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Understanding Enterprise Risk Management of the Retail Industry During the Pandemic-Case Study of Walmart

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Abstract: Enterprise Risk Management (ERM) is critical for companies operating in the global retail industry in order to achieve their expected long-run values. As a holistic, top-down approach to managing the risk, ERM can bring valuable insights into how companies operating in the global retail industry make agile responses to shifting consumer demand and product supply. We look at specifically how ERM strategies helped Walmart during the Pandemic, especially in the early phase.

1 Introduction

The Covid-19 pandemic has changed everything. Undoubtedly, it has a devastating, continuous impact on a country's economy. Due to the quarantine and lockdown policies, population mobility has significantly decreased, undermining purchasing power and economic growth. It also caused the worst worldwide recession since the 1930s at the macro level. In comparison to the prior years, the GDP of some nations fell in the first quarter of 2020. Not being able to meet short-term and long-term obligations, many companies went bankrupt. The negative impacts of this huge public health emergency also hit the stock market. During the Covid-19 pandemic, many companies lapsed into negative financial performance. However, given the depressed economy, there are some companies that still show positive financial results. Their successes in surviving this pandemic cannot be separated from their efforts to adjust their strategy by implementing a more timely corporate risk management.

ERM is a pioneering paradigm that assists businesses in identifying, assessing, and managing risks on an enterprise-wide basis. The likelihood of financial trouble and related expenses, the low-profit performance, the development potential, and the board's independence are some of the elements that encourage businesses to participate in the ERM process. A sound risk management approach may also provide businesses with a competitive edge and help them expand. This explains the substantial volume of research on ERM.

According to Smith, companies should respond to the current crisis in three stages, beginning with a quick reaction to urgent pandemic demands, transferring resources to assure stability, and then adopting adjustments to ensure long-term success. [1] As part of the first reaction, the business must make sure that all personnel are secure as well as that all stakeholders have access to key policies and information. In the second stage, risks are assessed, developing safety and legal processes are ensured to be followed, and risk recurrence is investigated. An organization should assess and make adjustments in the last stage of the response process to ensure the company's viability and ongoing success. The emphasis of the special issue is on this third phase.

The goal of the article is to examine Walmart's ERM strategies during the pandemic and offer insights for companies in the retail industry to better cope with similar situations.

2 THREATS AND OPPORTUNITIES FOR THE RETAIL INDUSTRY

By Michael global consumerism has been significantly disrupted by the Covid-19 epidemic, forcing people to relearn old behaviors and acquire new ones. [2] In many nations, the lockdown has already lasted long enough to drastically alter customs that had previously formed the basis of demand and supply. Companies need to have a comprehensive grasp of shifting behaviors if they want to come out of the crisis stronger. This applies to any industries, including ones that were not negatively shocked by the Pandemic and thrived during the Pandemic, like the retail industry: The demand for groceries increases because of more population cooking at home and emotional turmoil driven by fears and uncertainty.

Meanwhile, the need for a safer and faster shopping experience was potent. In response, grocery stores all around the country increased their online shopping options, added delivery options, and provided curbside pickup. Although Sayyida show that online retail sales are insignificant when compared to offline retail sales, the shift in consumer preference is transparent and without having a competitive online platform, big retailers are prone to lose customers and market share, resulting in stronger financial pressure when operating expenses are higher and lower stock price. [3] Many retail companies invested heavily in building their e-commerce and delivery platforms. And such a trend would persist even in

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the Post Covid-19 period because some customers have been used to the convenience of online shopping and would continue to do so going forward. The technological and strategical development of e-commerce would only make the shopping experience more pleasant and attractive in the future.

3 ANALYSIS OF WALMART's ERM STRATEGIES

3.1 OVERVIEW

Walmart has become the largest supermarket chain in the United States with more than 11,500 brick-and-mortar stores, operating worldwide in 27 countries. They service close to 270 million consumers and have a global workforce of over 2.2 million colleagues, including 1.5 million in the United States alone. With a total capitalization of more than $500 billion, Walmart is also the biggest business in the world by revenue. The brand is a publicly listed, family-owned corporation run by the Waltons that includes a retail chain with a largely brick-and-mortar-based business strategy today. However, e-commerce has been growing quickly for the firm.

According to Nassauer, earlier in 2016, Walmart acquired Jet.com Inc., an e-commerce company, for $3.3 billion, bringing in some outside assistance to kickstart the development of its e-commerce divisions. [4] The deal, which represents the largest-ever acquisition of a U.S. e-commerce startup, is evidence that Wal-Mart CEO Doug McMillon views the transition to online shopping and Amazon's development as looming threats. Later, in May 2018, Walmart announced another acquisition for $16 billion to buy a majority stake of Flipkart Private Limited, which is an e-commerce platform in India. Before the lockdown, many retailers were, in fact, responding to the digital challenge by reinventing the function of the physical store, frequently by reframing shopping as a desirable social activity rather than a chore.

Asperti mentions despite having diverse business strategies, the majority of retailers face the same primary risks, which include those related to reputational, supply chain, third-party, external, competitive, and financial threats. [5] Digital platforms are frequently the target of cyberattacks; as a result, the business risked losing revenues, reducing transactions, damaging its brand, and losing ground in the market if it failed to maintain sufficient security levels and keep them running within acceptable bounds.

3.2 ERM STRATEGIES OF WALMART

Even though it has evolved over the past 30 years since CFO John Menzer established Walmart's ERM, it all began with a bottom-up, grassroots strategy without a top-down mandate in the early 2000s. Subsequently, in 2007, the ERM program became a part of the audit group, supported by the Treasury, with a risk management committee that made recommendations to the Board of Directors regarding policy options. According to Atkinson, Walmart's ERM process presently consists of five basic steps: The first step is risk identification, which begins with clearly defined company objectives. [6] At this point, a workshop group will compile a list of around 25 hazards based on seven categories, each of which is separated into either internal risk or external risk. The second phase is risk mitigation, carried out through a different assisted session. In this workshop, the three to five most significant risks are further identified and quantified, and existing processes are also evaluated. The next step is action planning when project teams are established for each previously selected risk in order to delegate accountability and tasks to staff members in an effort to reduce those risks. The impact on the identified risks is then determined by comparing the intended performance to the actual one over time, which is achieved when measurements are assigned to each risk. The last step is determining whether the method outlined above boosted shareholder value by increasing turnover or decreasing turnover as a result of the process.

3.3 ERM STRATEGIES DURING PANDEMIC

Beasley introduced a detailed mindset illustrating an adjusted version of the traditional ERM strategies to help any organization better respond to Covid-19. It highlights several crucial points central to ERM that are extremely enlightening during the Pandemic. Walmart exerted all of them pretty well. [7]

The value of "culture and leadership" are emphasized in ERM. Nothing else will matter if the organization's culture and leadership aren't supportive of greater knowledge of the risks it confronts. Any ERM process must start with these fundamental components. Leadership and a people-centered approach are essential for effective risk management. This passage points out that the most important assets in an emergent circumstance, including how COVID-19 will affect a firm, are the people; they must be found and secured first. People in an organization include partners, customers, suppliers, and workers. They will be of crucial assistance in navigating the situation once they are safe and feel protected. Specifically, Walmart increased benefits in Annual Report 2021 to promote associate health and happiness amid the COVID-19 epidemic. In addition to providing additional salary and benefits, they also implemented the COVID-19 Emergency Leave Policy in the United States and gave special cash incentives totaling $1.6 billion. [8]

The next stage after executives have protected their employees is to identify the organization's most important value drivers so that leaders can concentrate all of their efforts on keeping those value drivers up and operating as best they can. For Walmart, the most important drivers of value for its business are its retail sales. Put another way, Walmart needs to actively preserve old customers and expand its customer niche in the meanwhile. Therefore, the majority of its efforts should be focused on identifying strategies for fast restoring consumers' buying power and increasing revenues even to offset greater operational costs. As indicated in their 10K form, it spent little on businesses like opening up new stores when the Pandemic originally hits.

After pinpointing the primary value drivers, we need to ponder on what are the essential components that will maintain the business's main engine running as efficiently as possible and the fundamental presumptions underlie the primary value drivers. At Walmart, they have previously assumed that shoppers go to a specific store to get groceries. And making customers feel safe and convenient to shop is the central part that would keep the business running efficiently. Now, like all the other retailers, they found that assumption no longer to be valid. Rather, they must prepare for the likelihood that customers may not feel safe shopping indoors and consider alternate distribution methods. In Walmart's case, the actions concerning providing convenience to customers are mainly providing curbside pickup and delivery services. Apparently, the trend of digital transformation is overwhelming. Walmart keeps investing in digital solutions to raise associate productivity, engagement, and performance in order to provide a seamless customer and associate experience. As more consumers conduct their shopping online, they have reacted by increasing the number of positions in Commerce fulfillment, and their home office employees have ramped up tech-based solutions that improve the experiences of both shoppers and employees.

Another key is communication. As events develop on a daily basis, communication with important stakeholders, including workers, clients, suppliers, investors, partners, etc., will be essential for noticing abnormalities and taking nimble action. Walmart collects associate input in a number of methods, including an anonymous, formal, periodic associate engagement survey, Open Door approach, and one-on-one encounters, in order to create a business where associates feel appreciated and heard. The comments they receive from their official associate engagement survey are reviewed by management. Through these methods, they gathered feedback and ideas that have resulted in significant improvements to the operations.

3.4 WALMART's SOLUTION TO THE SUPPLY ISSUE

Souza suggests that the supply chain is another aspect that hits the operation and sales. [9] It was frightening to see empty shelves in Walmart shops all across the country. However, during a period of record-breaking purchasing, Walmart had done a better job this year of keeping stores supplied. Walmart has a robust grocery supply chain that consists of a 47-center grocery distribution network, 13 import, storage, and consolidation sites, and an upstream grocery network. Still, Walmart has room to improve.

Despite hiring events, new incentives, and salary hikes, the workforce of Walmart's supply chain segment considerably reduced in 2020. Another issue is that the route to the customer is getting trickier. More items are available than ever before, and depending on the item, each has a different set of logistics needs. In-store and online grocery pickup and delivery through last-mile partners, especially for cold chain food purchases, are likely to continue. Shelf-stable goods have additional options thanks to automated replenishment, curbside pickup, store delivery for in-store customers, final-mile deliveries with different partners, and direct shipment from fulfillment centers to homes. The grocery supply chain is still evolving because customers are sending a compelling message.

Walmart keeps automating its fulfillment and distribution facilities and using micro-fulfillment facilities to bring its inventory closer to customers. The automation of fulfillment and distribution processes eliminates certain duplicate activities. The workload for average warehouse workers is so demanding to keep employees in their positions. By running these machines and increasing operational efficiency, Walmart can use its employees in more significant ways by automating certain jobs, and thus controlling the expenses of its end-to-end supply chain.

4 CONCLUSION

All the nimble reactions of Walmart helped it under so many pressures and e-commerce competition. The fundamental idea is that Walmart utilized ERM very well, preserving human resources in the first place, then upgrading and finalizing their managing system to cope with changed consumer behaviors and delayed or interrupted supply chain by analyzing all the economic, strategic, and financial risks it confronts. No ERM strategies should replicate completely, but Walmart's success surely points out the trend of the retail industry and offer suggestions to enterprises facing similar risks.

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