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WALMART'S JOURNEY TO SUSTAINABILITY

Walmart's Chief Sustainability Officer, **Kathleen McLaughlin**, describes the retailer's (surprising) journey to leadership in the realm of sustainability.

Interview by Sarah Kaplan

How did you come to see Walmart as a possible change-maker in the world?

Let me start out with a pretty simple proposition that is, nevertheless, somewhat contentious: business exists to serve society. The question is, how do companies interpret that, and what do they do to fulfill that promise? The most obvious way is to look at what your business does from day-to-day, to serve its customers.

Three years ago, soon after I joined Walmart, I travelled to Soweto, South Africa, where we run our stores under the **Cambridge** banner. I was in one of the stores with our management team, as they coached the person behind the deli counter about food safety — making sure raw chicken didn't touch the vegetables, and other important procedures. I stood there for a few minutes, just watching people: entire families were coming in to shop together; mothers had babies on their backs, and were putting rice, vegetables and meat into their baskets.

I had been to that part of Africa many times before, working

on HIV/AIDS and maternal health issues — but it suddenly occurred to me that this store was enabling a whole different kind of development. The approach is slightly different in each of the 28 countries Walmart operates in, but essentially, it's always about bringing affordable food, apparel and general merchandise to people *to make their lives better*. The value of that clear purpose was made crystal clear to me that day.

For much of the past several decades, the mantra has been, 'Business exists to serve shareholders'. How did Walmart come to embrace 'Business exists to serve society'?

It all started ten years ago, with Hurricane Katrina. Walmart has stores in that part of the world, so many of our associates were affected — along with millions of our customers. When the hurricane hit, our people just started jumping in and trying to do whatever they could to help. There were some amazing stories of heroism: Our people were commandeering bulldozers, knocking



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down walls to our stores and giving out products, and creating shelters for people. They would call in to Home Office every 30 minutes or so, asking, ‘Can we get permission to do this? Can we get permission to give this away?’ Finally, **F. Lee Scott** — our CEO at the time — said, ‘You know what, don’t ask for permission: just go ahead and do what you need to do. We’ll figure out later how much it all costs.’

That event was so cataclysmic that it literally changed the way our leadership team thought. In the weeks that followed, they sat back and asked themselves, ‘What if we could be that kind of company *every single day*? What would that be like?’ Lee had a personal epiphany: ‘We are the largest retail[er] in the world — we are truly driving consumption on a global basis; maybe we should figure out a way to make this all circular.’ That fall, he gave a speech titled, “21st Century Leadership”, and in it, he set three broad goals for Walmart: to be supplied by 100 per cent renewable energy, to create zero waste and to sell sustainable products.

At the time, I was, like, what? Walmart? It was a great surprise. One thing I’ve come to appreciate since joining the company is that, when Walmart says it’s going to do something, it does it. It’s a very execution-oriented company. For ten years now, this is what people have been working on. The whole system has changed, and it’s just getting better and better, as our people develop these programs and work closely with hundreds of suppliers, other retailers, government agencies and non-profits.

Describe the three pillars of Walmart’s approach to serving society.

Our first principle is about *creating shared value*, a term developed by Harvard’s **Michael Porter** and **Mark Kramer**. What we like about this concept is the recognition of overlap between societal impact and business impact, and the effort to try to find and operate in that sweet spot between the two. We achieve this by first engaging stakeholders to understand which societal issues are most affecting them; then we ask ourselves, what should Walmart be doing about that? Is there a role for us to play?

Last year, we worked with **Sustainalytics** and our key stakeholder groups to identify some priority issues. We then formed an agenda around three pillars: economic opportunity,

sustainability and community building. These pillars are ‘ever-green’: they will not change from year-to-year — but what we do *within* each pillar might change from year to year.

Economic opportunity was a natural focus for us, given our ability to provide jobs and sign purchase orders all around the world. We can play a significant role in creating upward economic mobility not only for our associates, but also for lots of people in global supply chains, so that is a huge priority for us.

The second pillar is *sustainability*. Ultimately, we’re a supply-chain company that sources products from around the world and gets them to consumers. So, how can we do that in a way that is truly restorative? Walmart is known for talking about ‘everyday low cost’; but we now talk about ‘true cost’: what is the *true cost* of something, from a social and environmental perspective? This is so important, because the price tag doesn’t always reflect that. Ultimately, we want this approach to create more of a ‘circular economy’, with a restorative approach to developing products, delivering them, and then addressing what happens post-consumption. This enables us to address the climate, waste, food security, natural capital — and more.

Our third pillar is *community building*. We’re in 28 countries and thousands of communities. The question is, what role should we be playing in each of these communities, from day to day? And what should we be doing in times of crisis? Ever since Hurricane Katrina, we’ve focused on developing disaster preparedness and response capabilities throughout our organization.

The latest Walmart Global Responsibility Report outlines your ‘whole systems’ approach. Why is this important, and what triggered the move in this direction?

We don’t think about corporate social responsibility in terms of philanthropy that we do on the side — removed from the core business. Instead, we are trying to shift systems as a whole. We might look at a particular employment system, or an agricultural system, and ask, How can we work with others to reshape this system, to make it more sustainable?

Cashew production is one example. As you can imagine, we source a lot of cashews. In western Africa there is a pretty big cashew-growing region, in Ghana. The challenge is that, historically, the yields and quality have not been good. So, the product

gets grown there — but then it is shipped off to Asia for processing; and then, it is flown back to the UK, where we sell it through **Asda** supermarkets. Clearly, this system is not great for the Ghanaian farmers, and it's not great for emissions to be carting cashews around the world. So, we've looked at how we can strengthen the Ghanaian system locally, to create, better quality and a local processing infrastructure, which would also create more of a margin pool for local farmers. This would also mean fewer miles travelled, because you could then take the product from there straight to the UK — or wherever else people are going to consume it. If we can start showing up in Ghana and saying, 'Look, we will buy X amount of cashews over this time frame, for this amount of money', we see that as a development asset.

There was some work done recently, comparing foreign aid to foreign-direct investment from the private sector. If you think of purchase orders as 'development assets', they are pretty significant. Walmart spends billions each year buying things, and that represents a huge capital effusion. A long-term purchase order from us provides the security for other capital to come in and invest in processing infrastructure. It also provides the base for someone like **USAID** to come in and provide technical assistance around agricultural practices, and so on. All of these things work together to strengthen the overall system.

Of course, before we take anything on, we have to believe that we have some unique assets to bring to the situation. Take hunger relief. The main way we address hunger is by providing affordable food in our communities. In many cases, these consumers haven't previously had access to food in this way. But by serving them, we end up with a lot of excess food that we can't sell; that's just part of retail. So, we donate approximately \$1 billion worth of food every year to food banks, mostly in North America, but in other markets as well. This is great for the business, because it lowers the amount of material going to landfill (which we have to pay for) and it lowers waste; but it's also fantastic for the community — especially if we are donating fresh food. Ultimately, we want to create a much healthier charitable-meal system that flows healthy food into the pipeline, which is so much better for the people who need these services.

You also run a Women's Economic Empowerment Program. What are you trying to achieve with this effort?

In Canada, we've increased the number of female store managers by more than 50 per cent in the last few years, and globally, 31 per cent of our corporate officers are women. That's compared to 15 per cent in the Fortune 500 and about 18 per cent in the retail industry. We also have 22 per cent people of colour in the [U.S.] officer rank. So this is something we work hard at — but we wanted to go beyond that and look at how we could use our purchase-order clout to empower women. As a result, we've committed to sourcing \$20 billion worth of product from businesses owned by women for our U.S. operations.

Why is collaboration so important to the model of change that you're working on?

A wide range of things needs to happen to bring about societal changes — from policy changes, to business action, to philanthropy, to consumer action. As indicated, our goal is to shift entire systems, like the cocoa production system, the way row crops get produced or the way people get their first job and get skills to progress in life. All those things involve systems with a lot of moving parts. We work with the leaders of those systems to establish a shared vision of what the improvements will look like, and then we work on achieving them together.

For example, we couldn't have supported training for close to a million women to date without working with **CARE**, **World Vision**, **Swasti**, **USAID** and the **Gates Foundation**. In addition to training these women, we now have a model for doing this that anybody can use to do the same — and we want to share it; that's part of our theory of change. If we were just off on our own doing these things, we would probably produce some benefit—but we wouldn't really be shifting the system.

In the last decade, there has been an explosion in the number of platforms to facilitate collaboration. As an example, we've brought together about a dozen companies — other food and consumer products manufacturers — for pre-competitive collaboration to work on a couple of things. One is around recycling infrastructure in North America. We supported the creation of a fund to invest in municipal infrastructure for recycling — because we all have an interest in driving that. And the other is emissions



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reduction and agricultural chains. These companies have fields where they're growing wheat or rice or soy or corn, and they're now bringing more sustainable management to those operations to reduce emissions and runoff into watersheds. The CEOs involved have committed to that.

Walmart is famously hard-nosed about business operations. When there is a goal you want to achieve from a sustainability or social standpoint that does not have a 'business case', how do you handle that? What informs the kinds of tradeoffs you might have to make?

Ideally, there is a Venn diagram of 'value for business' and 'value for society', and the overlap is pretty big — so there is a lot of scope to make a difference. But as you indicate, that is not always the case, and that's one reason why we still have a robust philanthropic program through the **Walmart Foundation**. With any of these systemic changes we're trying to enable, business can only go so far, so we have a whole suite of grants that we give out that go way beyond what the business can do.

For example, as part of our Women's Economic Empowerment Program, we have made a commitment to training one million women in our supply chains. That's not something that would make sense for our business alone to do. So we work through the Walmart Foundation, which has supported training for about 760,000 women in farms and factories. It's all about women in emerging markets getting their first formal job. That's an example where philanthropy can really push things further.

Where it gets tougher is on the other end: are there business practices that are not creating immediate social value? A good example is animal welfare. If you look at issues like gestation crates in the pork industry, or cage-free eggs, these are production systems that have evolved over time, and that are not unique to Walmart. They're part of the food industry's efforts to satisfy rising consumer demand — but many people are not comfortable with them anymore. Changing those systems is going to require problem solving to create better systems, and that will require capital and operating expense, and so on. How that will evolve — in a way that doesn't increase the cost of the end product — is a real challenge that we need to work through.

We can't do any of this by ourselves; for instance, we actually don't own any chickens — we buy eggs from other people, so, clearly, addressing this requires collaboration. The way we come at it is, 'Let's use the same problem-solving ability that we would apply to any business problem', because these are business problems, too. They require innovation in production approaches and collaboration with suppliers and other retailers.

You hold two jobs at the same time – President of the Foundation and Chief Sustainability Officer in the Corporation. Why is it important to have one person hold both jobs? What does that allow you to do that you wouldn't be able to do otherwise?

As indicated, we lead these efforts through the business, primarily, but we use philanthropy to fill in the blanks — where the project isn't creating business value, but something needs to happen in the system for it to move forward. It is important to integrate your philanthropic efforts with what your business is doing — particularly if you're trying to address something specific, like accelerating economic opportunity or taking chemicals out of products, because as indicated, there's only so much we can do through the business.

The Walmart Foundation is a 501(c)(3) — a tax exempt non-profit organization — and as such, we abide by strict rules and regulations in terms of the nature of the grants we make towards societal improvements. These improvements are not directly connected to Walmart, but they are intended to improve the overall systems that we all work within.

What happens if different social goals are at odds?

This can definitely happen. Take deforestation, for example. We've been doing a ton of work around palm oil, soy and Brazilian beef, and we feel really good about these initiatives; but we haven't made as much progress with paper production. It's just capacity. We had to start somewhere, so we started with those commodities we were most worried about. But, we also thought that, given some of the actors involved, we'd have better luck getting people on board and making progress in those areas. Some things take more time.

Fortune's 2016 Change the World List



FIGURE ONE

Who would have thought, 20 years ago, that a company like Walmart would be publishing a global responsibility report? How did we get to this moment?

Whether it's the impact of climate change or rampant inequality, I think everyone can see the effects all around us, and that's a big part of it. Years ago, at McKinsey, I was working in the social innovation space, and I got involved in this thing called the Sustainable Food Lab, which was the first of its kind. At the time, it was viewed as a bit of a lunatic fringe experiment. We met every quarter for two years to look at making sustainability more mainstream in our supply chains. Over time, as these things started to hatch and spawn, we started to feel some real pressure on these issues. Today, these efforts are far from the lunatic fringe.

PricewaterhouseCoopers did some research tallying up how many S&P 500 companies have sustainability programs or reports. In 2011 it was 25%, and in 2014, 75%. I would guess we're getting close to 100% now. It doesn't mean that these are

all great programs — but it does mean that everyone is thinking about this and trying to do a better job of addressing the full suite of issues in what they do day-to-day. The bottom line is, business leaders can no longer separate economic, environmental and social issues. They are deeply interrelated, and to solve any one type of issue, you have to address the others. **RM**



Kathleen McLaughlin is the Chief Sustainability Officer at Walmart and President of the Walmart Foundation. **Sarah Kaplan** is the Founding Director of the Institute for Gender and the Economy and a Professor of Strategic Management at the Rotman School of Management. This interview took place live at the Rotman School. For a list of upcoming public events, visit rotman.utoronto.ca/events