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3/4/2014

**Sustainability report assessment and financial performance assessment:
Walmart, Hewlett Packard, and General Mills, 2012**

Company profiles

Walmart (WMT) is a retailer, employing over 2 million people to sell myriad consumer products in 27 countries. In 2011-2012, Walmart's social responsibility efforts focused on charity, ethical sourcing, and workplace issues. Specific programs addressed food aid, disaster relief, women's economic empowerment, workplace safety, nondiscrimination, and worker health. A key part of Walmart's environmental responsibility efforts was the continued development of a Sustainability Index for product lifecycle auditing, helping Walmart to determine areas of need and set environmental standards for its suppliers. Walmart audited 30% of its products in the reporting year, with future plans to audit its entire inventory, then make the Sustainability Index available to other retailers. Walmart also made environmental commitments in the areas of waste reduction, energy efficiency, product quality and safety, with numerous goals pertaining to the sustainability of purchased products (especially concerning greenhouse gas emissions and green agricultural practices).

Hewlett Packard (HPQ) is a technology company supplying IT hardware, software, and services to retailers, businesses, and governments. Hewlett Packard employs 332,000 people, manufacturing its products in 45 countries and selling them in 170. In 2011-2012 HP's major social concerns were with its supply chain and workforce. Hewlett Packard focused on avoiding conflict minerals, increasing supplier diversity, protecting and investing in their workforce. Hewlett Packard's various social investments totaled $118.6M in 2012. With its environmental responsibility programs, Hewlett Packard strove to improve product design and packaging, shift to renewable energy sources, and curtail the environmental harm of its manufacturing through waste management, remediation, and emissions reduction. These efforts were guided by ISO-compliant product lifecycle assessments.

General Mills (GIS) is a food supplier specializing in cereals, snacks, and baking ingredients. With a workforce of 35,000 people, General Mills manufactures in 30 countries and sells to grocery retailers, restaurants, and institutional food service operations located in 100 countries. In 2011-2012, General Mill's social responsibility initiatives included programs for global food safety, better nutrition, hunger relief, and community education. Workplace safety, an accepting workplace culture, and sustainable social practices in the supply chain were also significant areas of focus. Environmentally, General Mills focused on reducing their operations' resource use and increasing the sustainability of suppliers' agricultural practices.

Company sustainability performance

For this analysis, Walmart, Hewlett Packard, and General Mills' 2012 sustainability reports were scored using Morhardt's Pacific Sustainability Index (PSI); full results are reported in Appendix 1. Before analyzing the results, a critically important point to note is that the PSI instrument does *not* measure the sustainability of a company's operations. The PSI is properly used to assess the quality of a company's sustainability *report*. Sustainability reports are scored for how thoroughly they cover the topics listed in the PSI scoring sheet. It's possible that a company could produce a very thorough sustainability report and achieve a high PSI score while the company's true sustainability performance remained dismal. Specifically, under the conventions used in the Index, a company's PSI score and actual sustainability performance could diverge for the following reasons:

- The PSI awards points for mentioning a topic, even if that mention discloses *harmful* social or environmental conduct by the company.
- The PSI awards points for stating good social and environmental intentions, even if those intentions are far from being realized.
- The PSI does not account for the size or efficacy of company programs; it does not differentiate between very impactful programs and token efforts (greenwashing).
- The PSI is a 99-question instrument, but far from an exhaustive list. Thus, the PSI can fail to capture damaging (or responsible) behavior by a company, if that behavior relates to an item not included in the Index.
- The PSI rewards only 2 points (of 304 possible) for securing third party validation of the sustainability report. This means the penalty for skipping third party validation is slight, though third party validation is surely necessary for assessing a company's true environmental and social impact (company self-reporting is not reliable for this purpose).

Some of these conventions make sense given the purpose of the PSI: to score reports for thoroughness, rewarding honesty in companies' voluntary disclosures to stakeholders. The main concern arises when applying the PSI outside its intended scope. Bearing this caveat in mind, companies' PSI scores are treated here as proxies for actual sustainability performance.

Walmart achieved its highest score in the environmental intent category (65%), but fared much worse in the environmental performance category (25%). There was a smaller gap between social intent and performance, with Walmart's social performance score (44.8%) actually exceeding its social intent score (43.3%). Whereas the large gap between Walmart's environmental ideals and conduct undermines the company's credibility—making them seem insincere about sustainability—the smaller gap between the social categories makes the report of Walmart's social conduct seem more reliable. In the memberships category, Walmart scored only 11.8%.

Hewlett Packard scored highest for environmental intent (82%) with environmental performance lagging behind (53.8%). Social intent (65.6%) also surpassed social performance (46.4%), but by a much smaller margin. Hewlett Packard scored 41.2% in the memberships category, not too far below its performance in other categories.

General Mills did best in the environmental intent category (72%), with its actual environmental performance trailing behind (40%). Compared to the environmental subcategory, General Mills' scores were somewhat lower in the social subcategory, but here there was a much smaller gap between ideals and performance, and social performance (48%) exceeded social ideals (46.9%). Finally, General Mills' memberships score was 29.4%.

Cross-company comparison of sustainability performance

1. *Rankings*

Hewlett Packard ranked best in all categories except one: environmental performance. In this category, Hewlett Packard slipped to second and General Mills took first place. General Mills was mostly in second place, with Walmart ranking worst in every category. Overall, summing up their ranks (similar to what was done for financial performance; see Appendix 2), Hewlett Packard had a composite score of 6, General Mills of 9, and Walmart of 15. (In this case, a lower score is preferable.)

2. *Magnitudes*

Overall, scores were low, clustered around half of the maximum possible score. In only one category—environmental intent—did all companies manage to score above 50%. Scores in this category ranged from a low of 64% to a high of 82%. Scores were lowest in the memberships category, ranging from 11.8% to 41.2%. This reflects a limitation of the Index: companies were affiliated with many organizations and accrediting bodies that weren't among the 16 possibilities named in the PSI. But the overall lowness of the scores is probably not a limitation of the Index's content; more likely, it indicates a real need for companies to raise the level of their sustainability commitments, reporting and performance. With the fairly recent emergence of triple bottom line accounting and sustainability reporting, it makes sense that companies' performance would take a while to catch up to the targets set by published standards. A second cause for low scores, of course, could be as simple as companies' desire to conceal potentially damaging information about socially or environmentally unsustainable conduct. By opting not to report damaging information, companies spare themselves the embarrassment of disclosing their bad conduct. They prefer this outcome even though it costs them lower PSI scores.

3. Spread

In only one category was the competition really close; otherwise, a spread of about 20 percentage points between the highest and lowest scoring companies was common. Companies were basically neck-to-neck in the social performance category, with scores falling between 44.8% and 48%. The spread was greatest in the memberships category, with a 30% difference between the highest and lowest scores. For reasons noted immediately above, this margin of difference in the memberships category is probably less important than spread in the other categories, which are more likely to indicate significant differences between companies' sustainability performance.

4. Subtotals and categories

A pattern consistent across companies is that intent subtotals exceeded performance and reporting subtotals by a margin of about 20% (Appendix 1). With sustainability reporting a relatively recent phenomenon, it's perhaps unsurprising that companies have made more progress in terms of their ideals than in terms of their actual practice. Awarding points for intent is probably meant to entice companies into making a public commitment, which they may then be compelled to honor, raising their performance to the level of their goals. Still, it's far from encouraging that this pattern (better intent than performance) is consistent across all companies. It implies that companies have some distance to go before their 'walk' can keep pace with their 'talk', and raises the question of whether sustainability reporting will be sufficient in moving companies to close this gap.

There are some small, potentially hopeful exceptions to this pattern. The excess of intent subtotals over performance subtotals is partially created through aggregation. Disaggregating, it's apparent that for two companies (General Mills and Walmart), *social* performance exceeded social intent. For these companies, it was the looming gap between *environmental* intent and environmental performance that led to the subtotal result (of intent better than performance). This result might suggest two things: (1) that social intentions are articulated more modestly, while environmental intentions tend to be overstated; (2) that social performance is more easily improved than environmental performance. Another result, comparing environmental and social performance, reinforces this second interpretation. Two companies have social performance scores that exceed their environmental performance scores (Walmart: 44.8% versus 25%; General Mills, 48.0% versus 40.0%). Hewlett Packard is the exception, with better environmental performance than social (53.8% versus 46.4%). This slight pattern suggests that improvements in social performance might be more easily achieved, which has implications for priority-setting: if companies want to boost their sustainability performance in the short-term, they can focus on social dimensions of sustainability; and when companies aspire to improve their environmental performance, they should recognize it as a long-term goal requiring consistent investment over time.

One final note is that environmental subtotals seem higher for companies that do their own manufacturing (Hewlett Packard and General Mills). It could be the case that retail companies are able to better conceal the externalities in their supply chains, while manufacturing companies have more pressure to disclose impacts for which they have a more direct responsibility. As discussed above, then, companies with more direct environmental impacts to discuss would perversely receive higher scores for mentioning these impacts, even if they were negative. More industry specificity in the PSI might help correct for this problem. Otherwise, comparing subtotals from companies in different industries is of questionable value.

5. Other considerations

Companies' answers to certain questions are worth highlighting. Hewlett Packard was the only company that bothered to have its report externally verified. This matters a lot, when weighing the trustworthiness of the reports. General Mills was the only company to report its environmental notices of violation and its environmental fines; similarly, only Walmart reporting its health and safety citations, while no company discussed health and safety fines. This is especially interesting because fines and citations indicate how well companies abide by regulations, so there is an absolute and binding standard in play that differs from the voluntary standards underlying most other PSI questions. Hence nonresponse to these questions should raise a red flag. Relatedly, no company gave a truly realistic description of social and environmental obstacles related to their goals. Together, these questions point at an important phenomenon: that companies do not 'own' social problems the way that a government might. A government may try to hold itself responsible for setting and enforcing standards (laws) that objectively succeed at protecting the environment and vulnerable social groups. But companies do not feel responsible for solving these problems fully, just for making an effort that distinguishes them sufficiently from competitors. Concerning far-reaching social and environmental problems, companies do not need to be outcomes-oriented.

Correlations of sustainability and financial performance

Appendix 3 provides a ranking of companies' financial performance across dimensions of revenue, net income, return on sales, and debt-equity ratio; data underpinning this appendix comes from companies' annual financial reports. Walmart and General Mills tie for top rank, with Hewlett Packard coming in last by a considerable margin. In specific categories, Hewlett Packard is consistently last, while Walmart and General Mills fluctuate between first and second place: Walmart has best net income and debt-to-equity ratio, with General Mills capturing highest revenues and return on sales.

Worth noting is that Hewlett Packard had a particularly bad year in financial terms. Net revenue has not dwindled much over the past two years (it decreased by about 5 percent), and product costs have actually decreased by 9 percent. Despite these relatively favorable trends, Hewlett Packard's bottom line plunged to net loss due to large decreases in goodwill and increased restructuring costs. Explained in the letter to shareholders, Hewlett Packard is pursuing ambitious changes in its operations. In the best-case scenario, this sort of restructuring is a one-time, short-term expense with good payoff in the long run. At any rate, Hewlett Packard's anomalous financial performance and the extremely small size of the sample (three companies) suggest that any correlations found here should be treated very skeptically.

Appendix 4 reports these correlations between each company's PSI score and financial performance. Matching up financial performance ranks against sustainability ranks, there seems to be a slight inverse correlation. Hewlett Packard has the best sustainability rank but the worst financial performance; Walmart has the worst sustainability performance, and ties for top financial performance. The hopeful outcome is General Mills, which manages to score moderately well at sustainability without seeming to sacrifice its financial performance at all. Thus this company might be a good choice for an in-depth case study, as a potential role model for companies who want to achieve a good triple bottom line.

Appendix 1 - PSI scoring results

WALMART (WMT)

PSI sustainability category	*PSI total*	*Score*	*Percent*
Environmental intent	50	32	64.0%
Environmental reporting & performance	80	20	25.0%
Social intent	32	13	43.3%
Social reporting & performance	125	56	44.8%
Membership & guidelines	17	2	11.8%
Subtotal: Environmental	130	52	40.0%
Subtotal: Social	157	69	43.9%
Subtotal: Intent	82	45	54.9%
Subtotal: Reporting & performance	205	76	37.1%
TOTALS:	**304**	**121**	**39.8%**

HEWLETT PACKARD (HPQ)

PSI sustainability category	*PSI total*	*Score*	*Percent*
Environmental intent	50	41	82.0%
Environmental reporting & performance	80	43	53.8%
Social intent	32	21	65.6%
Social reporting & performance	125	58	46.4%
Membership & guidelines	17	7	41.2%
Subtotal: Environmental	130	84	64.6%
Subtotal: Social	157	79	50.3%
Subtotal: Intent	82	62	75.6%
Subtotal: Reporting & performance	205	101	49.3%
TOTALS:	**304**	**170**	**55.9%**

GENERAL MILLS (GIS)

PSI sustainability category	*PSI total*	*Score*	*Percent*
Environmental intent	50	36	72.0%
Environmental reporting & performance	80	32	40.0%
Social intent	32	15	46.9%
Social reporting & performance	125	60	48.0%
Membership & guidelines	17	5	29.4%
Subtotal: Environmental	130	68	52.3%
Subtotal: Social	157	75	47.8%
Subtotal: Intent	82	51	62.2%
Subtotal: Reporting & performance	205	92	44.9%
TOTALS:	**304**	**148**	**48.7%**

Appendix 2 - PSI category ranks

	Environmental intent	*Environmental performance*	*Social intent*	*Social performance*	*Memberships*	***Composite score***
WMT	3	3	3	3	3	**15**
HPQ	1	1	1	2	1	**6**
GIS	2	2	2	1	2	**9**

Appendix 3 - Financial performance ranks

	Revenues change rank	*Net income change rank*	*Return on sales rank*	*Debt to equity rank*	***Composite score***
WMT	2	1	2	1	**6**
HPQ	3	3	3	3	**12**
GIS	1	2	1	2	**6**

Appendix 4 - Correspondence of financial performance and PSI category ranks

	Financial performance - Composite score	*PSI - Subtotal ranks*	***Composite score***
WMT	6	15	**21**
HPQ	12	6	**18**
GIS	6	9	**15**