



Interfaith Center on
Corporate Responsibility

Inspired by faith, committed to action

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Wal-Mart 2006 Proxy Item #6: Sustainability Report

- Detailed sustainability reporting is becoming the accepted standard at leading companies around the world.
- Sustainability reporting provides investors and other stakeholders with important information needed to evaluate a company.
- The information provided thus far by Wal-Mart about its proposed report is insufficient to warrant opposing the resolution.

Our Proposal

The resolution requests Wal-Mart prepare a sustainability report and provide a summary of the report to shareholders by December 2006. The resolution does not require use of the Global Reporting Initiative (GRI) Guidelines. In the supporting statement, the GRI guidelines are recommended, as proponents believe they facilitate performance comparisons between companies and aid a reporting company in identifying and addressing sustainability issues important to the business and to stakeholders.

Proposed Report

Wal-Mart has indicated that it plans on publishing a report in the spring of 2007 and has provided a general list of issue areas that the report “will likely focus on” according to the company’s statement of opposition to the resolution. In a January 9, 2006 letter to the lead proponent of the resolution, the company said the April 2007 publication will “represent a snapshot report of our progress as opposed to a finished product.” Without being provided more detailed information about the scope of the report, it is impossible for shareholders to judge whether Wal-Mart’s plans will, in fact, fulfill the request in the proposal.

The SEC makes distinctions between a company saying that it will produce a report and having done so. For example, in Kroger (2006), the SEC denied Kroger’s request to omit a sustainability report resolution based on Kroger’s commitment to develop such a report and on Kroger’s disclosure of a preliminary set of topic headings. The SEC has recognized that a stated intention is not always implemented. Similarly, the SEC denied Wendy’s request to omit a sustainability report resolution based on Wendy’s publishing of a ‘report’ that failed to provide a “company-wide review of company policies, practices, and indicators related to measuring long-term social and environmental sustainability.” (proponent letter to SEC, February 13, 2006) In the case of Wendy’s, shareholders had withdrawn the resolution in 2005 based on a promise to publish a report, only to be forced to place it on the proxy once again when the report was insufficient.

While we believe Wal-Mart will publish a report of some kind, insufficient progress has been made to assuage shareholders’ concerns that the report will be substantive and not simply a PR tool.

Substance of Report

Institutional Shareholder Services believes "...detailed sustainability reporting... is becoming the norm at many large companies." While announcing its plans to publish a report next spring, Wal-Mart has neglected to provide sufficient detail on the planned report's contents to enable an evaluation of whether the report will "specifically address a number of key environment, health and safety, and economic issues in detail." (Source: ISS 2006 Wendy's vote recommendation.)

There is no means at this time to determine whether Wal-Mart's upcoming report will be comprehensive or will provide sufficient discussion of how sustainability issues are affecting the company.

Wal-Mart has indicated to proponents that the scope of the report will include benefits, wages, product sourcing, community engagement, diversity, and the environment. While these topic headings are very broad, and the actual content remains to be seen, several key metrics dealing with sustainability reporting are missing. These include those pertaining to:

- government payments and subsidies;
- political contributions;
- employee turnover and injury rates;
- challenges and emerging opportunities; and
- descriptions of policies, guidelines, corporate structure, and procedures to deal with all aspects of human rights relevant to the company's operations.

For example, in the area of product sourcing, the company needs to provide metrics to demonstrate that its purchasing and pricing systems adequately take into account the ability of suppliers and vendors to fully comply with the vendor code of conduct when pricing and purchasing decisions are made.

In addition, recent news reports discussing how Wal-Mart is cannibalizing its own stores highlight key issues that need to be addressed concerning the sustainability of Wal-Mart's growth strategy. (e.g. Wall Street Journal, April 13, 2006.)

Finally, the value of reporting discreet indicators is limited unless all of the key areas of sustainability reporting are integrated into a format that stakeholders will find useful.

Our Concerns

Shareholders should support this proposal to ensure that the forthcoming report is robust and complete and that it substantively addresses key overarching sustainability issues at Wal-Mart, including Wal-Mart's business model.

The sustainability of Wal-Mart is of concern to all of us. Wal-Mart has a massive economic, environmental, and social footprint through its stores in thousands of communities and through its supply chain in every region of the world. Developing and publishing a sustainability report will allow the company to describe its vision and strategy with regard to sustainability and to illustrate how it affects (and takes responsibility for) the environment, employees, and communities while providing shareholders with important information with which to evaluate our company.

Insufficient work on the report has been shared by Wal-Mart with proponents. We believe that Wal-Mart has not satisfactorily indicated that the report it plans to publish will adequately address core sustainability issues and the long-term viability of the company.

We encourage shareholders to support the sustainability of our company by voting in favor of Proposal No. 6.