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## **Walmart's Sustainability Journey: Lee Scott's Founding Vision**

On October 24, 2005, from the unassuming auditorium in Walmart's corporate offices in Bentonville Arkansas, CEO Lee Scott delivered a public speech to Walmart's employees and suppliers that marked a sea change for the company—he announced that the giant retailer would embark on a sustainability journey designed to redefine its role in society. Conceptualizing this new leadership role in the 21st century, Scott posed the following questions to his vast audience:

What if we used our size and resources to make this country and this earth an even better place for all of us: customers, Associates, our children, and generations unborn? What would that mean? Could we do it? Is this consistent with our business model? What if the very things that many people criticize us for—our size and reach—became a trusted friend and ally to all...?<sup>i</sup>

In the speech, Scott proposed that Walmart could make “this earth an even better place for all of us” and proclaimed three ambitious goals to transform Walmart's worldwide environmental footprint: (1) to be supplied 100% by renewable energy, (2) to create zero waste, and (3) to sell products that sustain the world's resources and environment. Scott acknowledged, “These goals are both ambitious and aspirational, and I'm not sure how to achieve them . . . at least not yet.”

As Scott's speech ended, he understandably wondered about the decisions he had made. Should Walmart really take a leadership role on such a complex issue? Was an ambitious sustainability strategy consistent with Walmart's business model of everyday low prices? Could Walmart truly

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leverage its size and reach to make the Earth a better place to live? And how would Walmart's stakeholders and associates respond? To Scott, the speech was the start of a long journey. He realized that many observers would be dubious at first, but he believed that Walmart could rise to the challenge of balancing its traditional business mission with an ambitious sustainability agenda.

### **Walmart's History**

Sam Walton, or Mr. Sam among Walmart associates, opened his first Walmart store in 1962 in Rogers, Arkansas, with the intention of offering the lowest possible prices to an underserved rural market. This always remained his goal: "If we work together, we'll lower the cost of living for everyone," Mr. Sam said frequently.<sup>ii</sup> Expecting his employees to do the right thing and empowering them to do so were the basic elements of his management style, and this empowerment remained one of the company's strongest characteristics. Mr. Sam's mission to save his customers' money seemed to become almost evangelical in its intensity, especially as his fame grew with the company's success. His employees thus became laser focused on cutting costs for consumers.

Stories of Mr. Sam's life and unceasing drive have become legendary. Even his failures are epic: At the grand opening of his second store. Mr. Sam had donkeys for kids to ride and truckloads of watermelon. The scorching hot sun caused the watermelons to burst and mix with the donkeys' droppings, forming a foul-smelling goop that customers got on their shoes and carried throughout the new store. This story circulated for years as evidence of Mr. Sam's boundless willingness to please customers, try innovative methods, and take risks. These qualities are still widely encouraged at Walmart.

Also typical of his leadership style was Mr. Sam's open-door policy, encouraging employees at all levels to discuss issues with him and other superiors; this approachableness also has remained a staple of the Walmart corporate philosophy. Many of Mr. Sam's core beliefs and sayings are ingrained within the Walmart community, such as, "We'll give the world an opportunity to see what it's like to save and have a better life." Walmart corporate meetings are part rally, "part cult ritual, part homage to a singular business vision."<sup>iii</sup>

Every day in associate meetings around the planet, the company cheer—an idea Mr. Sam copied from a Korean tennis ball factory that he visited in 1977—gets danced and shouted out: “Give me a W! Give me an A! Give me an L! Give me a squiggly!...” To underscore the unique Walmart culture, Mr. Sam would often show up unannounced at his stores and dance right along with the cheer. When it became infeasible to drive his pickup truck to his rapidly expanding network of far-flung stores, Mr. Sam bought a plane and learned to fly, so that he could drop by unexpectedly to cheer with his associates.

And Mr. Sam had plenty of reasons to cheer for his team. For years, Walmart served the needs of small towns in Middle America by offering vast product variety at very low prices; by expanding quickly but judiciously, the company soon became a retail giant. By 1985, there were 882 Walmart stores, 104,000 associates, and \$8.4 billion worth of sales. By 2005, Walmart U.S., Walmart International, and Sam’s Club facilities spanned 15 countries, featuring 6,200 outlets that employed 1.6 million associates and earned \$312.4 billion in sales. Approximately 84% of Americans had shopped at a Walmart within the past year.<sup>iv</sup> As Scott himself noted in his speech, Walmart would be the twentieth largest country in the world if the retailer’s sales were compared to national levels of gross domestic product.

As sales grew, Mr. Sam also developed the purchasing philosophy that all Walmart suppliers must strive to meet: As he bought more, he demanded lower costs per unit. His resolute focus on the company’s long-standing mottos —“Every Day Low Prices” and “Always Low Price. Always”— established an important legacy. Consumer savings continues to be the company’s main focus, and perhaps one of Walmart’s greatest contributions to society.

Mr. Sam stepped down as CEO in 1988. He died at the age of 74 in 1992, one month after being awarded the Presidential Medal of Freedom. He was followed in the CEO position by David Glass, a natural fit whose philosophies closely echoed those of Mr. Sam, with whom he had worked closely. In 2000, Lee Scott, the third employee to become a Walmart CEO, would also be the last one personally trained by Sam Walton.

During the years just before Scott's appointment, public controversies involving wages, gender discrimination issues, unions, and site placement created increasingly vocal challenges to Walmart's reputation and community standing. With Scott at the helm, Walmart's performance initially continued to improve, but by 2004, even as store sales were increasing, its stock price was dropping (see Exhibit 1). For example, sales climbed 10% to an astonishing \$288 billion and profits rose 13% to more than \$10 billion in 2004, yet Walmart's escalating legal and social issues were increasingly seen as a direct threat to its ability to continue to grow. It became apparent that the company had to do more than maintain everyday low prices.

### **Walmart's Nonmarket Environment**

After he became CEO, Scott found that he spent much of his time dealing with social and political issues—concerns outside the realm of market strategy and logistical operations, areas in which he felt well trained and informed. Instead, he needed to manage a host of non-market issues, ranging from working conditions, community resistance, anti-Walmart activists, and consumer perceptions.

#### **Working Conditions**

In 2004, various allegations of worker abuse emerged, some of which quickly became fodder for the press. Some associates had complained of being forced to skip breaks and meal times. A successful lawsuit by a waitress and cook at an in-store restaurant alleged that she had no relief for bathroom breaks during several shifts and was afraid to leave her post unattended. Some overnight workers who cleaned and stocked while stores were closed complained of being locked in the building with no way out in case of emergency. Accusations of gender discrimination further alleged that the company underpaid and under-promoted women. By 2005, Walmart was facing a federal class action lawsuit for its discrimination against female employees.<sup>v</sup>

Critics also claimed that the company's health care plan was too expensive for its associates. When Scott became CEO, one study estimated that up to 46% of associates' children had no health care at all or were on state welfare programs.<sup>vi</sup> The company did not allow its employees to join unions, so Walmart was a regular target of the United Food and Commercial Workers

Union, which accused it of paying low wages and forcing workers to rely on government health programs. Then a 2004 Congressional committee released a report examining the impact of Walmart, entitled “Every Day Low Wages: The Hidden Price We All Pay for Walmart.”<sup>vii</sup>

### **Community Resistance**

Walmart's reputation often suffered in confrontations with local communities when a new store was planned in an area; nobody minded having low cost shopping options or the influx of new jobs, yet community resistance often dominated Walmart's entry. Critics claimed that new stores would lead to rising public costs to support associates' families, especially through government assistance programs; they also decried the environmental impacts of a giant store, including increased traffic nearby; and many worried about the potential loss of nearby mom-and-pop stores. In several urban areas such as New York City, St. Louis, and San Diego, opposition kept Walmart from building Supercenters.

### **Anti-Walmart Activists and Publicity**

As various nongovernmental organizations (NGOs) entered the debate, they brought up new and similar concerns and openly criticized Walmart for allegedly supplying shoddy foreign products made in factories that they claimed were poorly operated and staffed by underpaid workers. Critics also suggested that Walmart resisted unions, promoted men more frequently than women, caused U.S. workers to lose jobs through imports of Chinese products, and contributed to the disappearance of urban centers and small and medium businesses.<sup>viii</sup>

Union-funded groups, such as Wal-Mart Watch and WakeUpWal-Mart.com, were developed specifically to focus on Walmart's negative impact. Books compared the economic benefits of Walmart with its social costs, and a documentary and its accompanying website, *Is Walmart Good for America?* were featured during the November 16, 2004, episode of *Frontline*, highlighting poor conditions throughout the United States that critics claimed were created by the company. Another documentary, *The High Price of Low Cost*, was set to release only a few days after Scott's speech. Compounding its problems, one study estimated that between 2% and 8% of consumers avoided shopping at Walmart as a response to what they considered to be poor business practices.<sup>ix</sup>

In 2004 Scott began to focus more on the areas in which Walmart suffered the greatest legal and public relations vulnerability. He hired McKinsey & Co. to write up an analysis; their study advised the company to transform its image quickly – not just through conventional public relations but rather with noticeable good works – in order to shield its reputation, brand, and consumer base. The seed was planted that the company needed to become a leader or protector in an area of public concern: “Take a proactive stance: shape the external debate by becoming a role model on a significant societal issue.”<sup>x</sup> Scott was not yet thinking about environmental sustainability as the right fit for a significant societal issue that Walmart could lead, but he would soon reach this conclusion.

### **Lee Scott's Journey to Sustainability**

Harold Lee Scott was born in Joplin, Missouri, in 1949. While Scott was still a child, the family moved to Baxter Springs, Kansas, where his parents struggled to feed their three sons. Scott's father ran a Phillip's 66 gas station; his mother taught music at an elementary school. As a youth, Scott pumped gas at the filling station with his dad, and after graduating from high school, he went to work full time at a local company that made tire molds. The job paid his college tuition at Pittsburg State University. By the time he was 21, Scott had a wife and child to support, all of them living in a tiny trailer.<sup>xi</sup>

Scott worked a full-time night shift job and went to college during the day, eventually earning a business administration degree in 1971. He got a job working for Yellow Freight, a trucking company, then moved up into various positions, and by 1977, he had relocated to Springdale, Arkansas, as a terminal manager. Trying to collect a debt for Yellow Freight, Scott met future Walmart CEO David Glass, who absolutely refused to pay what he believed to be an erroneous bill—though he offered Scott a job. In rejecting that job, Scott recalled he thought, “I'm not going to leave the fastest growing trucking company in America to go to work for a company that can't pay a \$7,000 bill!”<sup>xii</sup>

But as Walmart's fortunes improved, Glass eventually convinced Scott to take a job, as head of its transportation department. When Scott had a few altercations with drivers, they took their

complaints directly to Mr. Sam. Typical of his leadership style, Mr. Sam reminded Scott to listen to the drivers' complaints and also thank them for talking with him about their concerns; this open-door policy, encouraging employees at all levels to verbalize their issues with superiors, was a staple of the Walmart corporate philosophy. A cashier, associate, or truck driver must be able to walk into the CEO's office without an appointment and expect to be heard. As CEO, Scott worked to continue Walmart's open-door management traditions.

He quickly learned that he needed to open his doors to external stakeholders, as well as internal colleagues. "Over the years, we have thought that we could sit in Bentonville, take care of customers, take care of associates and the world would leave us alone," Scott admitted during a at a Goldman Sachs investors' conference in early 2005. "It just doesn't work that way anymore." Most employees of the company sincerely believed that their mission was to improve the lives of customers by saving them money, but Scott realized that he had to extend Walmart's vision and proactively address reputational issues since, "We can't let our critics define who we are and what we stand for."<sup>xiii</sup>

Despite some general interest in the environment, Scott did not at first consider it a serious issue for the corporation. As he remarked in his 2005 "Twenty First Century Leadership" speech, of the multiple social challenges that Walmart faced, "Frankly, I thought the environment was the least relevant. We are recycling responsibly and we are not wasteful—so a Wal-Mart environment program sounded more like a public relations campaign than substance to me.... As I learned more, a light bulb came on for me ... and that's a compact fluorescent light bulb!" (For an excerpt from the full speech, see Exhibit 2).

His realization that the environment was a business issue began with a visit from Rob Walton, one of Mr. Sam's children, who loved the outdoors and grew up in the Ozarks, where "all our family vacations were camping trips." In the early 2000s, Walton took several trips with Conservation International (CI) founder and CEO Peter Seligmann to locations such as Madagascar, Brazil, the Galapagos Islands, and Costa Rica. On one trip, Seligmann told Walton: "We need to change the way industry works. And you can have an influence."<sup>xiv</sup> Walton listened closely, and in June 2004, he arranged for Scott to meet with Seligmann, Glenn Prickett of CI,

and Jib Ellison, a sustainability consultant. Scott had just completed a review of Walmart's many human resource and public relations issues, and he was primed to hear their insights. The result of their discussions led Scott to hire CI and Ellison to measure the company's environmental footprint. Emphasizing its importance, Scott asked Vice President of Strategy Andy Ruben to work closely with Ellison on the study to find ways Walmart could institute changes.

By early fall 2004, the new sustainability team had convened a small, diverse group of associates to think about what sustainability might mean for Walmart. One participant from these early gatherings remembered especially the give-and-take tone that characterized the initial discussions:

We were under constant barrage from NGOs, from governments, from local, federal, international unions, challenging our desire to continue our business model and to be able to grow. At the same time sustainability was becoming a word people knew and customers were caring more. So Lee convened the discussion and laid out the business case. At the end of that meeting we walked out with the question, "should we do anything about this, should we care?" Perhaps about half that walked out of the meeting were saying "no, the business is not in a good place, there are too many challenges." And the other half were saying "yes." And Lee could have come down and said we will do it, we will do it by Friday at noon, and you will do this and that. He didn't because that's not the style of leadership that works at Walmart very well.xv

After more than a year of discussion, Scott eventually sided with those that argued that a major sustainability effort was consistent with Walmart's overall business model.

### **The Leadership Speech**

Scott's "Twenty first Century Leadership" speech provided the basic rationale and founding vision for Walmart's new environmental sustainability initiative. In making his arguments, Scott frequently referenced the lessons learned from Walmart's recent disaster response. In August 2005, Hurricane Katrina hit the Gulf Coast, killing 1,836 people—mostly due to flooding when embankments built to hold back flood waters were unable to withstand the storm's surge. Scott traveled to the Superdome and saw for himself the terrible conditions in the area. He also took pride in the decisions, made by employees, to find and distribute supplies free of charge to victims in the aftermath. Observers even noted that Walmart was quicker to respond to address



the emergency conditions than federal, state, or local government agencies. In contrast with its recent negative publicity, Walmart received consistently high praise for its efforts.<sup>xvi</sup>

To Scott, Hurricane Katrina shifted the contours of the debate about the relationship between business and society at Walmart. While activists frequently pointed out the retailer's mistakes and errors, Katrina illustrated how Walmart could use its power and expertise to exert a positive impact on the broader society in which it operated. A week after Hurricane Katrina, Scott accompanied several other executives on a trip up Mt. Washington to learn first hand from scientists about the growing environmental problems that were transforming the world. During his hands-on experience in the mountains, speaking with New Hampshire maple sugar farmers, Scott became strongly convinced that Walmart could and should act to improve its environmental performance.<sup>xvii</sup> In his watershed speech, Scott conceived of the challenges of environmental degradation and disregard as a slow-motion hurricane:

We should view the environment as Katrina in slow motion. Environmental loss threatens our health and the health of the natural systems we depend on.... As one of the largest companies in the world, with an expanding global presence, environmental problems are OUR problems. The supply of natural products (fish, food, water) can only be sustained if the ecosystems that provide them are sustained and protected. There are not two worlds out there, a Wal-Mart world and some other world. That's what we saw with Katrina: Our Associates, customers and suppliers occupy the same towns, our children go to the same schools, and we all breathe the same air. These challenges threaten all of us in the broader sense, but they also represent threats to the continued success of our business. During Katrina, I was reminded of the vision and innovation of Sam Walton. We became who we are by serving the underserved. The smart folks predicted we'd lose our shirt with a discount store in a small town. There is another crowd of smart people who think that if a company addresses the environment; it will lose its shirt. I believe they are wrong.

Scott argued that Walmart could not defend itself from its critics by trying to construct a wall to separate its business and societal obligations. Instead, it needed to embrace a new vision of its leadership role in making "this country and this earth an even better place for all of us: customers, associates, our children, and generations unborn."

To counter the argument that Walmart would “lose its shirt” by addressing environmental problems, he also proposed that the company could accomplish ambitious environmental goals at little or no cost to the business:

There is a simple rule about the environment. If there is waste or pollution, someone along the line pays for it. For example, if our trucks are inefficient from a fuel standpoint, we'll pay for that at the diesel pump. If the dumpsters behind our stores fill up with trash, you can be assured that we paid someone to send that trash to us, and we will pay someone to take it away.

To demonstrate the business case for sustainability, Scott provided several illustrations from Walmart's own early experiences:

Our packaging team, for example, worked with our packaging supplier to reduce excessive packaging on some of our private-label Kid Connection toy products. By making the packaging just a little bit smaller on one private brand of toys, we will use 497 fewer containers and generate freight savings of more than \$2.4 million per year. Additionally, we'll save more than 38-hundred trees and more than a thousand barrels of oil.

He also discussed successful efforts to introduce new sustainable products:

Sam's Club introduced a yoga outfit made of organic cotton. It sold 190,000 units at 290 clubs in 10 weeks. We gave our customers something they wanted, but something they might not could have afforded at specialty stores. They snapped it up, and in the process eliminated two jumbo jets full of pesticides.

Calling on Walmart associates to apply the same leadership and ingenuity to sustainability issues as they had applied throughout Walmart's four-decade history, Scott asked:

Why not spend the next four decades making our trucks, refrigerators, stores, lighting, packaging, shipping—every aspect of our business—the most productive in the world? This will be good for the environment, it will save us money, and in some cases, it will actually add profits to our bottom line.

Then to inspire further action, Scott set three aspirational goals: to be supplied 100% by renewable energy, to create zero waste, and to sell products that sustain resources and the environment. He avoided setting a time frame for achieving these goals, but he did provide intermediate objectives. To make progress toward the first goal of improving energy usage, he called for a 25% increase in the fuel efficiency of Walmart's trucking fleet (one of the largest

private fleets in the world) in three years, then doubling that efficiency improvement by 2015. He set an objective to reduce greenhouse gas emissions at existing stores by 20% in seven years, while also designing a prototype store that would be 30% more energy efficient within four years. Finally, he called for efforts to reduce solid waste in U.S. stores by 25% within three years.

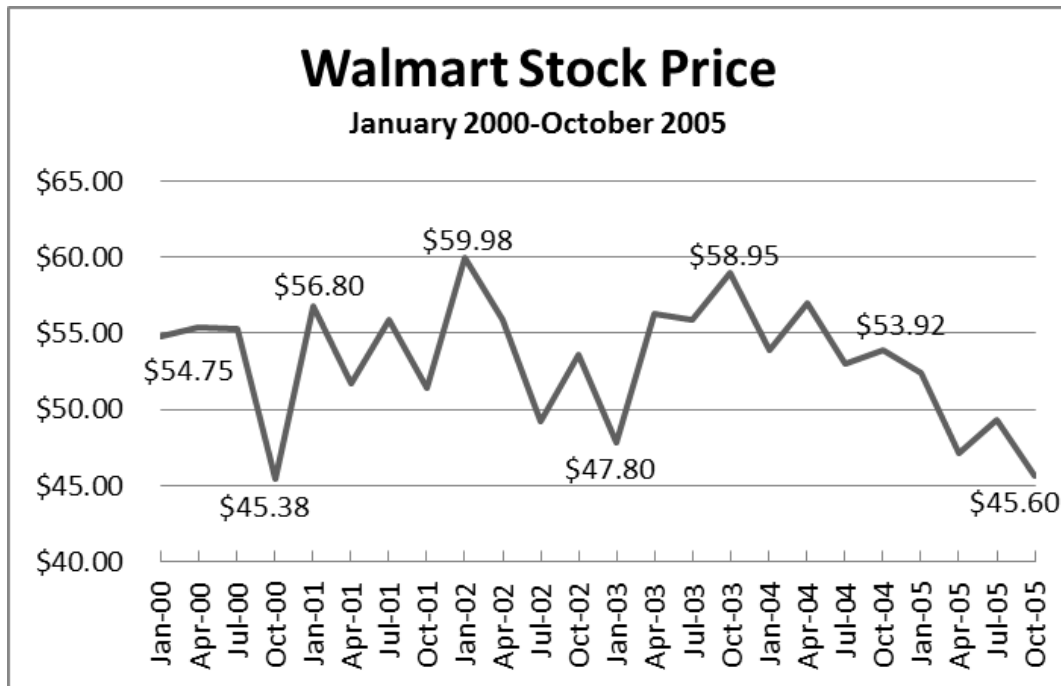
Scott provided less exact objectives for reaching the third goal, selling sustainable products. The first two goals could be managed within Walmart's own operations; the third required Walmart to reach out to influence the operations of its vast supply chain. Scott thus suggested simply that Walmart source environmental products, such as seafood, cotton, and forest and paper products, in a sustainable manner. He knew that the broad goals he had set would be difficult to achieve, but Scott also believed that Walmart's associates could find a path forward:

You know, we are in uncharted territory as a business. You won't find any case studies at the Harvard Business School highlighting answers for companies of our size and scope. If we were a country, we would be the 20th largest in the world. If Wal-Mart were a city, we would be the fifth largest in America. People expect a lot of us, and they have a right to. Due to our size and scope, we are uniquely positioned to have great success and impact in the world, perhaps like no company before us.

### **The Journey Begins**

In his leadership speech, Scott had publicly proclaimed ambitious goals for Walmart and environmental sustainability. His motivations for making the high impact speech entailed a delicate balance between business profitability and values-based social impacts. Continuing the company's focus on everyday low costs was of paramount importance, but Scott had learned that Walmart could aspire to a new role in society. Adapting a social cause to improve Walmart's public reputation seemed necessary in 2005, but had this ambitious sustainability speech overstepped the typical boundaries of such a strategic move? He could only hope that Walmart's associates, consumers, shareholders, and stakeholders ultimately would come to support his initial vision.

**Exhibit 1: Walmart's Stock Prices\***



Source: [www.Finance.Yahoo.Com](http://www.Finance.Yahoo.Com)

\*Stock prices as of the first trading day of each month.

**Exhibit 2: Opening of "Leadership in the 21st Century," Presented by Lee Scott, October 24, 2005**

To read the speech in its entirety, see:

<http://news.walmart.com/executive-viewpoints/twenty-first-century-leadership>

Thank you for joining me this morning and for giving me an opportunity to share some perspective on our business and the significant opportunities we have ahead of us. Wal-Mart started as one man's dream 43 years ago, a courageous vision brought to life as we speak, by more than one million Associates serving over 100 million customers every week. Sam Walton's goal was simple, and yet when you think about it, radical: He wanted to help the people living in small towns and rural America enjoy a similar quality of life as those who lived in the big cities. While retailers were rushing to the suburbs, Sam Walton built a business serving these overlooked and under-appreciated customers. He knew intuitively this was right for the country, but also that there was a big business opportunity to provide this kind of value and service. Sam Walton's dream to serve the under-served changed the world. His method was to go where other businesses feared to go. The other retailers of that time were convinced they wouldn't make money in small town America. In other words, we didn't get where we are today by being like everyone else and driving the middle of the road. We became Wal-Mart by being different, radically different.

Even with this great beginning, we have received our share of criticism over numerous issues, not the least of which is our size. To better understand our critics and Wal-Mart's impact on the world and society, we spent a year meeting with and listening to customers, Associates, citizen groups, government leaders, non-profit and non-government organizations, and other concerned individuals. You might be surprised about what we heard. Many of these individuals and groups see things differently than we do, but they also have ideas. In fact many of our most vocal critics do not want us to stop doing business, but they feel business needs to change, not just our company, but all companies. We didn't send a delegation or committee to meet with our critics. I met with them, so did Mike Duke, John Menzer, Doug Degn, John Fleming, Doug McMillon, Claire Watts, Eduardo Castro Wright, Rollin Ford, Tom Schoewe, Susan Chambers, Lawrence Jackson, and others. Mostly we listened. And asked questions. And listened some more.

You know, we are in uncharted territory as a business. You won't find any case studies at the Harvard Business School highlighting answers for companies of our size and scope. If we were a country, we would be the 20th largest in the world. If Wal-Mart were a city, we would be the fifth largest in America. People expect a lot of us, and they have a right to. Due to our size and scope, we are uniquely positioned to have great success and impact in the world, perhaps like no company before us.

After a year of listening, the time has come to speak, to better define who we are in the world and what leadership means for Wal-Mart in the 21st century. Nothing brought this home more clearly than Hurricane Katrina. Katrina was a key personal moment for me. When Katrina hit last month, the world saw pictures of great suffering and misery. Associates lost their savings, their homes, and in a few cases, their lives. I spent time with a few of them in the Houston Astrodome. I saw the pain, the difficulty, and

the tears. But I saw something else. I saw a company utilize its people resources and scale to make a big and positive difference in people's lives.

I saw how Jessica Lewis, the co-manager of our Waveland, Mississippi, store, worked to help those in her community. When the flood surge swept through the store, it was a shambles. That night, though it was dark and flooded, she took a bulldozer and cleared a path into and through that store, and began finding every dry item she could to give to neighbors who needed shoes, socks, food, and water. She didn't call the Home Office and ask permission. She just did the right thing. Just like thousands of our Associates who also did the right thing, a trait I am proud to say is bred in our culture. During this time, we were asked by governments, relief agencies and communities to help. And look what happened. We were showered with gratitude, kindness, and acknowledgments. This was Wal-Mart at its best.

Katrina asked this critical question, and I want to ask it of you: What would it take for Wal-Mart to be that company, at our best, all the time? What if we used our size and resources to make this country and this earth an even better place for all of us: customers, Associates, our children, and generations unborn? What would that mean? Could we do it? Is this consistent with our business model? What if the very things that many people criticize us for—our size and reach—became a trusted friend and ally to all, just as it did in Katrina?

Thankfully Katrinas don't come around very often, but the world needs help all the time. People and the environment are being pushed to the limits. I don't need to tell you how hard our customers work, and how hard it is to make ends meet. EDLP [Everyday Low Prices] is not a catchphrase; it is a commitment to our customers – and one they count on.

In the group meetings I referenced earlier, we talked about jobs, healthcare, community involvement, product sourcing, diversity, environmental impact: all the issues that we've been dealing with historically from a defensive posture. What became clear is that in order to build a 21<sup>st</sup> century company, we need to view these same issues in a different light.

In fact, they represent gateways for Wal-Mart in becoming the most competitive and innovative company in the world. Remember what I said earlier about Sam Walton? He had the courage and foresight to take on the hardest tasks in retailing instead of the easiest, and look what we were able to accomplish.

Endnotes

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