IS WAL-MART A SOCIAL ENTERPRISE? AN EXPLORATION OF THE RELATIONSHIP BETWEEN CORPORATE REPUTATION, CORPORATE SOCIAL RESPONSIBILITY & FINANCIAL PERFORMANCE

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ABSTRACT

The goal of this article is to introduce corporate social responsibility as a potential moderator in the relationship between corporate reputation and financial performance. This article also asks the question whether Wal-Mart can be perceived as a social enterprise based on the public’s perception of the retail giant’s reputation and their socially responsible behaviors (or lack thereof).

Keywords: Corporate Reputation, Corporate Social Responsibility, Social Enterprise.

INTRODUCTION

Wal-Mart has faced its fair share of criticism, which has negatively impacted their corporate reputation. Some have argued that Wal-Mart has destroyed communities by changing established living patterns in the United States (Zhang & Largay, 2009). Some also argued that because of the retail giant, shoppers drive to buy goods and services at locations on the outskirts of town, which results in downtown mom and pop stores losing their customer base and eventually closing down (Zhang & Largay, 2009). In order to avoid these negative effects on their communities, some county leaders do not allow Wal-Mart to enter (Zhang & Largay, 2009).

In recent years Wal-Mart also faced intense scrutiny for its alleged discrimination against women and exploitation of low-wage workers (Garcia, Rovenport, & Osland, 2009). Wal-Mart also made Northwestern University business professor, Daniel Diermeier’s list of 2012 worst reputational crises. The retail giant made the list due to allegations of corruption in their Mexican operations and also due to the fire at the Tazreen Fashions factory in Bangladesh, a maker of clothing items for Wal-Mart and other retailers (Diermeier, 2012). Even a recent Forbes magazine article entitled “Oops, Five CEOs Who Should Have Already Been Fired” listed Wal-Mart Ceo, Mike Duke as someone who should have been fired long ago due to the management scandals, employee discontent due to low wages, and its negative effect on the communities (Hartung, 2012).
The Reputation Institute compiles an annual list of the most reputable companies, where Wal-Mart recently placed 124th and was outranked by other retail firms, including Amazon (3rd place), Whole Foods (23rd place) and Target (37th place) (The Most Reputable Companies in the U.S., 2013). Organizations, such as Wal-Mart, should be concerned with their reputation, especially given prior research that suggests reputation can influence stakeholder perceptions (Rindova, Williamson, Petkova, & Sever, 2005), investor reactions (Pfarrer, Pollock, & Rindova, 2010), and long-term profitability (Roberts and Downing, 2002). Reputation is an important means by which companies can maintain a sustainable competitive advantage and endure a long term relationship with multiple stakeholder groups (Boyd, Bergh, & Ketchen, 2010). Therefore, companies have to play an active role in managing their reputation because it may result in superior financial performance or potential disaster. Warren Buffet, influential CEO, investor and philanthropist, stated “It takes 20 years to build a reputation and five minutes to ruin it.” In order to use reputation as a source of competitive advantage, companies need to showcase their capabilities in order to change stakeholder perspectives, and this can be done by publicizing their vision, mission, and values (Dowling & Moran, 2012). This is especially important for Wal-Mart because of the constant negative press facing the retail giant.

One way to improve corporate reputation is through contributions to the community and society at large, because corporate social responsibility (CSR) may increase customer goodwill towards the firm (McGuire, Sundgren, and Schneeweis, 1988). CSR initiatives also help organizations to differentiate their products and services by creating a positive brand image, further safeguarding the firm’s reputation (Hsu, 2011). This approach makes CSR an important component in a firm’s differentiation strategies and is a form of strategic investment comparable to R&D and advertising (Gardberg and Fombrun, 2006).

Wal-Mart, like many other large companies, does possess a corporate conscience and goes the extra mile to take positive actions toward the environment, social causes, and their communities (Creel, 2011). In spite of all the negative criticism, which has impacted the corporate reputation of Wal-Mart, some suggest that the retail giant has impacted society in positive ways as well. For example, according to the Chronicle of Philanthropy, Wal-Mart continues to make good on its 2010 $2 billion dollar pledge to help feed low-income people (Barton, Di Mento, Flandez, & Lopez-Rivera, 2012).

This paper focuses on Wal-Mart as it explores the connection between reputation and financial performance, as well as CSR serving as a possible moderator of the reputation-financial performance relationship (see Figure 1). Furthermore, despite some negative public perceptions of the company, the authors also discuss the consideration of Wal-Mart as a social enterprise due to its CSR and commitment to community initiatives.
The resource-based view (RBV) of the firm basically states that superior organizational performance is based upon the firm’s possession of superior resources (Schmidt and Keil, 2013). Those resources must be valuable, rare, imperfectly imitable, and non-substitutable (Barney, 1991), if they are to provide competitive advantages to the firm. Corporate reputation is widely considered to be an intangible resource that possesses all of the attributes that can play a role in a firm’s ability to achieve superior organizational performance (Roberts & Dowling, 2002; Rumelt, 1987; Shamsie, 2003). In this context, reputation is defined as an organizational attribute and depicted as a broad, multidimensional single construct whose value is determined through the interactions and interrelationships among multiple attributes, both internal and external to the firm (Barney, 1991; Dowling, 2001).

The interplay among these underlying determinants would combine to create a synergistic effect, where value is produced from uniting the components and developing their mutually reinforcing relationships (Boyd, Bergh, and Ketchen, 2010). According to Boyd, et al. (2010) the linkages among reputation’s internal and external attributes are rare and difficult to imitate and could lead to competitive advantage and superior performance (e.g., Dierickx & Cool, 1989; Hall, 1992; Roberts & Dowling, 2002).

Social impact theory lies at the heart of an enterprises’ strategy and generally embodies the organization’s mission, vision, and values (Guclu, Dees, & Anderson, 2002). By clearly defining the organization’s intended outcomes and means for achieving them, the theory also provides a precise description of the ultimate social impacts for which the organization will hold itself accountable (Guclu, Dees, & Anderson, 2002). This kind of articulation gives the potential opportunity a more refined definition than it typically gets in the idea stage, creating a measure of clarity and singularity of purpose (Guclu, Dees, & Anderson, 2002). According to Guclu, et al., defining a social impact theory is a dynamic process that integrates creativity with analysis and the evaluation of results. Organizations may want to revise their social impact theory and should regularly test it to ensure that they are really making a positive difference. For example, Wal-Mart’s global CSR mantra states that “we help people live better around the world” and serves as a driving force behind the firm’s actions (Wal-Mart Global Responsibility, 2013). Wal-Mart has to ensure that their social impact theory is actually measuring success, and that stakeholders are
aware of the firm’s intentions regarding social impact. When this is articulated clearly to all stakeholders, it may then impact the corporate reputation of Wal-Mart.

CORPORATE REPUTATION

Roberts and Dowling (2002, p. 1078) define reputation as a perceptual representation of a company’s past actions and future prospects that describe the firm’s overall appeal to all its key constituents when compared to other leading rivals. Roberts and Dowling (2002) further explained that corporate reputation is a general organizational attribute that reflects the extent to which external stakeholders see the firm as ‘good’ and not ‘bad.’ Barnett, Jermier, and Lafferty (2006) defined corporate reputation as observers’ collective judgments of a corporation based on assessments of the financial, social, and environmental impacts attributed to the corporation over time.

Top-level managers consider corporate reputation as the critical intangible resource that leads to competitive advantage, and the significance of that construct is supported by a positive relationship between an organization’s corporate reputation and its return on assets (Deephouse, 2000). According to Hsu (2012), an investment in reputation develops stakeholder’s support and increases consumer’s confidence in the firm’s offering. There seems to be consensus among academics and practitioners alike that the way in which the public perceives a company is very important in determining its success (e.g. Fombrum, 1996; Brown, 1998; Roberts & Dowling, 2002. Antunovich and Laster (1998) contend that the Fortune magazine reputation ratings are directly related to a firm’s future equity performance in U.S. Their study showed that the most admired firms in the U.S. achieve high equity return performance after corporate reputation publication while the less admired firms generally underperform.

Various benefits can be gained from possessing a good reputation, which have also been associated with increased financial performance. Providing an indicator of product quality when consumers are faced with a choice between competing products is a reputational benefit that can lead to increased sales, premium prices and customer retention (Shapiro, 1983). The attraction of a higher caliber workforce and higher staff retention rates is another benefit of good reputation, which may lead to reduced organizational costs (Roberts and Dowling, 2002). A favorable reputation can assist in the reduction of supplier and buyer exchange uncertainty, potentially leading to increased sales and reduced transaction costs (Kotha, Rajgogal, and Rindova, 2001). Also providing a reserve of goodwill as a competitive “barrier” in challenging operating times is a reputational benefit that may aid in maintaining sales (Michalisin, Kline, and Smith 2000).

Proposition 1: There will be a positive relationship between corporate reputation and the financial performance of Wal-Mart.
CORPORATE SOCIAL RESPONSIBILITY

Corporate social responsibility (CSR) involves organizations going beyond legal obligations and their own interests to address and manage the impact their activities have on society and the environment (McWilliams & Siegel, 2001). According to Vallaster, Lindgreen, and Maon (2012, p. 35), this view includes how firms and their managers interact with stakeholders, who are commonly defined as those “persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future” and includes customers, suppliers, employees, investors, and the communities in which they operate, as well as the degree to which they strive to care for the natural environment (Vallaster, Lindgreen, & Maon, 2012).

A 2009 McKinsey survey of more than 1000 global corporate executives revealed that business leaders think the recent economic crisis has increased the public’s expectations of the role of organizations in society (Bonini and Miller 2009). Of these executives, 85% or more report that addressing environmental, privacy, health, safety, workplace conditions, and developing country investment issues creates value for their companies and shareholders (Madden, Roth, & Dillon, 2012). Attention to these societal concerns demonstrates corporate citizenship and influences the company’s reputation in the public eye as it reveals the company’s interest in more than just the bottom line.

A poor social responsibility image, captured in ratings such as those of Kinder, Lydenberg, Domini Research & Analytics, can lead to sellouts of company shares by large investment funds, which can in turn negatively impact financial performance (Chatterji, Levine, and Toffel, 2009). Companies need to keep in mind that stakeholders want to affiliate with an organization with which they more closely identify and whose company’s values are consistent with their own (Akerlof and Kranton, 2010). CSR initiatives then provide an observable signal of the firm’s values (Sen and Bhattacharya, 2001). For example, stakeholders who value diversity will identify with CSR initiatives that focus on diversity. But if the firm also engages in a CSR initiative to, for example, protect the environment, then stakeholders who identify with the firm’s diversity values may find those enhanced by the firm’s environmental values (Janney and Gove, 2011).

Corporate social responsibility is expected to play a role as a moderating variable in the relationship between corporate reputation and financial performance. Lin, Chen, Chiu, and Lee (2011) found a significant moderating effect of perceived CSR on the relationship between perceived negative publicity and trust, which suggests that customer’s trust is easily hurt by negative publicity when perceived CSR is absent. When there is a lack of trust among potential customers for a certain company, there is more of a propensity for them to refrain from supporting that company through sales (Lin et al., 2011). As long as CSR can be embraced and well demonstrated by a company (e.g. cause-related advertising and marketing), customer’s trust in that
company is less likely destroyed merely based on negative publicity, and its financial performance will have a smaller likelihood of being hindered (Lin et al., 2011).

Proposition 2: Corporate social responsibility will moderate the relationship between corporate reputation and the financial performance of Wal-Mart.

SOCIAL ENTERPRISES

In the United States, academics conceptualize social enterprises as organizations that fall along a continuum from profit-oriented enterprises engaged in socially beneficial activities (corporate philanthropies or corporate social responsibility), to dual-purpose businesses that mediate profit goals with social objectives, or nonprofit organizations engaged in mission-supporting commercial activity (social purpose organizations) (Kerlin, 2006). As it pertains to the economic impact of social enterprises, one study reported results suggesting that social enterprises are very effective at job creation and that all forms of socially oriented organization create more jobs on average than mainstream entrepreneurial enterprises (Harding, 2004).

The Social Enterprise Alliance defines social enterprises as businesses whose primary purpose is the common good. They use the methods and disciplines of business and the power of the marketplace to advance their social, environmental and human justice agendas (What’s a Social Enterprise, 2013). This definition, then, alludes to social enterprises possessing a sense of corporate social responsibility as they feel a sense of obligation to use their resources to improve societal conditions. According to the Social Enterprise Alliance, there are three characteristics that distinguish a social enterprise from other types of businesses, nonprofits and government agencies, and some scholars and practitioners may argue that Wal-Mart can be defined as a social enterprise based on the three characteristics listed below.

1. It directly addresses an intractable social need and serves the common good, either through its products and services or through the number of disadvantaged people it employs (What’s a Social Enterprise, 2013).

Wal-Mart recently announced plans to spend an extra $50 billion over the next ten years purchasing U.S.-made merchandise, to help reestablish American manufacturing after twenty years of steep job losses to China and other low-cost producers (Newman, 2013). The retail giant also offered to hire any honorably discharged military veteran who wants a job, estimating it could hire at least 100,000 vets over the next five years (Newman, 2013). “America needs an economic renewal,” Bill Simon, CEO of Wal-Mart’s U.S. division, said in announcing the new initiatives. “Through our buying power we can play a role in revitalizing the communities we serve” (Newman, 2013, p. 26). Members of the U.S. military, and their spouses, are guaranteed transfers to nearby Wal-Mart or Sam’s Club locations if they are force to relocate for military purposes. This promise, made on Wal-Mart’s behalf, ensures that employees called away to active
duty will be paid any difference in their salary if they earn less money during their military assignment (Military family promise, 2013).

2. **Its commercial activity is a strong revenue driver, whether a significant earned income stream within a nonprofit’s mixed revenue portfolio, or a for profit enterprise** (What’s a Social Enterprise, 2013).

According to Wal-Mart’s website, consolidated net sales for the full fiscal year were $466.1 billion, an increase of 5.0 percent over fiscal 2012 (Fiscal 2013 results, 2013). Net sales included approximately $4.0 billion from acquisitions and approximately $4.5 billion of negative impact from currency exchange rate fluctuations. Membership and other income was $3.0 billion, a decrease of 1.6 percent from the prior year. Total revenue was $469.2 billion, an increase of 5.0 percent or $22.2 billion (Fiscal 2013 results, 2013).

3. **The common good is its primary purpose, literally “baked into” the organization’s DNA, and trumping all others** (What’s a Social Enterprise, 2013).

Some may argue that Wal-Mart’s slogan “Save money. Live Better” can be interpreted as a social mission embedded in the fabric of the organization. According to Wal-Mart’s website environmental sustainability has become an essential ingredient to doing business responsibly and successfully. Wal-Mart believes that their actions have the potential to save customers money and help ensure a better world for generations to come. Their three aspirational sustainability goals are: 1) To be supplied by 100% renewable energy, 2) To create zero waste, and 3) To sell products that sustain people and the environment (Environmental sustainability, 2013).

**CONCLUSIONS, IMPLICATIONS AND FUTURE INQUIRY**

In conclusion, the verdict is still out on Wal-Mart as to whether or not they can be viewed as a social enterprise. Even though the retail giant has lead the way in corporate philanthropy, job creation, and other initiatives with the purpose of helping people and communities “live better,” they still have a bit of problem with their corporate reputation. As stated by Robert and Downing, (2002, p. 1078), “corporate reputation is a general organizational attribute that reflects the extent to which external stakeholders see the firm as good and not bad,” and it is very important for corporations to work on this organizational attribute because it may lead to superior financial performance. Corporate social responsibility may very well strengthen the relationship between reputation and financial performance because, intuitively, individuals will perceive a firm that gives back to the community and makes a positive difference in the lives of people as one that has a stronger corporate reputation.
As firms engage in activities related to their corporate social responsibility agenda, they must be aware that their actions have great implications on corporate reputation. Organizations, such as Wal-Mart, that maintain a global footprint, must seek to balance the need to maximize profits with a focus on decision-making that is socially responsible. This can be challenging, especially considering the varying perspectives and values held by individuals across international markets. Achieving balance in regards to profitability and social responsibility can lead to the realization of superior performance, mainly due to the influence of reputational benefits.

Future inquiry into the relationship between corporate reputation, social responsibility, and financial performance can seek to examine reverse effects, specifically the impact that sustained superior performance may have on corporate reputation and social responsibility. Could it be that firms, which have achieved industry dominance, tend to benefit from positive reputations due to their success? For example, given Wal-Mart’s global popularity and prominence, it is possible that their reputation is more a factor of their financial success. Also, could it be that firms embracing a social responsibility agenda are those that have achieved superior performance? One may discover that firms, such as Wal-Mart, maintaining higher levels of market performance are held to a higher standard, and are thus expected to embrace an agenda of social responsibility. Questions such as these can only be answered through further exploration of the relationships defined in this paper.

REFERENCES


