Chapter 66
Corporate Social Responsibility, Stakeholder Perception, and Firm Performance:
Walmart

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ABSTRACT

In the present-day business landscape characterised by global competition, demanding customers and depleting natural resources, Corporate Social Responsibility (CSR) has become an important strategy for corporations for creating competitive advantage. CSR involves a corporation's commitment to align performance (revenue growth and profit) motives with fulfillment of social, ethical, community and environmental obligations. Researchers have found a positive correlation between stakeholder perceptions of firm's CSR performance and financial performance, assuming other factors as constant. In this chapter we study the effect of stakeholder perception of a firm's CSR on the performance of the firm, based on analysis of Wal-Mart's performance from 2001 to 2011. We found that seemingly significant negative perceptions of CSR activities of corporations result in lower performance of the firm. Once formed, changing negative perceptions of stakeholders is often difficult and the effort needed involves considerable amount of resources with questionable outcomes. This study has come to the conclusion that being a good 'Corporate Citizen' and creating positive stakeholder perceptions is a better strategic approach for firm's continuing success.

INTRODUCTION

In today's hyper competitive global market, Corporate Social Responsibility (CSR) has become an issue of strategic importance to corporations. During the last decade CSR activities have witnessed a phenomenal growth around the world, as businesses started realizing that CSR is not only a social obligation but is becoming a business imperative. According to Price Waterhouse Coopers (PWC) global CEO

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survey of 2003, 79% of CEOs felt that sustainability (another name for CSR) is vital to the company's profitability and 71% of them were willing to sacrifice short term profitability while implementing sustainability program (PWC, 2003). A 2005 survey by KPMG (2005) found 68% of Fortune 200 companies report their social and environmental initiatives along with their annual financial statements. The 2005 Global survey by The Economist Intelligence Unit (EIU) found 85% of the respondents (including 136 top executives and 65 institutional investors across the globe) felt CSR is 'central' or 'important' consideration in their investment decisions (Economist Intelligence Unit, 2005). According to a recent survey by KPMG (2011) of 3400 companies globally, "95% of the 250 largest companies in the world (G250 companies) now report on their corporate responsibility (CR) activities. Traditional CR reporting nations in Europe continue to see the highest reporting rates, but the Americas and the Middle East and Africa region are quickly gaining ground. CR reporting by the consumer markets, pharmaceuticals and construction industries more than doubled since KPMG's last survey in 2008".

Since the dawn of industrial revolution wealth maximization of shareholders has been the focal point of the corporate strategies. Friedman's view (1970) that the only role of corporations is to earn profit for their shareholders has undergone a paradigm shift and most firms today have come to realize that they can only create shareholder wealth by creating societal wealth, by meeting the expectations of the larger society. Corporate Social Responsibility (CSR) is an outgrowth of the school of thought that businesses must look beyond shareholder interests or compliance with legal requirements and contribute to the social, ethical, environmental, economic and other causes. Advocates view CSR as a social and moral responsibility of the businesses.

'Stakeholder theory' propounded by Freeman (1984) has contributed a great deal to the growth of CSR. Stakeholders are individuals and groups, who can affect the firm, or affected by the strategic outcomes achieved by the firm (Hitt, Ireland & Hoskisson, 2009). According to Freeman, a firm has many stake holders like customers, suppliers, communities, workers, mangers, unions, shareholders, who can influence the firm's performance. He argued that it is in the interest of the firm to satisfy all the stakeholders and not only shareholders, by engaging in CSR activities considered important by the stakeholders, failing which, he feels they will withdraw their support to the firm.

Triple Bottom Line, a phrase coined by John Elkington (1997) in his book 'Cannibals with Forks: the Triple Bottom Line of 21st Century Business' describes the spirit of CSR more comprehensively. The spirit of triple bottom line for a corporation is described by the phrase 'People, Planet and Profit'. People refer to fair and ethical practices of a corporation towards the employees, consumers, community and society as a whole. Some of the fair people practices include abolition of child labor, paying fair wages, providing safe working conditions, providing safe products to consumers. Planet is related to environmental protection and the expectation for the corporation is to improve the environment or at least to prevent the environmental degradation by reducing waste, reducing use of energy, eliminating nonrenewable sources, eliminating toxic wastes and developing products that do not cause environmental degradation. Profit in this context denotes the overall economic benefit created to the society after deducting the cost of all the inputs, including the capital used. This profit is distinct from the internal accounting profit made by the company for its shareholders. Triple bottom line, according to Painter-Morland (2006), provides corporations with mechanisms to integrate CSR and ethics management practices.

Corporate Social Responsibility has a dual objective of benefiting the business and also the society. Increasing public awareness about the environmental degradation and social inequality coupled with the willingness on the part of consumers to support companies that value environmental and social issues