Walmart Inc.

The Donkey meat scandal

Walmart has been present in China for approximately 30 years (Corporate Walmart, 2025), with more than 330 retail outlets, making the country a strategic hub in its international presence. In late 2013, Walmart faced a controversy that significantly affected its history.

The Controversy

~Timeline~

In December 2013, DNA tests revealed that several batches of donkey meat sold in its stores contained traces of fox meat (Reuters, 2014). A customer reported anomalies in a product sold under the label "five-spice donkey meat" at a Sam's Club, a Walmart subsidiary (CNBC, 2014). Following these complaints, the Shandong Food and Drug Administration conducted DNA tests that confirmed the fraud. The information quickly spread on the social media platform Weibo, amplifying the incident and bringing widespread public attention.

~Allegations~

The accusations against Walmart were multiple, including a breach of food safety regulations: "the company was found to breach food safety measures in China in Jan 2014" (Nasdaq, 2014). Media outlets also accused Walmart of withholding information, noting that the company had not provided "a clear explanation regarding the precise origin of the fraud" (Le Figaro, 2014). This scandal was criticised as it was not the first food safety incident involving Walmart in China (BBC, 2012). In 2011, Walmart stores had already been accused of selling more than 63,500 kilograms of mislabelled pork. The reputational impact was significant, resulting in a growing loss of trust among wealthier consumers.

~The Response ~

Walmart responded immediately. In early January 2014, the products were removed from shelves, and CEO Greg Foran issued a public apology, stating he was "deeply sorry" and announcing refunds for affected customers, describing the incident as a "deep lesson" (CNews, 2014). A few days later, authorities detained several executives from Dezhou Fujude Food Co. By the end of January 2014, Walmart announced an investment of over USD 16 million to improve food safety in China (Taipei Times, 2014). Nevertheless, these measures remained largely reactive, without reconsidering the structural supply chain model that was the fundamental cause.

Opinions remained divided. Greg Foran stated that the case "appears to be an isolated incident" (FoodNavigator, 2014), while local authorities accused Walmart of failing to fully assume responsibility and emphasised prior scandals. Public opinion was highly divided (CNBC, 2014), illustrating how controversies generate contradictory perceptions. The supplier involved did not communicate publicly about the causes, further reflecting the complexity of the case.

Beyond the media scandal, this controversy points out how Walmart's highly fragmented GVC, combined with cost pressures, increases the risk of food safety breaches. Walmart's global strategy relies on low costs and an extremely fragmented multi-tier supply chain across 18 countries outside the U.S. (Walmart Report, 2025). Its "Everyday Low Prices" strategy relies on a cost leadership approach (WBS, 2024), focusing on efficiency and cost control, which remains economically reliable. Using the Smile Curve (Mudambi, 2008), Walmart captures most value added in downstream segments, such as distribution, branding, and customer relationships, while upstream activities, generating lower value but higher sanitary and ethical risks, are outsourced to low-cost suppliers. This fragmentation, combined with strong price pressure, limits Walmart's ability to control all production stages. This controversy also highlights constraints specific to emerging markets more specifically Institutional Voids in emerging markets (Peng & Meyer, 2023), where standards, enforcement mechanisms, and oversight can be uneven. We can analyse them by using a PESTEL framework: Politically and legally, weak regulatory mechanisms and limited supplier oversight have allowed "dangerous production practices and deficiencies in safety" (China Daily, 2014). Economically, strong cost pressure encourages suppliers to prioritise efficiency over investment in safety and quality. Socially, low wages and weak worker representation reduce employees' ability to report poor conditions. Technologically, insufficient traceability and control systems limit Walmart's visibility regarding supplier compliance with standards.

Stakeholder Analysis

From a stakeholder theory perspective (Freeman, 1984), this controversy shows Walmart's failure to adequately balance the interests of key stakeholders. They can be grouped into three categories: decision-makers, including Walmart executives and suppliers such as Dezhou Fujude Food Co. Victims, represented by consumers and third-party actors, including Chinese food authorities, NGOs, and the media.

Walmart executives aim to maintain low costs, a competitive advantage that relies on a fragmented and outsourced GVC and significant bargaining power with suppliers. Walmart also seeks to preserve its global reputation to attract customers and investors through initiatives such as reducing emissions by 18% or donating 4 billion meals (Walmart Global Responsibility Report, 2017). Its power is mainly structural, contractual and is exercised by selecting suppliers, setting standards, and imposing prices. However, this one has limitations: control over suppliers' practices is restricted due to the massive fragmentation of the Global Value Chain. Moreover, although Walmart has the price-setting decision, prices are strongly influenced by consumer opinion, compelling constant pressure across the entire supply chain.

Dezhou Fujude Food Co., the supplier, seeks to maintain contracts with multinationals like Walmart, which guarantee high volumes and financial stability. Nevertheless, these contracts come with strong price pressures, often at the expense of ethical and legal standards. Studies show Chinese suppliers of Walmart pay extremely low wages, around 15 yuan per day ($1.80), with unsafe working conditions, disregard for working hours, and penalties for delays (International Labor Rights Fund, 2006). Suppliers possess ambivalent power: individually weak contractually but holding significant operational and informational power, as they control production processes. They exercise this power through control over production processes, information disclosure, and compliance choices. Yet, this power is limited by dependence on Walmart, competition, and the risk of contract termination. For example, Walmart recently requested suppliers to reduce prices by 10% per tariff round which was accepted, illustrating their economic dependence (ZoneBourse, 2025).

Chinese consumers are the direct victims. Their main interest is access to quality products at affordable prices, aligned with “Everyday Low Prices.” Although their power is indirect, it remains significant. According to Hirschman (1970), consumers exercise power through exit, stopping purchases or voice, public complaints. This power is thus expressed through purchasing or boycotting decisions (exit), and through criticism on the social media Weibo likely to affect reputation (voice). Consumers’ decision-making power is influenced by beliefs, social values, and expectations regarding food safety, significantly affecting strategic decisions of multinationals. A Harvard Business Review study shows 64% of consumers choose or avoid brands based on social values, reinforcing the strategic impact of ethical scandals. While individually limited as each customer represents a small part of the total profit, collectively, and amplified by NGOs and media, this power becomes reputational and strategic.

This leads to NGOs and media, whose objective is to protect consumers and denounce unethical practices, including social network Weibo and NGOs like WCWA. Their power is informational and normative. They exercise is by exposing violations, influencing public opinion, and pressuring companies to comply with social and environmental standards. Normative power is particularly strong in global value chains, where reputation is a key strategy. NGOs such as WCWA in China have repeatedly reported “certain conditions” and “conflicting norms” following the fox meat scandal, which led to multiple strikes a few years later (NYU Law Review, 2018). Their power remains limited, as they lack direct coercive authority and depend on public and political support, particularly in China (e.g., the degree of freedom of expression).

The Shandong Food and Drug Administration is a key institutional actor, aiming to ensure food safety and protect public health. Its power is regulatory and coercive, relying on inspections and DNA tests, which made detecting the fox meat possible and sanctions. They can do inspections, regulatory enforcement, and sanctions to exercise their power. From a Stakeholder Theory view, it represents consumers’ collective interests and contributes to social legitimacy. However, it is largely reactive and territorially constrained, reducing its effectiveness in a fragmented GVC dominated by a multinational like Walmart.

These different actors sometimes have contradictory demands, creating strategic challenges for Walmart. A first conflict arises between the suppliers and consumers. Consumers demand good-quality products at low prices, which pushes Walmart to reinforce its "Everyday Low Prices” strategy and to exert increased pressure on its suppliers. The latter, subjected to continuous cost compression, may be incentivised to reduce their expenditures at the expense of product quality, which does not meet consumer quality demands. This imbalance leads to a second conflict between suppliers and public authorities. While suppliers seek to preserve their profitability under strong economic pressure, which takes precedence over quality and working conditions, authorities impose strict food safety standards. This opposition between economic profit and regulation illustrates the difficulty of reconciling economic performance with responsible practices. A similar conflict, but at another level, arises between Walmart and public authorities, the company must simultaneously maintain its price competitiveness and comply with increasingly strict health and ethical standards. Finally, a fourth transversal conflict appears between Walmart, suppliers, and NGOs, which denounce conditions at suppliers caused by the pressure exerted by Walmart. These organisations turn localised incidents into global reputational issues, thereby increasing the pressure on Walmart, whose objective is to preserve a strong brand image. These conflicts are not independent but occur in a circular chain. Consumers' reputational power fuels the pressure on Walmart, which transfers this pressure to suppliers. Suppliers then respond by lowering certain ethical standards to reduce costs. The intervention of public authorities and NGOs thus becomes inevitable and in turn increases the pressure on Walmart, closing a cycle of structural tensions. Walmart finds itself at the centre of this system, constantly forced to arbitrate between competitiveness, compliance, and quality, making the strategic management of its Global Value Chain particularly complex and risky.

The Recommendations

As Walmart's CECO, to respond to the different challenges highlighted in the previous section, it is essential to formulate recommendations that are both actionable and strategic. In this context, Corporate Social Responsibility (CSR) is a central lever allowing us to address the structural failures identified in our global value chain, while strengthening our long-term competitive resilience. The fox meat scandal forces us to ask a critical question:

What weaknesses did this incident reveal about our business strategy?

The most evident is that we lack full visibility over what happens at our suppliers, particularly in emerging countries. More precisely, it is extremely difficult to exercise perfect control over every stage of product creation within a fragmented global value chain. This fragmentation, combined with psychic distance in emerging markets, creates significant information asymmetries between us and our suppliers. One measure to address this issue would be to strengthen the existing blockchain traceability system. Currently, we rely on IBM Food Trust to record traceability information, but these data are entered by suppliers themselves, which creates risks of errors or false declarations. To reduce this vulnerability, an additional layer of security could be introduced by equipping batches with sensors measuring temperature, humidity, and location. These data would be transmitted directly to artificial intelligence systems, which could detect anomalies and decide whether DNA tests should be conducted. For example, if a batch claims to originate from an official slaughterhouse but arrives from an inconsistent location or under abnormal conditions, the system will automatically trigger an immediate DNA check before the product enters the supply chain. This would make falsification or mislabelling significantly more difficult, thereby reducing the risk of future food scandals. This system could also be extended to consumers through QR codes on packaging, allowing customers to access traceability information and verify product origin. In the long term, this strategy would not only encourage suppliers to adopt sustainable performance standards but also improve the customer experience by transforming an internal control mechanism into a source of competitive advantage. However, this solution is not without limitations. Implementing such a system would generate substantial additional costs, which directly conflict with our cost leadership strategy based on low margins. Furthermore, the system relies heavily on the reliability of sensors, technical failures or attempts to bypass the system could compromise data accuracy. These risks could be mitigated by focusing sensor deployment on the most sensitive products, such as meat. For the accuracy of the sensors, we could analyse how many anomalies detected by the AI turned out to have a problem and then adjust them.

A second central issue lies in the cost pressure we exert on our suppliers as a direct consequence of the cost focused strategy. This pressure can incentivise suppliers to adopt questionable or illegal practices and to operate under unsafe working conditions. It is important to recognise that part of these behaviours is directly linked to the cost constraints imposed by the direction. To address this issue, we could progressively shift from short-term, uncertain contracts toward long-term contracts with guaranteed floor prices. Long-term contracts constitute a powerful CSR lever, as they encourage suppliers to invest in sustainable practices, ethical working conditions, and compliance with social and environmental standards. By reducing economic uncertainty, this approach limits incentives to sacrifice quality or safety to cut costs. In the long run, such contracts could fundamentally transform our relationships with suppliers, fostering trust and improving their sustainable performance. This strategy could also have positive reputational effects, particularly with NGOs and the media, which have historically been critical of our suppliers' practices. Nevertheless, this solution presents several implementation challenges. Some suppliers might use financial stability to reduce productivity or innovation, placing us in a prisoner's dilemma situation (Albert W. Tucker, 1950), where we cannot be certain that suppliers will maintain performance levels. Additionally, long-term contracts may reduce flexibility to market fluctuations or changes in demand. These risks could be mitigated by linking long-term contracts to clearly defined production objectives and performance indicators proposed by suppliers themselves, thereby preserving incentives without increasing pressure.

While blockchain reduces information asymmetry and contracts improve economic incentives, they do not fully resolve the core issue of direct control over critical production stages and relies largely on suppliers' honesty. To address this, I will use the OLI Framework (John H. Dunning, 1979), and more specifically the concept of Internalisation Advantage. According to this framework, a firm internalises activities when transaction costs or market risks exceed the costs of internal organisation, as is clearly the case with these multiple scandals, which have cost us significantly in both reputation and financial terms. In practice, we could create or co-own food processing facilities in China to retain full control over critical operations such as cutting, packaging, and quality control for sensitive products like meat. Suppliers would continue to provide raw materials, basic ingredient preparation, and non-sensitive processing, while the most strategic stages would be carried out in facilities supervised by us. This could take the form of majority-owned joint ventures as a Foreign Direct Investment (FDI) with specialised local firms, allowing us to directly oversee operations and train staff according to its safety and CRS standards. In the long term, this selective internalisation would significantly reduce the risk of food scandals by having a direct oversight of critical stages. It would also reduce information asymmetries and ease pressure on suppliers by redefining their role within the value chain. Our competitiveness would be strengthened through the ability to offer higher quality products. However, this strategy has important limitations. Internalising activities increases organisational complexity, requires advanced managerial capabilities, and may generate coordination issues between headquarters and local units. It can also reduce strategic flexibility and transfer cost, performance pressure from suppliers to our internal workforce. This recommendation remains deliberately demanding and costly but aims to eliminate them by redesigning the governance of the global value chain. As such, it represents a realistic and sustainable long-term solution aligned with both CSR objectives and risk management imperatives.

Practitioner Reflection

I am at the heart of a strong tension between our ethical commitments and financial realities. Our global business strategy was founded by Sam Walton, who introduced the slogan “Everyday Low Prices” in the 1960s, which remains our strength (Walmart History, 2023). While seeking solutions to mitigate future quality issues, I questioned certain assumptions. Is it realistic to maintain in the 21st century the business model we introduced in 1960? In an era where working conditions and business ethics are emphasised, I had to approach this question carefully.

First, technology such as blockchain and sensors presents a key tension. The need for greater transparency versus the risk of creating a perception of surveillance. We must introduce these technologies carefully, showing they aim to work sustainably with suppliers rather than monitor them. For example, blockchain can certify product origin and compliance without tracking supplier performance. This approach protects the brand while promoting ethical and sustainable practices.

Next, the major tension concerns our suppliers. The challenge is maintaining low prices while reducing pressure to ensure ethical practices and product quality. How can we relieve pressure to prevent fraud and incidents without affecting our low prices? There is a strong economic tension between lowering costs and maintaining healthy relationships with overseas suppliers. I decided to present long-term contracts and technical support not as expenses, but as investments. This solution depends on trust in suppliers, so alongside long-term contracts, more rigorous supplier selection is essential. This approach requires effort from management and suppliers. Ethics becomes a strategy, not merely a moral concern, allowing us to improve the situation.

Finally, the tension between operational flexibility and low costs on one side, and stronger control over ethical, sanitary, and reputational risks on the other, is central. Selective internalisation emerges as the most structuring and effective solution, though demanding. Some risks cannot be fully controlled through trust, incentives, or digital tools, direct control over critical stages is necessary. This does not undermine Walmart’s historic global business strategy but allows us to regain control where health and reputational stakes are high. A clear trade-off arises, accepting organisational complexity and reduced flexibility in exchange for better management of risks. Long-term, this decision supports sustainability in the 21st century, protects Walmart’s reputation, and improves our global value chain for wider organisational impact.

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