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## An Assessment of Wal-Mart de Mexico (Walmex) Social Responsibility Reporting

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Item Type	Preprint
Authors	Maquila Solidarity Network
Publisher	Maquila Solidarity Network
Rights	Creative Commons Copyright (CC 2.5)
Download date	2026-06-30 19:23:05
Link to Item	<a href="http://hdl.handle.net/20.500.12424/189067">http://hdl.handle.net/20.500.12424/189067</a>



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# Summary:

## An assessment of Wal-Mart de Mexico (Walmex) Social Responsibility Reporting

Prepared by **Maquila Solidarity Network** for **Red Puentes Mexico** ■ December 2010

# Introduction

Wal-Mart de Mexico S.A. de C.V. (“Walmex”) is the largest retailer in Mexico and the country’s largest private-sector employer. Although it is an independently-traded company, Walmex is majority-owned by Wal-Mart Stores Inc. (“Wal-Mart”) and, like most Wal-Mart national and regional companies, its operations are highly integrated with those of the global company. Walmex recently acquired Wal-Mart Central America.

While Wal-Mart’s Corporate Social Responsibility (CSR) policies, programs and reporting have been extensively analyzed in the United States, there have been relatively few public analyses of Walmex’s CSR policies, programs and reporting, despite its prominent position in the Mexican economy.

The Maquila Solidarity Network (MSN) recently conducted a detailed analysis of Wal-Mart de Mexico’s (Walmex) *2009 Social Responsibility and Sustainable Development Report (SRSD Report)*.<sup>1</sup> MSN’s work was conducted as part of a review of five Mexico corporations (Walmex, Petróleos Mexicanos, Telefónica, S.A., CEMEX, and Industrias Peñoles) coordinated by Red Puentes Mexico. Each company’s report was assessed by a different team of researchers, using a common methodology.

The following is a summary of MSN’s report, which identifies strengths, gaps and weaknesses in Walmex’s *2009 SRSD Report*, points to social and environmental performance issues that arise from consideration of the company’s CSR reporting, and puts forward a number of recommendations for improvements in policy, practice and reporting. The report also discusses some of the company’s underlying policies and practices that are of concern to outside stakeholders.

In early October 2010, MSN and Red Puentes Mexico representatives met with Walmex officials to discuss earlier drafts of the full report. Based on feedback and clarifications from Walmex provided at that meeting and in subsequent email exchanges, MSN made adjustments to the text and, in three cases, to the scores assigned.

On October 12, Wal-Mex publicly released additional materials<sup>2</sup> regarding its social responsibility programs and financial status. Although we have reviewed the more recent CSR materials and make note in this report of any significant improvements, our analysis and scores are based solely on the *2009 SRSD Report*.

We believe our report was strengthened as a result of the dialogue with the company and look forward to discussion of the recommendations and possible collaboration on their implementation.

**The Maquila Solidarity Network (MSN) is a Canadian-based labour and women’s rights organization with a long history of work in Mexico. MSN promotes corporate accountability and decent wages and working conditions for workers in global supply chains. MSN is a member of Red Puentes Mexico. For more information, see: [www.maquilasolidarity.org](http://www.maquilasolidarity.org)**

**Red Puentes México is part of Red Puentes International, an association of civil society organizations formed in 2002, which monitors corporate behavior and promotes structural changes to enhance human rights, global sustainability, social and economic justice and democracy. Currently it has chapters in Argentina, Brazil, Chile, El Salvador, Mexico, Peru, Uruguay, Holland and Spain. The Mexican chapter of Red Puentes International is composed of seven organizations and civil society networks. For more information see: <http://www.redpuentes.org> and <http://www.cicemexico.org.mx>**

# Methodology

Walmex's 2009 SRSD Report was measured against a set of internationally-accepted CSR reporting indicators and standards developed by the Global Reporting Initiative (GRI) and outlined in the GRI's G3 Sustainability Reporting Guidelines.\* Of these, Red Puentes International (RP-International) selected 71 GRI indicators and disclosures that best embodied seven core social responsibility subject areas: Organizational Governance; Human Rights; Labour Practices; Environment; Fair Operating Practices; Consumer Issues; and Community Involvement and Development.

Walmex's 2009 SRSD Report was evaluated to determine:

- Whether the company reported on each of the selected 71 GRI indicators applicable to the company's business;
- Whether the company provided sufficient information for each GRI indicator, in accordance with the content and purpose of the indicator; and
- Whether the company reported consistently on each indicator from year to year, in a manner allowing the public to track the company's progress or lack thereof.

In order to determine whether the company provided sufficient information for each GRI indicator, RP-Mexico broke down each general indicator into its required elements. MSN then determined whether Walmex had reported on each element of the indicator, and the company was awarded a rating of:

- 'Insufficient' where the company reported on less than 33% of the required elements in the indicator;
- 'Partial' where the company reported on 33-66% of the elements in the indicator; and
- 'Sufficient' where the company reported on over 66% of the elements in the indicator.

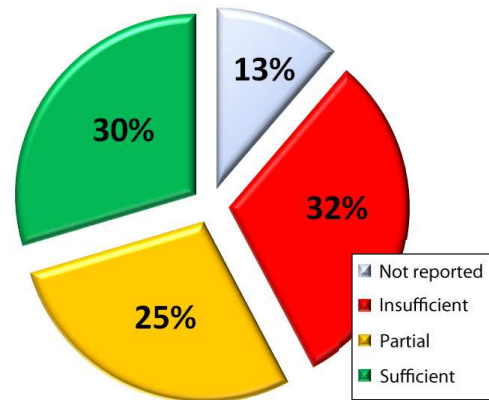
It should be noted that these ratings do not address whether the information provided – ie what is reported – is positive or negative, but only whether it is reported according to GRI requirements. A company, therefore, would receive the same points for reporting fully that it increased its carbon emissions in a given year as it would for reporting a substantial decrease in those emissions.

\*The Global Reporting Initiative (GRI) is an international network that has developed a widely used sustainability reporting framework which sets out the principles and indicators that organizations can use to measure and report on their economic, environmental, and social performance. The cornerstone of the GRI framework is the Sustainability Reporting Guidelines. The third version of the Guidelines – known as the G3 Guidelines – was published in 2006, and is the version used in this evaluation. For more information see: <http://www.gri.org>. For more information on the G3 Guidelines see: <http://www.globalreporting.org/ReportingFramework/G3Guidelines/>

# Overall findings

Walmex is one of twelve companies in Mexico (and the only retailer) to index its CSR report to GRI indicators. In fact, it is one of the only retailers to issue an annual CSR report. Its closest competitor, Organización Soriana S.A., has issued annual CSR reports for the last three years, but the reports are considerably less substantial in scope and depth than those of Walmex, and are not indexed to GRI or any other external indicators. For these reasons, Walmex's 2009 SRSD Report is clearly a step in the right direction for Mexican retailers. However, there is still considerable room for improvement.

**How well did Walmex report on the indicators?**

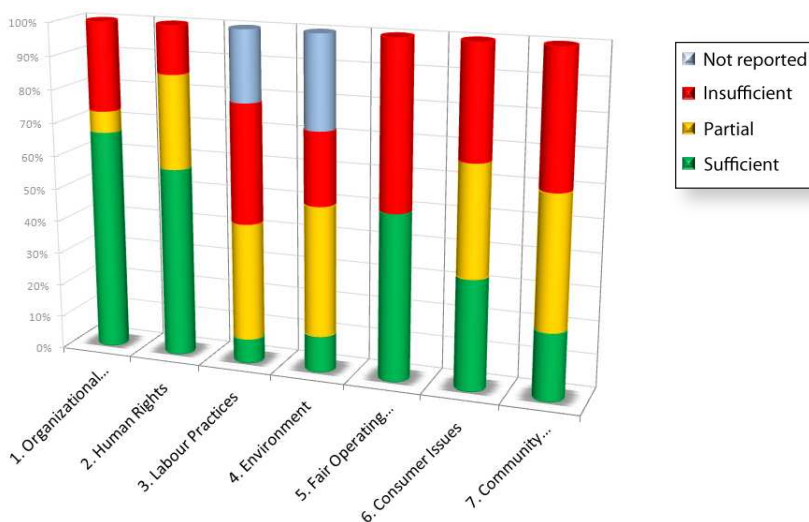


As highlighted in the chart above, in its 2009 SRSD Report Walmex only reported sufficiently on 30% of the applicable indicators included in this assessment.

We can learn something about Walmex's CSR reporting – and its strengths and weaknesses – by breaking down the company's overall rating as

well as its ratings in the specific core subjects. For example, the chart below illustrates that Walmex's reporting was relatively strong on Organizational Governance and Human Rights, but relatively weak on Labour Practices, Environment, Consumer Issues, and Community Involvement and Development.

In the following sections, we review each of the seven core subjects of corporate social responsibility reporting under which the 71 chosen GRI indicators are grouped. For each section, we provide a chart summarizing the results, followed by a discussion of a few of our key findings.





# Organizational Governance

Good and effective organizational governance is based on accountability, transparency, ethical behaviour, respect for stakeholder interests, respect for human rights, respect for the rule of law, respect for international norms of behaviour and integration of these principles into decision-making and policy implementation.<sup>3</sup>

## Key Findings and Concerns:



### Linking senior management compensation to social performance

The presence of linkages in compensation of senior management, executives and board members to the performance of the company, including performance on social and environmental issues, helps to demonstrate whether social and environmental performance is valued at the company's highest levels and whether there are positive incentives for top management to reach or exceed social and environmental targets.

Wal-Mex failed to report on these kinds of linkages in its 2009 SRSD Report although it has recently published an update indicating that the

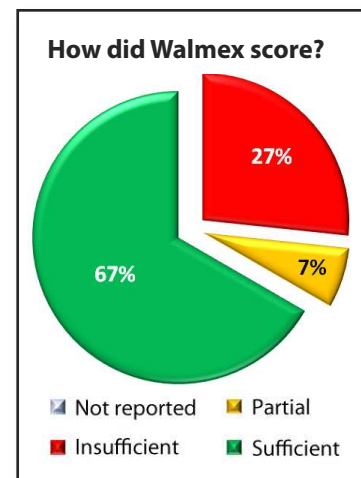
President and Vice-Presidents of Operations do receive additional remuneration if annual sustainability goals are surpassed.<sup>4</sup>



### Political influence and lobbying

Because of the actual or potential influence large corporations can have on governments, the GRI asks companies to disclose any public policy positions and any participation in public policy development and lobbying.

Walmex acknowledges that it "carr[ies] out public participation activities through different national and local Chambers of Commerce. We also have recognized [lobbyist] firms that



follow our corporate governance and integrity policies." The company does not report on either the issues on which it lobbies governments or what positions it takes on these issues.

In the United States, Wal-Mart spent approximately US\$2.6 million on lobbying in the second quarter of 2009 alone.<sup>5</sup> As Mexico's largest private-sector employer, Walmex also has the ability to exercise considerable political influence. Given the potential political influence available to Walmex and their acknowledgement that they engage in public activities through industry associations and lobbyist firms in Mexico, Walmex should report publicly to Mexican customers and other stakeholders on its lobbying activities and positions advocated.<sup>6</sup>



### **Fines and legal sanctions**

The GRI asks that companies disclose the “[m]onetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.” In both 2009 and 2008, Walmex reported no such fines or sanctions, which is inconsistent with media reports and other sources which identify numerous fines and court and regulatory rulings against Walmex. Walmex should clarify whether it did not receive any fines and sanctions at all during the reporting period or if they were or-

dered to pay fines or settlements but these were deemed insignificant for the purpose of reporting. Clearly identifying how the company defines ‘significant’ would be useful in this context.



### **Financial assistance from government**

Walmex is asked to report on “significant financial assistance received from government.” Walmex reports that it receives no financial aid from government. However the GRI asks companies to report on not only direct financial assistance (e.g. grants), but also on any tax credits or

financial incentives, awards, or export credits received.

In the United States, Wal-Mart has a history of asking for and receiving incentives from governments to locate stores in particular areas, including tax breaks, land, and infrastructure assistance.<sup>7</sup> Although Wal-Mart’s practice in the U.S. is not necessarily evidence of similar practices in Mexico, Walmex has acknowledged receipt of some “minimal tax stimuli” in response to our queries. Any incentives from government should be made clear in Walmex’s social responsibility reports – which report no government financial aid in either 2008 or 2009.

# Human Rights

United Nations Special Representative to the Secretary General on human rights and transnational corporations John Ruggie said, “With rare exceptions, even large multinational companies lack fully fledged internal governance and management systems for conducting adequate human rights due diligence. Their approach in a sense has been highly ‘legalistic’: focused on the requirements of their legal license to operate, and only slowly discovering that in many situations meeting legal requirements alone may fall short of the universal expectation that they operate with respect for human rights – especially, but not only, where laws are inadequate or not enforced. Respecting rights is the very foundation of a company’s social license to operate.”<sup>8</sup>

Providing comprehensive information on how the company is meeting this challenge is an essential part of CSR reporting.



## **Key Findings and Concerns:**



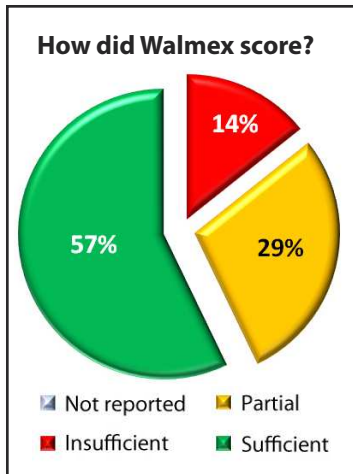
### **Supplier screening and compliance**

The GRI asks companies to report on the “percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.”

Walmex reports that its Social Compliance Program conducted 214 audits of 143 of its suppliers in 2009. However, with one exception regarding child labour, the company fails to report results from these audits, the audit methodology used and/or the standards to which it was auditing.

The company also fails to report on the percentage of suppliers that required some form of corrective action or were refused contracts as a result of this screening.<sup>9</sup>

Wal-Mart last provided a detailed breakdown of issues encountered in supplier factory audits in its *2006 Ethical*



cal Sourcing Report. For the Americas region, it reported finding a significant incidence of problems with fire safety equipment and procedures, other health and safety hazards, “egregious” and “excessive” working hours, and failure to pay legal overtime premiums. In 2009 Wal-Mart reported that “common challenges for factories [in the Americas] revolve around working hours and pay, such as excessive working hours, improper compensation and paychecks being incorrectly calculated.”

Walmex should address whether these “common challenges” reported by their parent company are issues arising in factories within their supply chains.



#### Child labour in agricultural supply chain

Walmex reports that its Vendor Agreements contain “clauses related to prohibitions on the hiring of minors,” however it does not report on any social compliance auditing of suppliers/vendors in the agricultural sector. Nor does the company report on any program to identify and eliminate child labour in Walmex supplier facilities in the agricultural sector.

An estimated 3.6 million children work in Mexico, approximately 1/3 of whom are working in the agricultural sector.<sup>10</sup> To our knowledge Walmex has not been publicly linked with

suppliers found to be using child labour in the fields. However, the quantity of data showing a serious problem with child labour in the Mexican agricultural sector demands a diligent, transparent response from one of Mexico’s largest buyers of agricultural products. Walmex should report on what efforts it has taken to identify any use of child labour by its agricultural suppliers, the number of violations it has registered, and any steps taken to remediate violations where they occur.



#### Youth Bagger Program

At least three Mexican studies have raised questions regarding Walmex’s use of over 23,000 youths as “volunteer” baggers in its stores.<sup>11</sup> The issues of concern relate to the “volunteer” status of the baggers as well as apparent deficiencies in both compliance with and monitoring of a 1999 agreement between the *Asociación Nacional de Tiendas de Autoservicio y Departamentales* (ANTAD) and the Distrito Federal (GDF) government intended to ensure the baggers’ protection.

Walmex’s reporting does address the company’s Youth Bagger Program as a potential risk area for child labour, however the company claims that the conditions set out in the ANTAD Agreement are sufficient to mitigate those risks. The three studies on Walmex’s Youth Bagger Program, all of which were carried out after the Agreement was signed, identified numerous violations of the Agreement and of provisions of the Federal Labour Law contained in the Agreement.<sup>12</sup>

The agreement also commits the signatories to establishing monitoring and verification mechanisms to ensure compliance with its terms and conditions, however, based on the numbers of violations identified in the studies, it would appear that these mechanisms have been insufficient and/or that the monitoring and enforcement have been inadequate.



#### Discrimination

Walmex reports that there were no incidents of discrimination recorded by the company in either 2009 or 2008, although it does note that there were two complaints filed against staff by customers in 2008 which it says were unproven. There is no mention of discriminatory practices by management against staff. Walmex reports a number of initiatives to address gender equality within its organization, including that a “Gender Equality and Inclusion Advisory Board” was created in 2009.

Walmex has not, to our knowledge, responded to concerns raised by Mexican economic, social and cultural rights organization ProDESC regarding discrimination in hiring. ProDESC’s *Lo Barato Sale Caro* reports that 50% of women workers at Walmex stores it interviewed in 2007 said that during their job interviews they were asked whether they were pregnant and 8% were asked to take pregnancy tests.<sup>13</sup> ProDESC also reports a case of sexual abuse by a supervisor.<sup>14</sup>

Gender-specific data on Walmex operations, on impacts of Walmex operations, and any gender-specific strategies for mitigating negative impacts should be part of future company CSR reporting. For example, Walmex reporting on employee training, employee representation on health and safety committees, and customer feedback could all be broken down to identify any differences by gender.<sup>15</sup> When assessing social and economic impacts of its operations on communities, Walmex could pay special attention to the impacts (both positive and negative) on women in those communities, and develop strategies to address any negative impacts on women. Within its supply chain, Walmex should be identifying, addressing and reporting on any supplier policies and practices that discriminate against women, such as incidents of non-compliance with the Wal-Mart Standards for Suppliers on pregnancy and maternity rights.

# Labour practices

Good labour practices encompass the treatment of workers throughout their employment, from recruitment and training to termination and severance. A company’s labour practices should be consistent with internationally recognized universal standards. Companies should ensure that their employees and those employed in their supply chains can enjoy the benefits of Decent Work: opportunity and income; rights, voice and recognition; family stability and personal development; and fairness and gender equality.<sup>16</sup>



## Key Findings and Concerns:



### Freedom of association in Walmex retail stores

Walmex does not report at all on the presence of unions or collective bargaining agreements in its stores or in its supply chain. Walmex has been publicly criticized for utilizing “protection contracts” in stores throughout the country. A protection contract is a collective bargaining agreement signed by an employer and an “official union” or lawyer without the knowledge and/or consent of the workers covered by the agreement.\*

The right of workers to choose whether or not to be represented by a particular union is central to both the GRI standards and Wal-Mart’s own ethical standards. For these reasons, the presence of protection contracts in Walmex stores is of serious concern.

A chapter in the 2007 book *Protection Contracts in Mexico* focusing on Walmex’s stores in Mexico City lists 88 collective bargaining agreements covering Walmex stores registered with Mexico City’s Local Conciliation and Arbitration Board.<sup>17</sup> Although a thorough update of this 2007 study has not been conducted,

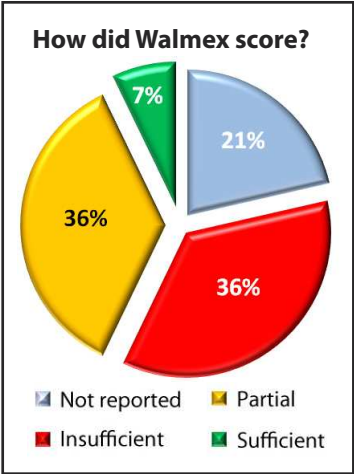
a recent review of the collective bargaining agreements registered to Walmex in the Distrito Federal confirmed that between January 2008 and April 2010 two unions registered an additional 102 contracts with Walmex.<sup>18</sup> According to the 2007 book, the 88 collective bargaining agreements were essentially the same, differentiated only by the name of the store that they covered.<sup>19</sup> These contracts offered workers little more than the minimums guaranteed by Mexico’s Federal Labour Law while granting the company as much flexibility as legally possible with regards to workplace conditions such as working hours.<sup>20</sup>



### Freedom of association in the supply chain

In addition to Walmex’s own stores, the company also needs to address the issue of union presence and risks related to freedom of association at supplier farms and factories both within and outside of Mexico. Unfortunately there is little information on these issues currently available. As noted above, Wal-Mart’s *Standards for Suppliers* requires suppliers to respect

freedom of association, but neither Walmex nor Wal-Mart reports to the public on instances of violations of this right within supplier factories.



\*Protection contracts “protect” employers because they serve to avoid genuine negotiations on wages and working conditions. Protection contracts typically require the company to meet only minimum legal obligations to workers, and are rarely changed through successive “re-negotiations”. Although protection contracts are technically legal documents since they have been registered with a Conciliation and Arbitration Board, they lack legitimacy because workers covered by these agreements do not have knowledge of such agreements or input into the negotiation process.

# Environment



In order to assess a company's impact on the environment and contribution to sustainable development, it is necessary to measure its use of resources, generation and disposal of wastes, where it is located and how its buildings, transportation networks and general operations affect its surroundings, and how the company evaluates and acts on the direct and indirect economic, social, health, and environmental implications of their decisions and activities.

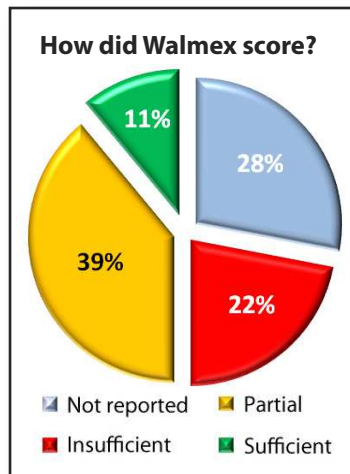
Walmex devotes significant attention in its public reporting to waste reduction, energy use and resources. As one of Mexico's largest corporations, even relatively small changes in the company's daily practices can have very large impacts. This is one reason Walmex's environmental actions, both negative and positive, are highly significant.


## Key Findings and Concerns:

**Measuring impacts**  


 The company reports impacts such as energy use and wastewater spillage "per square metre built" rather than totals across the company. According to the company's *2009 Annual Report*, Walmex has approximately 4.4 million square metres of retail space across its various divisions (not including the recent Wal-Mart Centroamerica acquisitions). Walmex's *2008 Annual Report* notes another 1.7 million square metres of floor space at its distribution centres. Reporting total amounts, as required by the indicator, would provide the public with a better picture of the massive scale of Walmex environmental impacts and actions.

It is important to note that by the third quarter of 2010, Walmex had expanded floor space by adding another 133 stores.<sup>21</sup> As a result, while the company reported in 2009 that it would be reducing its energy use "per square metre built", given the expansion of floor space, Walmex's total environmental impact is actually increasing.



**Calculating impacts**  

 Many GRI Environmental Indicators provide specific formulas and methods for measuring impacts. In its *2009 SRSD Report* Walmex does not provide information on the methods used to calculate the figures reported under Environmental Indicators or whether these formulas conform to GRI standards. As a gen-

eral rule, the company should provide information on how it collects and measures data for purposes of assuring reliability and to allow for meaningful comparisons.

**New store expansions**  

 The issue of biodiversity impacts of Walmex new store construction has been raised by Mexican citizens and civil society organizations in Mexico. In addition, there are undoubtedly risks of biodiversity impacts within Walmex supply chains, including those for agricultural products, seafood, and other items. For a company with the construction and sourcing footprint the size of Walmex's, measuring and reporting on the impact of its operations on biodiversity is essential, but Walmex does not report on two of the key environmental indicators related to biodiversity, without offering an explanation. While the impacts themselves, if measured, may or may not be significant, the lack of information makes any full assessment of

Walmex's environmental impacts impossible.

However, it is worth noting that in additional updates published on its website in October 2010, the company included some new information on actions to encourage soil conservation and reduction in the use of pesticides by suppliers, the importation of seafood products certified as "responsibly fished", and the use of certified forest products, all of which would have fulfilled some of the requirements of this indicator.<sup>22</sup>



### Trucking and transportation

Walmex reports that it has developed innovative programs to reduce the impact of its logistics network, especially with regard to greenhouse gases. Walmex's reliance on massive supply chains with substantial transportation networks undoubtedly creates significant emissions and other environmental impacts. Walmex's efforts to reduce both costs and impacts in this area are welcome. However, the GRI asks companies to report on the full range of impacts from transportation of goods and employees, including air pollution, greenhouse gases, noise, packing waste, etc., using quantitative data. Companies are also asked to report on the criteria used to identify significant impacts. Walmex should improve reporting on this indicator in future reports.

# Fair Operating Practices

Fair operating practices concern the extent to which the company's relationships with other companies, government agencies, competitors, and associations meet ethical and/or legal standards.



## Key Findings and Concerns:

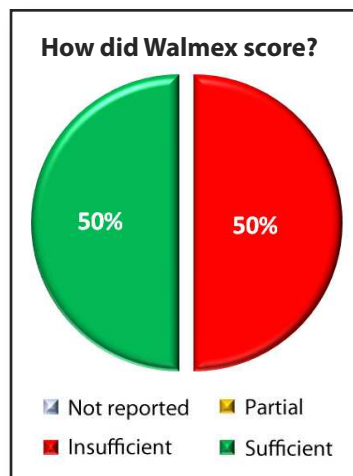


### Defining "local" in a globalized supply chain

Walmex identifies percentages of products bought from Mexican suppliers, claiming that 86% of its suppliers are domestic, 92% of private label sales were from local suppliers and 95% of products sold in their stores are purchased in Mexico.<sup>23</sup> Walmex appears to be using a working definition of "local" that considers the whole of Mexico as a local market. This makes

it difficult to assess impacts on local communities,<sup>24</sup> the company's support for local businesses, its relations with specific communities, and its efforts to reduce carbon emissions by limiting the distance that products must travel to market.<sup>25</sup>

It is also important to note that a supplier may be based in Mexico and selling products in Mexico yet sourcing those products from other countries. Thus the claim that 95% of products were purchased in Mexico does not necessarily mean the products were manufactured or grown in Mexico.<sup>26</sup> U.S. exporters, for example, often use Mexican importers or distributors to deliver products to Mexican retailers.<sup>27</sup> While in some instances Walmex indicates that it is sourcing directly from Mexican producers (for example in meat products), information from the company on the quantity and value of products manufactured or grown in Mexico, the employment or other economic benefits provided to Mexican workers and communities, and the source of goods produced outside of Mexico is generally unclear or insufficient.





# Consumer Issues

Most companies and legal regimes recognize that business has responsibilities to its customers, including the provision of fair and accurate information about its products and services, using fair, transparent and helpful contractual processes, protection of health and safety, dispute resolution and redress, data and privacy protection, and access to essential products and services. Responsible companies also promote sustainable consumption, educate their customers, and design products and services that provide access to all and cater, where appropriate, to the vulnerable and disadvantaged.

## Key Findings and Concerns:



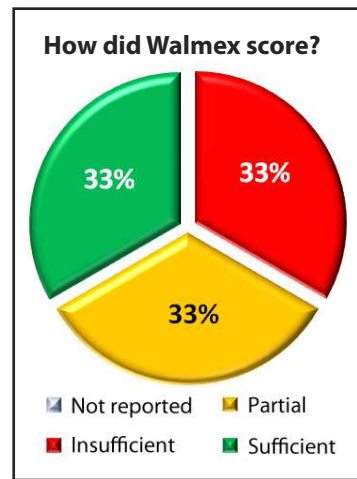
### Product labelling and health and safety

Walmex did not provide adequate information on the analysis of

health and safety impacts over the lifecycle of products, or on social and environmental product labelling requirements. The company reports that products have expiry dates which are reviewed daily, and that a number of products are audited for quality and safety at Walmex's distribution centres and, for private label products, at manufacturing facilities. Although the GRI asks the company to report whether it reviews and assesses potential health and safety impacts throughout the product's life cycle (including R&D, the product development stage, use, recycling and disposal), we gave Walmex points for

reporting on the safety and quality assessments it does at the manufacturing and distribution stage. However, it was still unclear what percentage of product or service categories are assessed in this manner. Nor is it clear who is responsible for assessments of non-private label general merchandise (eg toys, packaged foods, household goods, etc).

Walmex reports efforts to ensure compliance with Mexican product labelling regulations. The GRI, however, asks companies to report whether additional social or environmental labelling information is required for product categories, including identifying components that might have environmental or social impacts, safe use instructions, or disposal instructions to minimize impacts.



# Community Involvement and Development



Community involvement and development goes beyond simple philanthropy. While charitable works and giving are part of a company's contribution to the communities in which it operates, a company can have numerous other economic and social impacts – direct and indirect, positive and negative. In addition to its own economic impacts, the company can also play a significant role in supporting local economic development initiatives, education and skills development programs, culture and the arts, and community health services, for example. On the negative side, a company may crowd out other local businesses or social and economic networks, drive down wages or working standards, or impose burdens on local services, infrastructure, or government.

## Key Findings and Concerns:



### Assessing community impacts

Undoubtedly Walmex has a significant impact on the economic life of communities throughout Mexico. The company reports direct employment of over 170,000 "associates".\* The company reports that it uses suppliers throughout Mexico that employ many more workers and that it has promoted Mexican small and

medium enterprises (SMEs) through different company programs.

Wal-Mart has been accused in both the United States and Mexico of driving small one-unit retail stores out of business and of having negative impacts on retail workers by reducing wages and employment in the retail sector. Concerns about the

potential negative effects of Walmex on retail sector jobs have been raised repeatedly in Mexico.<sup>28</sup> A recent article in the Mexican daily *La Jornada*, for example, reported that within three months of a December 2009 Walmex store opening in a neighbourhood in Puebla, eight out of 17 small retail stores in the immediate

\* Wal-Mart and Walmex use the term "associates" to refer to employees. Critics suggest this is meant to instill the idea of a collaborative relationship between management and employees and counter any suggestion that employees might have collective interests that differ from those of the employer.

area went bankrupt.<sup>29</sup> In March 2009, Julio Gallardo Martini, president of the National Chamber of Commerce (Canaco) of Atlixco, Puebla, claimed that the opening of a Bodega Aurrera seven years earlier in that municipality had resulted in the closure of 500 retail units and a loss of 1,500 jobs.<sup>30</sup>

Walmex does report on some of its positive direct economic impacts. The company does not report – as required by the GRI – on how economic impacts are measured, and provides no measurements of negative impacts.

Further, no external standards are used to measure these impacts. Stakeholders reviewing the company's performance are dependent wholly on Walmex's self-evaluation, based on undisclosed standards.

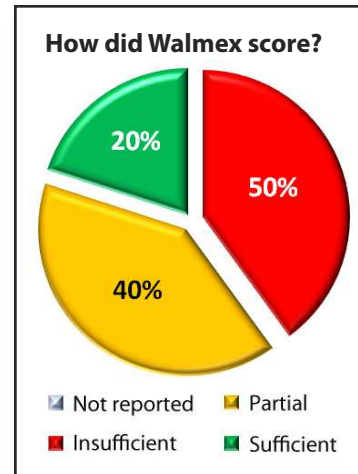
Nor does the company report on how it assesses its economic and social impacts on communities when deciding where to establish new stores, how data is collected, how

communities are engaged in assessment, or how Walmex mitigates negative impacts when they are found.



#### Stakeholder engagement

Walmex reports for the first time on engagement with stakeholders in its 2009 SRSD Report. Walmex identified shareholders, customers, community, suppliers and "associates" as stakeholders. Notably absent, though suggested by GRI, is any reference to "civil society."<sup>31</sup> Engagement with stakeholders, both those who are supportive and those who are more critical, is an important element in corporate social responsibility programs. Constructive engagement with critics and outside experts can potentially assist a company in improving its corporate responsibility programs and, in turn, make those programs more credible and reliable.



Walmex does not discuss its approach, strategy or timeline for engagement with outside stakeholders on its corporate responsibility programs or reporting, and more importantly it does not report any of the feedback or concerns raised by stakeholders.

## General conclusions

Good CSR reporting provides meaningful, reliable data and thoughtful analysis of the challenges facing a company and the approaches the company is taking to meet these challenges. Good reporting is also measurable against external benchmarks, so that the public is not entirely reliant on the company's word on its own performance. Lastly, good re-

porting includes measurable future targets for improved performance and follow-up in subsequent reports.

We have reviewed Walmex's annual CSR reports not only to assess the quality of the company's reporting, but to begin a dialogue with the company based on publicly available information about their social and environmental policies,

practices and impacts. It is our hope that, by adopting better reporting practices and addressing the recommendations presented here, Walmex will begin a process of engagement with various stakeholders that can lead to new and better practices throughout its operations.

\* Civil society generally refers to voluntary associations, community groups, NGOs, trade unions, faith groups, etc.

# Findings

As mentioned in the introduction, Walmex is one of the only retailers in Mexico to issue an annual CSR report, and its reports are substantially more complete in both scope and depth than those of its competitors. Walmex has broadened the scope of its reporting since it first began issuing social responsibility reports in 2004. Since 2007, Walmex has been one of a very few companies in Mexico (and the only retailer) to index its CSR report to GRI indicators, which provide clearly defined measurements of the desired content and scope of social responsibility reporting. Furthermore, the company is clearly undertaking initiatives to address some key issue areas, such as environmental impacts and supplier development. For these reasons, Walmex's *2009 Social Responsibility and Sustainable Development Report* is clearly a step in the right direction for Mexican retailers.

However, Walmex's *2009 Social Responsibility and Sustainable Development Report* presents an incomplete picture of the social and environmental impacts of the company's operations. Leaving aside smaller concerns with reporting on individual indicators and their elements, we noted thirteen significant deficiencies in the 2009 report, listed in no particular order of importance:

- Walmex does not report on union presence or freedom of association within its own operations or its supply chain, despite this being a major concern raised by Mexican stakeholders and a GRI requirement;
- Walmex's reporting on its Youth Bagger Program fails to address concerns expressed by stakeholders or to provide adequate assurances that the rights of children and young workers are being respected;
- Walmex did not report any linkages in compensation of senior management, executives and board members to the performance of the company, including performance on social and environmental issues;
- Walmex does not report on the results of supplier screening or auditing, nor does it refer the reader to other sources (e.g. Wal-Mart Stores Inc.) for that data;
- Despite its considerable size and economic power, Walmex does not report on its government relations programs, including public policy positions and lobbying;
- Walmex does not appear to measure negative economic impacts on communities, nor does it indicate how its positive economic impacts are measured;
- Walmex does not report on any monitoring programs or efforts to ensure that agricultural products sold in Walmex stores are not produced using child labour;
- Walmex does not make clear how it calculates environmental impacts under a number of indicators, making their reported results difficult to assess;
- Walmex does not define key terms such as "local" when making claims about sourcing from Mexico, rendering it impossible to fully assess the company's economic impacts; and
- Walmex neglects to report on a number of environmental indicators;
- Walmex appears to under-report fines, sanctions and formal complaints levelled against it.
- Walmex's reporting on a number of employee data indicators is insufficient. Failure to report on workforce composition by category, including status and turnover, for example, makes it difficult to identify and act on potential gender and/or other forms of discrimination in the workplace;
- Walmex does not report on the results of any engagement with stakeholders or on any program to solicit input from civil society stakeholders;

# Recommendations

Below we present a number of recommendations that flow from our analysis of the Walmex 2009 SRSD report.

## 1. Improve Walmex public reporting:

- a) Pay closer attention to all of the specific requirements of each GRI indicator in order to ensure that reporting fully addresses the applicable issue in a consistent and reliable manner.
- b) Clearly define terms and methodologies used so that the public can better understand the meaning of claims made in the social responsibility report. Where the company's terms and/or methodologies are different from the GRI terms and methodologies, explain the reasons for the use of different terms and methodologies.
- c) Expand the number of GRI indicators addressed in Walmex reports to include areas not covered in 2009, including union presence, employee data broken down by gender and other relevant employee characteristics such as ethnicity, impacts on areas of high biodiversity value, environmental impacts of supply chain operations, and stakeholder engagement.
- d) Where the company does not report on a particular indicator, provide an explanation for its omission. If the company's reporting on an indicator is found in another location (e.g. company website, *Annual Report*, or other report), provide an explanation and link to the appropriate materials.
- e) Where applicable, compare the current year's results for each indicator with the prior year's results, reporting not only the required data for each year but also any variances from year-to-year.
- f) Where appropriate, differentiate by gender when reporting on Walmex operations, impacts, mitigation strategies and supplier compliance in order to ensure that impacts on women are identified and addressed. The GRI's *Embedding Gender in Sustainability Reporting* publication may provide additional guidance on gender-specific reporting.
- g) Expand reporting on supply chain issues including human and labour rights compliance and environmental performance. A variety of additional indicators that may be used for supply chain reporting can be found in the GRI's *Apparel and Footwear Sector* and *Food Processing Sector Supplements*. Where these areas are being addressed by Wal-Mart's international Ethical Standards or Global Sourcing divisions, provide explanations and links to the appropriate materials.

## Improve Walmex policy and performance:

### Public Policy and Lobbying

- a) Where Walmex is taking public policy positions that may impact on worker rights, the environment, and/or community development, these positions and activities should be a) transparent, and b) developed in social dialogue with relevant stakeholders including civil society organizations.

### Youth Bagger Program

- b) Address stakeholder concerns with the Youth Bagger Program by initiating – on its own or in cooperation with ANTAD – a transparent third-party investigation to determine whether adolescents engaged in the Youth Bagger Program are working under terms and conditions that comply with the 1999 Agreement and the Federal Labour Law. Such an investigation should be carried out by a credible organization that is acceptable to Walmex and civil society stakeholders, and the investigative findings and recommendation for changes in the program and/or corrective action should be made available to the public.

### Freedom of Association

- c) Ensure that workers in Walmex stores and throughout the Walmex supply chain that are covered by a Collective Bargaining Agreement (CBA) are aware of the identity of the union that holds title to the CBA and have access to a copy of the current CBA. The company and its suppliers should maintain a policy of non-interference in a union's internal affairs, including in the democratic election of union representatives and in authentic bilateral and collective bargaining, and should strictly enforce Wal-Mart's prohibition on retaliation against any workers who exercise their rights to freedom of association and collective bargaining.
- d) Facilitate training for workers and management personnel at Walmex stores on freedom of association, including training on international labour Conventions and Human Rights Declarations, national laws, and company policies and expectations. Such training should be carried out by credible and independent trade union organizations, labour rights NGOs, or academic institutions of higher learning.

### Stakeholder Engagement

- e) Develop and implement a plan for ongoing stakeholder engagement including
  - i) Participation in fora organized by multi-stakeholder initiatives within Mexico and the region, involving companies, NGOs, trade unions and governments where applicable;
  - ii) Establishing direct dialogue with NGOs, independent unions, and other key civil society actors raising concerns with specific aspects of Walmex's operations; and
  - iii) Stakeholder review, including civil society actors, of future social responsibility reporting.

### Supplier Standards and Compliance

- f) Develop, implement and report on, in cooperation with Wal-Mart Stores Inc. where applicable, a policy and plan of action to ensure that *all* Walmex suppliers are complying with labour and environmental laws, international Conventions and Declarations, and code of conduct standards, and to ensure that Walmex's own buying practices support and promote social compliance and decent work at the supplier level. This plan of action should pay special attention to specific risks identified in the Mexican context, including the well-documented risk of child labour within the agricultural sector and the presence of protection contracts in retail stores and supplier facilities.

# Endnotes

<sup>1</sup> Walmex's 2009 *Social Responsibility and Sustainable Development Report* can be found here: [http://www.walmartmexico.com.mx/downloads/salaprensa/informes\\_rs/2009report.pdf](http://www.walmartmexico.com.mx/downloads/salaprensa/informes_rs/2009report.pdf)

<sup>2</sup> The additional information on Wal-Mex's social responsibility programs is available in English on the company's website at:

<http://www.walmex.mx/en/social-responsibility/social-responsibility-and-sustainable-development.html>

<sup>3</sup> International Standards Organization. *ISO2600 Bracketed Working Draft*. May 21, 2010, p.21.

<sup>4</sup> Environment update available at: <http://www.walmex.mx/assets/files/Responsabilidad-Social/Eng/Environment.pdf>

<sup>5</sup> Levine, Carrie. The Blog of *Legal Times*. August 14, 2009:

<http://legaltimes.typepad.com/blt/2009/08/walmart-adds-to-lobbying-ranks.html>

<sup>6</sup> Nike Inc, for example, highlights public policy positions it has taken in its FY2007-2009 CSR Report. See: <http://www.nikebiz.com/crreport/content/public-policy-and-advocacy/7-2-1-trade.php?cat=public-policy>

<sup>7</sup> Mattera, Philip and Purinton, Ann, "Shopping for Subsidies: How Wal-Mart Uses Taxpayer Money to Finance Its Never Ending Growth." *Good Jobs First*, May 2007: <http://www.goodjobs-first.org/pdf/wmtstudy.pdf>. State and local governments justify these incentives by pointing to potential job creation and increased tax revenues (see Garmoe, Patrick. "Huntley hopefuls defend incentive decision: Most say Home Depot, Wal-Mart wouldn't have come otherwise," *Chicago Daily Herald*, March 20, 2007). Critics describe these so-called incentives as a misuse of public funds with uncertain benefits. See: Thomas, Kenneth P. "Investment incentives: Growing use, uncertain benefits, uneven controls." Global Subsidies Initiative, November 2007: [http://www.globalsubsidies.org/files/assets/GSI\\_Investment\\_Incentives.pdf](http://www.globalsubsidies.org/files/assets/GSI_Investment_Incentives.pdf)

<sup>8</sup> Ruggie, John. "Opening Statement to the United Nations Human Rights Council". October 5, 2009. p.3. Available at: [http://www.unglobalcompact.org/docs/news\\_events/9.6/Ruggie\\_Remarks\\_5\\_Oct2009.pdf](http://www.unglobalcompact.org/docs/news_events/9.6/Ruggie_Remarks_5_Oct2009.pdf)

<sup>9</sup> While GRI Indicator HR2 asks only for the "percentage of contracts with significant suppliers and contractors that were either declined or imposed performance conditions, or were subject to other actions as a result of human rights screening," many companies have reported aggregate audit results including the types of issues encountered and their frequency. Companies like Gap Inc., Nike Inc., adidas Group and others have regularly provided this information. Wal-Mart Stores Inc., in its 2007-08 Sustainability Progress Report, provides percentages of

factories that received various general non-compliance ratings according to Wal-Marts' own colour-coded system.

<sup>10</sup> US Department of State. *2009 Human Rights Report: Mexico*. March 11, 2010. Available at: <http://www.state.gov/g/drl/rls/hrrpt/2009/wha/136119.htm>

<sup>11</sup> *Lo Barato Sale Caro: Violaciones a Los Derechos Humanos Laborales en Wal-Mart México*, Proyecto de Derechos Económicos, Sociales y Culturales A.C. November, 2008, pp. 31-39, 89-94; *Ética corporativa y practicas indebidas en México: una aproximación del trabajo de los empacadores en Wal-Wart*, Ricardo Ramirez Bautista, Carmen Zambrano Canales e Iván Zamora Aguilar, Universidad Autónoma Metropolitana, Unidad Izta-palapa, June 2005, pp. 38-80; *El Trabajo Infantil en el Distrito Federal*, Thais Desarrollo Social, 2007, pp. 20-25.

<sup>12</sup> Ibid.

<sup>13</sup> *Lo Barato Sale Caro*, p. 43.

<sup>14</sup> Ibid.

<sup>15</sup> Walmex has reported some data by gender, for example on percentage of promotions for women and men, which should be encouraged. Wal-Mart Stores Inc. has also reported extensive gender-differentiated data on its U.S. employees in its *Sustainability Progress to Date 2007-2008* report, pages 30-31, available at <http://walmartfacts.com/reports/2006/sustainability/document/s/SustainabilityProgressToDate2007-2008.pdf>

<sup>16</sup> For more on Decent Work, see: [http://www.ilo.org/global/About\\_the\\_ILO/Main-pillars/WhatIsDecentWork/lang=en/index.htm](http://www.ilo.org/global/About_the_ILO/Main-pillars/WhatIsDecentWork/lang=en/index.htm)

<sup>17</sup> Bouzas Ortiz, José Alfonso and Reyes Ramos, Luis Oliver. *Contratación Colectiva de Protección en México: Informe a la Organización Regional Interamericana de Trabajadores (ORIT)*, First edition 2007, p. 132, available at: [http://www.fes-mex.org/common/Documentos/Libros/Libro\\_Evaluacion\\_Contratacion\\_Colectiva\\_en\\_el\\_DF\\_2009.pdf](http://www.fes-mex.org/common/Documentos/Libros/Libro_Evaluacion_Contratacion_Colectiva_en_el_DF_2009.pdf)

<sup>18</sup> Junta Local de Conciliación y Arbitraje del Distrito Federal: <http://www.juntalocal.df.gob.mx>

<sup>19</sup> Supra, note 17, at p. 135.

<sup>20</sup> Ibid.

<sup>21</sup> Wal-Mart de Mexico. "Resultados Del Tercer Trimestre de 2010". October 11, 2010. Available at: <http://www.walmex.mx/es/informacion-financiera/trimestral.html>

<sup>22</sup> This document is available at: <http://www.walmex.mx/assets/files/Responsabilidad-Social/Eng/Social%20Responsibility-ok.pdf>

<sup>23</sup> Wal-Mart de Mexico. *2009 SRSD Report*. p.32

<sup>24</sup> Global Reporting Initiative. *Indicator Protocols Set, Version 3.0: Economic*, p. 10: [http://www.globalreporting.org/NR/rdonlyres/B52921DA-D802-406B-B067-4EA11CFED835/3883/G3\\_IP\\_Economic.pdf](http://www.globalreporting.org/NR/rdonlyres/B52921DA-D802-406B-B067-4EA11CFED835/3883/G3_IP_Economic.pdf)

<sup>25</sup> Pirog, Rich, Timothy Van Pelt, Kamyar Enshayan, and Ellen Cook. "Food, Fuel, and Freeways: An Iowa perspective on how far food travels, food usage, and greenhouse gas emissions." Ames, IA: Leopold Center for Sustainable Agriculture, 2001.

<sup>26</sup> Condesa Consulting Group, S.A. de C.V. *Private Label Food Market Study*, Mexico. 2006. Available at: <http://ats.agr.gc.ca/lat/4137-eng.htm>

<sup>27</sup> USDA Foreign Agricultural Service. *Mexico's Retail Food Sector*. February 16, 200, pp.3-5.

<sup>28</sup> See, for example: Nava, Gustavo Alberto. "Amanada, aprobación de la construcción de Aurrerá en Chilapa: comerciantes," *La Jornada Guerrero*, September 26, 2009: [www.lajornadaguerrero.com.mx/2009/09/26/index.php?section=regiones&article=010n1reg](http://www.lajornadaguerrero.com.mx/2009/09/26/index.php?section=regiones&article=010n1reg) and Puga Martinez, Javier. "Clausura la Comuna temporalmente las obras del Wal Mart de La Margarita," *La Jornada Oriente*, April 21, 2009: <http://www.lajornadadeoriente.com.mx/2009/04/21/puebla/mun105.php>

<sup>29</sup> Puga Martinez, Javier. "Tiendas de Walmart han desplomado 80% las ventas de pequeños negocios," *La Jornada Oriente*, March 9, 2010: <http://www.lajornadadeoriente.com.mx/2010/03/09/puebla/eco105.php>

<sup>30</sup> Damian Jimenez, Tania. "Wal Mart está haciendo quebrar a los pequeños comercios, advierte la Canaco," *La Jornada Oriente*, March 25, 2009



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