**BUSINESS CASE BRIEFING: NORWAY SELLS WAL-MART**

**I. Introduction**

In 2006, the Norwegian Pension Fund decided to divest $416 million in Wal-Mart shares upon ethical grounds (Pozen & Sesia, 2009). The decision was a shock to Wal-Mart’s management since they were not aware of the Fund’s decision. However, the Fund asserted that its Council of Ethics had sent Wal-Mart the final ethics report for comment before making the decision, but received no response. Following the decision, some criticisms were pointed at the Fund’s decision for its lack of fairness in choosing which firm to divest (Walmsley, 2006). Although the decision of the Fund to sell all of its stakes in Wal-Mart did not affect the company’s stock price by much (Pozen & Sesia, 2009), it sent an echoing message across the business world with regards to the relevance of socially responsibly business practice (Hundley, 2007).

**II. Background**

The divestiture was a decision made by Norway’s Ministry of Finance based on the recommendation of the Fund’s Council on Ethics. The reason given for the divestiture was that Wal-Mart was engaging in human and labor right abuse with regards to its business practice which involves a vast network of suppliers from around the globe (Pozen & Sesia, 2009). The divestiture decision of Norway came as a shock to Wal-Mart’s management due to the fact that they were not aware of Norway’s decision in an ex-ante basis. However, it was revealed that the Council on Ethics of the Norwegian Pension Fund sent the final ethic investigation report to Wal-Mart following their guidelines, before submitting the report to Norway’s Ministry of Finance for the final decision. Wal-Mart management admitted following the event that the company did not have a proper process for dealing with a large number of business ethic complaints sent to them. Even though the decision to sell all of Wal-Mart shares was met with positive attitude from Norway’s politicians and finance officials who had been advocating for a more morally investing agenda of the Norwegian Pension Fund, it was met with an equal amount of criticisms from the US government and the press (Walmsley, 2006). Most of the criticisms of the Fund’s decision was pointed at the fact that many other companies under the Fund’s portfolio were likely to be more unethical than Wal-Mart, but not excluded by the Fund. Nonetheless, due to its financial power, the divestiture of The Norwegian Pension Fund in Wal-Mart has sent a clear message to many other companies in support of socially responsible practice in business and investing (Hundley, 2007).

**III. Alternatives**

Drawing from the current developments in socially responsible investing research in recent times, another alternative to the decision of the Norwegian Pension Fund is recommended as follows:

- *Take an Environmental, Social, and Governance (ESG) investing approach*:

Both of the Socially Responsible and ESG investing approach aim at the final goal of incorporating social and environment sustainability elements into investing decision making (S&P Global, 2020). However, the Socially Responsible approach is currently widely considered to be outdated due to the fact that the investing entity engaged in this approach has to rely on its own subjective judgment in deciding which company to invest or not. As a result, the final decision might be met with criticisms with regards to its transparency as well as the legitimacy of the judging framework applied, as in the case of the divestiture decision of the Norwegian Pension Fund. In fact, most Socially Responsible Investing initiatives were deployed based on subjective ethical values and principles, which can differ from organization to organization, country to country, or even from one person to the next (S&P Global, 2020). Furthermore, final financial results of Socially Responsible Investing decisions are also uncertain due to the lack of a comprehensive measuring framework in the decision-making process (Muller, 2020).

These weaknesses of the Socially Responsible Investing approach can be negated if the investing entity engages in the ESG approach. The ESG approach can be considered as a radical improvement upon the Socially Responsible Investing approach. By employing the ESG approach, the investing entity can utilize a uniform framework of ESG rating measure in making investing decision (S&P Global, 2020). The ESG rating measure is being publicly offered and presented in the official MSCI’s website (MSCI, 2020). The MSCI is currently providing a constantly updated database of ESG ratings on 14,000 stock issuers and more than 680,000 equity and fixed income securities world-wide. The guidelines and benchmarks for the calculation of ESG ratings are also publicly provided for considerations on the MSCI’s website. It can be seen from these guidelines that, in a similar spirit to the Socially Responsible Investing approach, the ESG system is also constructed with environmentally and socially sustainable business initiatives in mind. However, the with the transparency of the ESG’s system of rating as well as the reliability of applying advanced data technology in the calculation of these ratings, an investing entity can avoid subjective judgement bias in making their socially responsible investing decision.

**IV. Conclusion**

The divestiture decision of the Norwegian Pension Fund can be classified as a Socially Responsible Investing practice. A Socially Responsible Investing entity typically chooses to exclude invested companies from their portfolios through negative screening processes. In relation to the decision of the Norwegian Pension Fund to divest Wal-Mart’s shares, the Fund completely sold all of its stakes in Wal-Mart upon its own ethical investigation and judgement. Perhaps, what the Fund wanted to achieve was to set an example to a more socially responsible investing future in the business world. However, it is undeniable that the decision also was met with a large amount of criticism with regards to the ethical standards in selecting which company to divest, the transparency of these standards, as well as the conflict to the Fund’s financial goals. Therefore, as it has been suggested in this report, by applying the ESG approach, an investing entity can avoid the problems that the Norwegian Pension Fund encountered with regards to their decision to divest all of their stakes in Wal-Mart.

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