SWITCHING COST STRUCTURE OF A COMPANY ACHIEVING SUSTAINABLE VALUE CREATION

The case of Walmart Mexico and Latin America
Ilaria Guandalini

BACKGROUND

This study aims to expand the knowledge on the relationship between Switching Cost (SC) of sustainability projects and corporate financial performance (CFP) to understand how sustainability can be incorporated into a financial performance-oriented business strategy. Walmart Mexico and Latin America, a firm achieving Sustainable Value Creation (SVC), i.e. the dual objective of sustainability and CFP, is chosen as an exploratory case study to investigate: 1) How is the SC structure of a company achieving SVC? 2) How SC can be mapped to achieve or improve a SVC strategy?

CONCEPTUAL FRAMEWORK

By definition, SVC includes two components: CFP and sustainability (Accenture, CECP, 2011). Inspired by Porter (1985) theory that a firm needs to build a strategy that minimizes its SC, the diagram in Figure 1 indicates that when sustainable projects have negative SC, the effects on CFP and therefore on SVC are positive. Vice versa, when sustainable projects have positive SC, the system experiences a negative effect on both CFP and SVC. This is based on the assumption that other factors affecting CFP are kept constant, allowing to isolate the effect of SC.

METHODOLOGY

An “embedded case study”, which consists of a case (company) with multiple units of analysis (projects), has been chosen to represent a critical case (“best-in-class”, i.e. a SVC achieved) with the aim of giving a contribution to SC theory and tool development, but also as a benchmark or a prelude to future comparative studies (Yin, 2009).

Walmart Mexico and Latin America was chosen from a list of SVC best-in-class firms produced with Thompson Reuters’ Eikon data according to criteria of financial performance (positive ROA, ROE and total return) as well as ESC Score=50 in the past 3 years.

To identify and understand acceptances and dimensions of the SC construct, a literature review of over 90 papers and books has been conducted looking for combined key words of SC/Transaction Cost and Financial Performance. Definitions were then grouped to avoid concept overlapping and then assigned to three SC types, specifically financial/economic, procedural and relational as in Burnham et al. (2003) and in following literature.

Data have been collected conducting semi-structured interviews to heads of departments or project managers on sustainable projects, recorded and then processed through coding of the identified SC using NVivo. The core objectives of Walmart’s sustainability strategy, the interviewed departments and the discussed key projects are presented in Table 1.

Despite a number of limitations, mainly due to the holding assumptions, as well as the chosen criteria for establishing SVC achievement and SC coding, this methodology has been chosen as it allows to collect, operationalise and quantify SC by aggregating approaches from different literature sources.

RESULTS & CONSIDERATIONS

The most relevant SC due to the implementation of sustainable projects concern setup and execution as well as performance and time. Nevertheless, comparing SC(+) and SC(-), the net effect of performance and time cost is even (Figure 2). This suggests the firm’s ability to streamline sustainability within the existing processes, without compromising the overall performance and the employees time. Even so, “performance and time” is still the most common SC, while “sunk” or “search” SC, depend on the nature of the projects (Figure 3). When looking at the 3 types of SC commonly used in literature, it is found that the perception of economic and financial SC does not correspond to the actual financial investment as positive and negative effects are even. The proportionality of procedural SC is confirmed in Figure 4. In addition, sustainability projects produce a positive effect in terms of relational and emotional impact. Figure 5 illustrates the position of each project with regards to positive and negative effects of SC in aggregate, suggesting that projects such as Food Bank present a minor level of SC and therefore may have a major positive repercussion on SVC.

FURTHER RESEARCH

The following step of the research will be organis SC net results in a map similar to the “Materiality Assessment” one to show SC impact by projects and determine areas of intervention for further SVC improvement. Results of this study will also be used as benchmark for comparative analysis on the SC structure of firms not achieving SVC.

KEY REFERENCES

Accenture, CECP, 2011, Business as its Best.

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RESEARCHER CONTACT
Ilaria Guandalini@greenwich.ac.uk