended Wal-Mart's record as a worthy exercise of its power. For example, in order to overcome consumer reluctance to purchase concentrated laundry detergents, which would hugely cut transportation costs without impacting their cost-effectiveness, Wal-Mart forced all of its suppliers to convert to them; once the concentrated variety was all that appeared on the shelves, consumers came to prefer them. According to A.G. Lafley, CEO of Proctor & Gamble, "Lee [Scott] pushed me...we totally, totally changed the way we manufacture liquid laundry detergents." Wal-Mart also eliminated up to 50% of packaging on such items as prescription drugs, again lowering resource requirements as well as costs, savings that were passed on to consumers.⁵⁷ (See Exhibit 3.3 for an example.)

⁵⁷Quotation cited in Stephanie Rosenbloom and Michael Barbaro, "Green-Light Specials, Now at Wal-Mart", The New York Times, Jan. 25, 2009.

Exhibit 3.3 Wal-Mart Is Bringing More Sustainably-Sourced Food to Customers. Retailer Is Working to Build a Better Future for Agricultural and Fishing Industries. (Press Release from Walmart)

At Wal-Mart Stores, Inc., we believe that being a profitable and efficient business goes hand-in-hand with being a good steward of the environment. One of our goals is to sell products that sustain our natural resources and the environment. Our **Food, Agriculture and Seafood Sustainable Value Network** is working with farmers, ranchers and fisheries to provide our customers with access to fresh food at affordable prices. One way we are able to do this is by purchasing more produce from local farmers and purchasing products that are grown and produced by people who use sustainable practices in their businesses.

Food, Agriculture and Seafood Sustainable Value Network Goals

- Create a long-term supply of reliable agricultural and seafood products harvested in a sustainable way.
- Walmart plans to purchase all of its wild-caught fresh and frozen fish for the U.S. market from Marine Stewardship Council (MSC)-certified fisheries by 2011.
- Work with Global Aquaculture Alliance (GAA) and Aquaculture Certification Council, Inc. (ACC) to certify that all foreign shrimp suppliers adhere to Best Aquaculture Practices (BAP) standards in the U.S. by 2011.

Walmart is Working to Sustain the Future of Food, Agriculture and Seafood We have taken on a number of projects and goals under our Food, Agriculture and Seafood Network that will provide our customers with the opportunity to purchase fresh and sustainably-produced food.

- In 2008, we launched even greater efforts to purchase locally grown produce in the U.S. With our locally grown initiative, we can provide high-quality, low-priced fruits and vegetables while supporting farmers and their local economies. By reducing the number of miles food travels between the farm and our shelves, we can decrease greenhouse gas emissions and conserve fuel, while providing our customers with the freshest produce.
- We are working with suppliers to offer more socially-responsible products on our shelves. As a part of Walmart's first Earth Month in-store campaign in April 2008, we launched the sale of six coffees carried under our exclusive Sam's Choice brand that are either certified organic, Fair Trade Certified or Rainforest Alliance Certified. These coffees enable customers to get gourmet coffee at a great value while providing benefits to farmers, their communities and the environment.

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Exhibit 3.3 (continued)

- Sam's Club was one of the first retailers to offer Fair Trade Certified wine. Since November 2008, Sam's Club members have been able to purchase Fair Trade Certified Malbec wine from Argentina in more than 400 Sam's Club facilities. A portion of the sales are collected by Transfair USA and used to build schools, medical facilities and other community projects.
- We are committed to featuring more sustainably-harvested seafood in our Walmart stores and at Sam's Club. Our efforts have included collaboration with the Marine Stewardship Council (MSC), Sustainable Fisheries Partnership (SFP), the World Wildlife Fund (WWF), Environmental Defense Fund (EDF) and the Alaskan salmon industry for wild caught seafood and with Global Aquaculture Alliance (GAA) for all farmed seafood. Together, we are encouraging our seafood suppliers to implement plans that strengthen fishery management practices, rebuild stocks, reduce environmental impacts and encourage support for broader marine ecosystem management and protection efforts.
- As of January 31, 2009, in aggregate, 49% of the total pounds of fresh or frozen seafood sold at Walmart and Sam's Club have the MSC or ACC certification with many more fisheries currently progressing through the certification process. We currently have 28 products in our stores carrying the MSC certification with more selections underway. And 100% of the farmed shrimp products we purchase meet factory processing criteria established by the ACC, and we are in the process of having shrimp, catfish, tilapia and salmon farms become ACC certified as well.
- In 2008, Walmart de Mexico sourced 99% of the fruit and vegetables sold in its stores from Mexican suppliers.
- Together with the global relief and development organization Mercy Corps and the United States Agency for International Development (USAID), we launched the Inclusive Market Alliance for Rural Entrepreneurs in Guatemala which is focused on improving the lives of small-scale farmers. During a 3 year project, the Alliance will help small-scale farmers move from traditional crops, such as corn and beans, to growing demand-driven crops such as tomatoes, peppers, potatoes and onions that will be sold to major retailers like Walmart.
- Our ASDA stores in the U.K. are working to put more locally grown and locally produced items on their shelves as well. ASDA currently works with approximately 500 local food producers in the U.K. who provide more than 5,000 products to ASDA stores across the country.
- Walmart China is working to bring customers better quality and sustainably-harvested produce through its Direct Farm Program. This program helps farmers in China place their sustainably-grown produce in local Walmart stores and receive better financial returns on their products. They aim to expand the Direct Farm Program to include as many as 1 million farmers by 2011.

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Exhibit 3.3 (continued)**What Others Are Saying**

- “The impact of Walmart **committing itself to a sustainable source of its fish is profound in several different ways**. It’s profound in that it ensures that populations of fish survive—that they’re not mined but that they’re harvested in a way that will survive over time.” (Peter Seligman, CEO, Conservation International in Walmart’s 2008 “Sustainability 2.0” DVD)
- “Perhaps most importantly, because of the tremendous volume that Sam’s and Walmart are moving on fair trade terms, **they’re lifting tens of thousands of farmers out of poverty**. They’re having a huge impact on the ecosystems, on the environment in those countries and in those communities where this product is grown. So, the impact of Walmart and Sam’s in fair trade **is proving to be tremendous.**” (Paul Rice, President and CEO, Transfair USA in Walmart’s 2008 “Sustainability 2.0” DVD)
- “Wal-Mart would not be the first” to buy local, said Rich Pirog, associate director of the Leopold Center for Sustainable Agriculture at Iowa State University. “But they’re obviously, without question, the largest retailer to go down this route.” (**Wal-Mart branches out into locally grown produce, Associated Press, July 1, 2008**)
- “All across South Carolina, you will be able to go into Wal-Mart and make an easy buying decision – knowing you are doing something **great for yourself, great for your health and great for the economy.**” (Hugh Weathers, South Carolina Commissioner of Agriculture, WYFF-TV, June 25, 2008)
- “Wal-Mart’s new local sourcing effort **benefits the company two-fold – it reduces transportation costs and supports its sustainability goals** to sell products are earth-friendly and ethically sourced. It will also mean **customers will find produce that is fresh and ripe, and helping support the local economy.** (“Wal-Mart sourcing produce from local farmers,” Kimberly Morrison, *The Morning News*, June 18, 2008)
- “Wal-Mart has been going green, but not entirely for the reasons you might think. By sourcing more produce locally – it now sells Wisconsin-grown yellow corn in 56 stores in or near Wisconsin – it is able to cut shipping costs...Marc Turner, whose Bushwick Potato Co. supplies Wal-Mart stores in the Northeast, says **the cost of shipping one truck of spuds from his farm in Maine to local WalMart stores costs less than \$1,000, compared with several thousand dollars for a big rig from Idaho**. Last year his shipments to Wal-Mart grew 13%.” (“Wal-Mart puts the squeeze on food costs,” *Fortune*, May 29, 2008)

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Exhibit 3.3 (continued)

- “The endorsement drew attention; Wal-Mart buys more shrimp than any other U.S. company, importing 20,000 tons annually – about 3.4% of U.S. shrimp imports. With Wal-Mart’s nod, ‘we went from trying to convince individual facilities to become certified to having long waiting lines,’ says George Chamberlain, president of the Aquaculture Alliance.” (*The New Wal-Mart Effect: Cleaner Thai Shrimp Farms,* *The Wall Street Journal*, July 24, 2007)

*Walmart is working diligently toward achieving its sustainability goals. For information about Walmart’s sustainability initiatives, please visit: www.walmartstores.com/sustainability.
#*

While the evidence was anecdotal, many saw it as proof that Wal-Mart was beginning to place sustainability at the core of its business model. The company couldn’t, in this view, accomplish Scott’s aspirational goals merely by incremental improvements, by “greening”. Finally, because of the savings the company was realising, it helped Wal-Mart’s bottom line – the company had proved it could do well while it was doing good.⁵⁸

The Future of the Approach Many in the environmental movement applauded the company’s efforts. As Michelle Harvey, Programme Manager of Corporate Partnerships at the Environmental Defense Fund, observed: “It’s hard to hate Wal-Mart. The company is far from perfect and there’s a long way to go, but the effort is genuine.” However, she acknowledged, a comprehensive methodology to evaluate the results was not yet available. Furthermore, it was uncertain what the company would do once the “low-hanging fruit” was picked and harder choices had to be made. “Right now,” she said, Wal-Mart “was doing the things that could be justified in terms of costs. [Moreover,] much of it remains the responsibility of the suppliers, which Wal-Mart is pressuring to meet certain standards.”

In particular, Harvey noted, there were many areas where there was no clear business case. There were also issues for which the data were more ambiguous or even speculative, but where long-term impacts could be very high. For example, while it was easy to target carbon emissions, the anti-bacterial agent triclosan was becoming pervasive in the environment, appearing even in human breast milk. “[Its] effects are not quite proven,” Harvey explained, “but many of us are concerned.” What about alternative energy sources, she asked? What about products, such as bottled water, that sold well yet were bad for the environment? “Solutions to those problems,” she concluded, “could bring higher costs or higher prices for consumers.”

Ultimately, how Wal-Mart chose to wield its power could expose the company to criticism. For example, Wal-Mart unilaterally decided to discontinue the sale of

⁵⁸Hart, *op. cit.*, pp. 102–103.

BPA, a (legal) plastic liner in baby bottles, because of a potential cancer risk. Not only did this cause problems for BPA suppliers, but the health implications were uncertain at best. Moreover, critics pointed out, the company would continue to sell cigarettes – the health risks of which were proven scientifically – because customers wanted them.⁵⁹

The Sustainability Index

During the economic recession that began in 2008, Wal-Mart sales rose 1.7%, while those of most of its competitors fell, sometimes precipitously. Other news was mixed. Contradicting its reputation for “never settling out of court”, Wal-Mart agreed to pay \$54.25 million to settle a class-action lawsuit with workers claiming unpaid compensation for off-the-clock work.⁶⁰ In a precedent-setting agreement for North America, eight Wal-Mart autoshop workers in Gaineau, Canada were allowed to sign a union-sponsored contract with the company, ending a 3-year legal dispute.⁶¹ However, the company also continued to generate its own PR disasters. In the Deborah Shank case, Wal-Mart dropped its claim to \$US470,000 for reimbursement of the employee’s medical expenses met under Wal-Mart’s medical insurance plan – half the compensation she had won in court for a motor vehicle accident that left her permanently disabled. Although Wal-Mart was legally entitled to claim it in accordance with her insurance policy, the lawsuit became a viral-news sensation, particularly after Wal-Mart beat Shank in a US Supreme Court judgment.⁶²

Wal-Mart’s Sustainability Index represented the largest attempt by a retailer to develop a green-labelling system for the products it offered. The entire process was estimated to be completed in approximately 5 years. In step 1, Wal-Mart would collect data from over 100,000 suppliers regarding the sustainability of their operations. The questions focused on: (1) energy and climate, (2) material efficiency, (3) natural resources, and (4) people and community. While the survey results would serve the stakeholder consortium in the next step, it was always designed as a tool to get suppliers to investigate and understand practices more deeply. No other major company, it was claimed, had attempted to reach so deeply into such a varied supply chain. Top suppliers were instructed to deliver the surveys to Wal-Mart by 1 October 2009, with the others following soon thereafter. In step 2, Wal-Mart would help to organise a consortium of stakeholders to develop a database on the entire life cycle of products. Wal-Mart provided seed funding for this task, with the expectation that the suppliers as well as other retailers would contribute – it would be an effort to establish global, agreed-upon standards of sustainability. In Step 3, these standards would be encapsulated into labels that consumers could consult before making the purchase decision. (See Exhibits 3.4 and 3.5.)

⁵⁹ Marc Gunther, “Wal-Mart: the New FDA”, *Fortune*, July 16, 2008.

⁶⁰ Julianne Pepitone, “Wal-Mart: \$54 Million to Settle Workers’ Suit,” Money.CNN.com, Dec. 9, 2008.

⁶¹ “Gatineau Wal-Mart workers awarded contract”, *The Ottawa Citizen*, Aug. 8, 2008. No byline.

⁶² Anthony Mirhaydari, “Wal-Mart’s public relations disaster”, blogs.moneycentral.msn.com/2008/04/02

Exhibit 3.4 Sustainable Product Index: Fact Sheet.

On July 16, 2009, Walmart announced plans to develop a worldwide sustainable product index, which is expected to lead to higher quality, lower costs and measure the sustainability of products and help customers, live better in the twenty-first century. One of the biggest challenges we all face is measuring the sustainability of a product. Walmart believes a research-driven approach involving universities, retailers, suppliers and non-government organizations (NGOs) can accelerate and broaden this effort.

The Need for an Index

- The world's population is increasing.
 - It is estimated that the global population will reach 9 billion by 2050.
- The world's natural resources are decreasing.
 - Natural resources for everything we grow, eat, drink, make, package, buy, transport and throw away is outpacing the earth's capacity to sustain it.
- Customers want more efficient, longer lasting, better performing products. They want to know:
 - the materials in the product are safe
 - that it is made well
 - the product was produced in a responsible way

Index Step 1: Supplier Assessment Walmart will provide each of its 100,000 global suppliers with a survey of 15 simple, but powerful, questions to evaluate their own company's sustainability. The questions are divided into four areas:

- Energy and Climate
- Natural resources
- Material efficiency
- People and Community

Under these categories are some familiar questions on greenhouse gas emissions and location of factories, but the list also includes some new areas, such as water use and solid waste produced. For a complete list of the questions, visit walmartstores.com

Walmart will ask its top tier U.S. suppliers to complete the survey by Oct. 1. Outside the United States, the company will develop timelines on a country-by-country basis for suppliers to complete the survey.

These are not complicated questions, but we have never systematically asked for this kind of information before. This is an important first step in assessing the sustainability of suppliers, but for true transparency, we also need a tool for the sustainability of products.

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Exhibit 3.4 (continued)

Index Step 2: Lifecycle Analysis Database As a second step, Walmart is helping create a consortium of universities that will collaborate with suppliers, retailers, NGOs and government to develop a global database of information on the lifecycle of products – from raw materials to disposal. Walmart will provide the initial funding for the consortium, but it is not our intention to create or own this index.

The company will also partner with one or more leading technology companies to create an open platform that will power the index.

Arizona State University and the University of Arkansas will jointly administer the consortium. Talks are underway with additional universities to join the newly formed consortium.

Index Step 3: A Simple Tool for Consumers The final step of the index is to provide customers with product information in a simple, convenient, easy to understand rating, so they can make choices and consume in a more sustainable way. How that information is delivered to consumers is still undetermined, but could take the form of a numeric score, color code or some other type of label. The sustainability consortium will help determine the scoring process in the coming months and years.

“The index will bring about a more transparent supply chain, drive product innovation and, ultimately, provide consumers the information they need to assess the sustainability of products. If we work together, we can create a new retail standard for the 21st century.”

Mike Duke, President and Chief Executive Officer, Wal-Mart Stores, Inc.

Walmart Sustainability Milestone Meeting, July 16, 2009

Exhibit 3.5 Sustainability Product Index: 15 Questions for Suppliers**Energy and Climate: Reducing Energy Costs and Greenhouse Gas Emissions**

1. Have you measured your corporate greenhouse gas emissions?
2. Have you opted to report your greenhouse gas emissions to the Carbon Disclosure Project (CDP)?
3. What is your total annual greenhouse gas emissions reported in the most recent year measured?
4. Have you set publicly available greenhouse gas reduction targets? If yes, what are those targets?

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Exhibit 3.5 (continued)**Material Efficiency: Reducing Waste and Enhancing Quality**

1. If measured, please report the total amount of solid waste generated from the facilities that produce your product(s) for Walmart for the most recent year measured.
2. Have you set publicly available solid waste reduction targets? If yes, what are those targets?
3. If measured, please report total water use from facilities that produce your product(s) for Walmart for the most recent year measured.
4. Have you set publicly available water use reduction targets? If yes, what are those targets?

Natural Resources: Producing High Quality, Responsibly Sourced Raw Materials

1. Have you established publicly available sustainability purchasing guidelines for your direct suppliers that address issues such as environmental compliance, employment practices and product/ingredient safety?
2. Have you obtained 3rd party certifications for any of the products that you sell to Walmart?

People and Community: Ensuring Responsible and Ethical Production

1. Do you know the location of 100% of the facilities that produce your product(s)?
2. Before beginning a business relationship with a manufacturing facility, do you evaluate the quality of, and capacity for, production?
3. Do you have a process for managing social compliance at the manufacturing level?
4. Do you work with your supply base to resolve issues found during social compliance evaluations and also document specific corrections and improvements?
5. Do you invest in community development activities in the markets you source from and/or operate within?

Critics quickly stepped forward. According to blogger Philip Mattera, the proposed index appeared “rather thin” – yet another PR attempt at “greenwashing”; at the very best, its measures would merely tinker with a system that required far more fundamental change. Moreover, he argued, it would do little to overcome Walmart’s “abysmal record with regard to labour relations, wage and hour regulations, and employment discrimination laws. It also wants us to forget its scandalous tax

avoidance policies and its disastrous effect on small competitors.”⁶³ Others criticized the consortium approach, which they viewed as riddled with potential conflicts of interest. Not only did it appear to call on manufacturers to create the methodologies by which they would be rated, but – for an admission price between \$US50,000 and \$250,000 per year – they might stand to gain an insider’s advantage over non-participating manufacturers, regardless of whether or not the results were made public.⁶⁴ At this early stage, however, these criticisms remained speculative.

Furthermore, there were the methodological difficulties inherent to any attempt to evaluate – in a rigorously quantitative framework – the entire life cycle of a given product or product group. They included:

- The quantification of all the relevant interactions of the product with its surroundings. Not only would this entail an enormous amount of data to cover the exchanges and transportation involved in the global economy, but it necessitated assumptions to fill statistical gaps, lessening its accuracy.⁶⁵
- Agreement or consensus would have to be achieved on methodological standards for time horizons (i.e. what “cradle” and what “grave” would be measured), impact assessments, etc. Without such agreement, data might well be incompatible, hence impossible to aggregate.⁶⁶
- The gaps in life cycle assessments must be addressed, including: (1) developing more effective coverage of hazardous materials; (2) taking account of the complexities involved in recycling issues, e.g. tracking materials, such as paper, whose quality degrades with each recycle; (3) creating more dynamic measurement tools, i.e. cumulative problems over the long term, in particular the interaction of materials in waste dumps.⁶⁷

Other observers offered a more positive assessment of the index’s prospects. First, Wal-Mart’s green labeling would offer consumers the opportunity to choose, initiating a process of education for up to two-thirds of its customers. At present, only 10% of shoppers actively cared about the sustainability of their purchases, up to 25% would never care, but 65% were undecided. Second, while rarely imposing its standards on particular products, Wal-Mart was signalling to suppliers that their practices on sustainability must become more transparent. If they refused to do so, it would impact their business prospects with Wal-Mart in the competition for shelf space. Third, the suppliers themselves would learn about their own processes, introducing many of them to sustainability concerns that they would need to address systematically. If viewed correctly, this would enable them to understand their own

⁶³ www.corpwatch.org/15416

⁶⁴ Joel Makower, “Inside Walmart’s Sustainability Consortium”, www.wakeupwalmart.com/new/article/2343

⁶⁵ See <http://scp.eionet.europa.eu/themes/lca>

⁶⁶ See http://www.tececo.com/sustainability.life_cycle_analysis.php

⁶⁷ Mark Rossi, “Reaching the Limits of Quantitative Life Cycle Assessment”, June 2004, http://www.healthybuilding.net/pvc/CPA_EC_LCA_Critique.html

businesses better, offering them opportunities to innovate, save on costs, and find “hidden value” in their business models.⁶⁸

At any rate, some observers believed, the process itself would lead to the creation of “innovative paths”. Wal-Mart had set some ambitious goals, was getting many experts to cooperate in the formulation of new methods, and was promising to refine the index in accordance with the views of its critics.⁶⁹

⁶⁸See Daniel Goleman, “Wal-Mart Exposes the De-Value Chain”, blogs.harvardbusiness.org/goleman/2009/07

⁶⁹Joel Makower, “Two Steps Forward: Wal-Mart’s Sustainability Index: the Hype and the Reality”, 17 Jul, 2009, http://www.tececo.com/sustainability.life_cycle_analysis.php