

Case study on wal- mart bribery scandal

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In 2012, The New York Times published an investigative report on the violation of the Foreign Corrupt Practices Act by the top management of the Wal-Mart's unit in Mexico. It came out that more than \$24 million of bribes were paid to the Mexican government officials to obtain the permits for construction of the new stores.

Wal-Mart de Mexico, which controls more than 20% of Wal-Mart's stores around the world, is a profitable business for the world's largest retailer. The Wal-Mart's former executive revealed in September 2005 that many senior managers were handing out bribes to open 19 stores more quickly than allowed by the Mexican law.

According to the emails obtained by the lawyers and the follow-up records and conversations, Wal-Mart de Mexico had been bribing officials for many years. However, the top management took steps to conceal the bribes and made them look like legal bills.

There was evidence provided that Wal-Mart de Mexico paid a \$52, 000 bribe to the local officials to get the permission to build a store barely a mile from the ancient pyramids in San Juan Teotihuacan. Constructing a store near the historic site would attract thousands of tourists a day from all around the world. According to Wal-Mart's precise calculations, such location would bring 250 customers an hour.

San Juan Teotihuacan leaders have approved a zoning map, which limited the commercial development near the town's entrance and prohibited any growth. However, a \$52, 000 bribe helped to convince a local official to change the zoning map.

Many Mexicans were against building a Wal-Mart store close to the pyramids.

Thousands of people believed that a new store near the national treasure of Mexico would cause a traffic jam and would make the traditional public markets go bankrupt. However, months of sit-ins and hunger strikes did not make any change and the store was opened for Christmas in 2004.

Wal-Mart CEO Mike Duke and the senior management of the company appear to have known about the bribery campaign launched by the Mexican unit. They started an investigation and dispatched a former F. B. I. special agent to Mexico City. He found out that Wal-Mart de Mexico had made hundreds of suspicious payments of more than \$24 million in total.

However, the senior executives at Wal-Mart's headquarters in Arkansas were frightened that if made public, the bribery scandal would damage the company's reputation. Thus, they decided to assign the further investigation to Wal-Mart de Mexico, which shut it down.

After the New York Times published its own investigative report, Wal-Mart launched a new investigation. When the bribery allegations were reported, Wal-Mart's shares fell for more than 7%, but after the first-quarter the stock price recovered from \$57 to \$65 per share, as the company's profit was even higher than expected.

A year after the bribery scandal, some investors vote against certain board members and demand to cut the compensations of those directors, who were responsible for paying the bribes. Although, the Walton family owns more than 50% of all shares, making such moves of the other shareholders impossible.

If I were a top manager of the Wal-Mart company, I would initiate the detailed investigation right after receiving the evidence that the executives

Wal-Mart de Mexico have been involved in bribery. It is obligatory for all US companies to act under the Foreign Corrupt Practices Act. Thus, Wal-Mart had to pay the penalty and take the necessary measures to make sure such violations won't happen again in the future.

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