The Wal-Mart Effect? Exploring the Social Costs of Explosive Organizational Growth

Bruce C. Rudy
The University of Texas at San Antonio
Department of Management
Brauce.rudy@utsa.edu

WORKING PAPER

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BRUCE C. RUDY
The University of Texas at San Antonio
Department of Management
One UTSA Circle
San Antonio, TX 78249-0631
Tel: (210) 458-4313
Fax: (210) 458-4308
e-mail: bruce.rudy@utsa.edu

ABSTRACT

In this working paper, organizational growth is proposed as an antecedent to criminal activity. Combining theory from sociology, economics and ecology, this research argues that as an organization enters and grows within a community, it has the potential to disrupt the relatively stable equilibrium that has developed amongst the existing firms and consumers within the community. As resources become scarce, increased competition for those resources ensues and social disorganization will result which can drive increased criminal activity. Over the long-term, this research predicts that a new stable equilibrium will be reached and criminal activity will decrease. To test this theory, this working paper considers the effects of Wal-Mart store foundings from 1962-2006 on the criminal activity within the counties in which the stores were founded.

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INTRODUCTION

In his initial three-part mandate for future research on organizational theory, Talcott Parsons (1957) suggested that scholars consider (1) internal organization structure and process; (2) relations between organizations and environmental actors; and (3) the impact of organizations on the broad social systems in which they are embedded. In the half century since Parson's call to arms, organizational theory scholars have predominately focused on the first two suggestions, while scholarship on organizations' effect on society has come to be known as the "neglected mandate" (Stern & Barley, 1996). As a result, we know scarcely little about how organizations positively and negatively affect the broader social systems in which they are embedded.

This working paper seeks to begin to address this neglected mandate by considering one aspect of the relationship between organizations and the social systems in which they are embedded: the relationship between organizational growth and social welfare. The importance of organizational growth is central to research in organizational theory. Underlying theories as diverse as population ecology, resource dependence and contingency theory is the notion that an organization that is growing is more likely to survive (Hannan & Freeman, 1977), procure critical resources (Pfeffer & Salancik, 1978), and be more capable of adapting to its changing environment (Lawrence & Lorsch, 1967). However, research has yet to consider the relationship between organizational growth and the welfare of the larger social system in which the organization operates. Exploring this relationship represents an important opportunity to add to the nascent dialog surrounding organizational theory's neglected mandate at a time when the corporation is the dominant political and social actor in society.

This working paper seeks to answer the research question: *What are the effects of rapid organizational growth on the communities in which the organization is embedded?* In answering this research question, this paper seeks to make a number of contributions. First and foremost, this research seeks to respond to Parson's (1957) original call to understand how organizations affect the larger social systems in which they are embedded. While scholars have considered Parson's neglected mandate (e.g., Barley & Stern, 1996; Margolis & Walsh, 2001), they have typically only sought to reinvigorate scholarship in the area and have not attempted to empirically assess the relationship. This working paper takes an important first step towards empirically assessing Person's neglected mandate.

Second, this working paper seeks to make a contribution to theory by combining the economic concept of externalities, the sociology concept of social disorganization and the biological concept of ecological succession. Externalities refer to the unintended spillover effects, both positive and negative, of economic decision-making (Buchanan & Stubblebine, 1962). Social disorganization refers to the idea that changes in the demographic structure of a community makes it difficult for the community to informal social control which leads to an increase criminal activity (Bursik, 1988). Ecological succession refers to the process of change in the structure of ecological communities over time. By integrating these three concepts, this working paper hopes to offer a more nuanced understanding of the impacts of economic externalities associated with organizational decision-making on the stakeholders in which organizations are dependent.

Third, this working paper employs a multi-level analysis to examine the proposed relationships between organizational growth and social welfare. That is, an organization-level strategic action (i.e., Wal-Mart foundings) is proposed to impact individual-level outcomes. Such

multi-level analysis is growing in popularity in the management literature, but still remains at a

nascent stage (Hitt et al., 2007). Thus, this working paper has the potential to create a

methodological contribution to management research, and particularly research in corporate

social responsibility, by examining this novel relationship across these two distinct levels of

analysis.

THEORY

This research utilizes a working proposition as a starting point for the development of the

paper's hypotheses.

> *Proposition: Over time, the effects of organizational growth on the community in*
>
> *which the organization is embedded, will move through predictable cycles which can*
>
> *be characterized as being in a state of first equilibrium, then disequilibrium, and*
>
> *finally equilibrium.*

The rationale for this proposition is based on the theory of ecological succession.

Ecological succession is the biological process by which a community of plants or animals

undergoes predictable change following a disturbance or colonization of a new habitat (Cowles,

1911; Clements, 1916). Building upon the concept of ecological succession scholars at the

"Chicago School" introduced this idea to the study of human ecology, generating substantial

empirical work on the topic. These scholars used the term ecological succession "to describe and

designate that orderly sequence of changes through which a biotic community passes in the

course of its development from a primary and relatively unstable to a relatively permanent or

climax stage" (Park, 1936: 9).

The driving force behind ecological succession is competition (Park, 1936) and Hawley

(1950) observed that this competition leads to adaptation to a changing environment at the

population level of the community. Importantly, ecological succession appears to be a process which passes through a series of equilibrium points (Aldrich & Reiss, 1976). While sociology research that has utilized ecological succession has typically focused on racial conflict within communities (e.g., Aldrich & Reiss, 1976; Park 1936), the process identified by these scholars is of particular interest to this working paper. During this ecological succession process, conflict begins to occur in a community when existing populations begin to compete with expanding populations for limited resources. Competition for these limited resources allows stronger populations to flourish while weaker populations die off. Ultimately, a dynamic balance (equilibrium) develops between the populations in the community [see Hawley (1950) for a more detailed description of the stages of ecological succession].

Utilizing ideas from the ecological succession process, this working paper explores the relationship between the growth of Wal-Mart stores in communities across the United States on the social welfare in those communities. This working paper makes a couple of assumptions. First, this paper assumes that the communities that Wal-Mart stores enter are in a state of dynamic equilibrium. That is, retail establishments co-exist in these communities to provide the goods and services the community requires. Second, the resources that a community provides to retail establishments (i.e., customers) remain constant over time, all else being equal. That is, the number of customers in the communities does not significantly increase or decrease (i.e., the resources are essentially fixed).

Based on the working proposition above and the set of assumptions described, this paper seeks to explore the relationship between organizational growth and one measure of social welfare: crime rates. Crime has been characterized as "routine activities" within communities by scholars (Cohen & Felson, 1979) and has been studied extensively by sociologists trying to

understand how the demographics within communities contribute to crime rates [see Messner & Rosenfeld 1999 for a review of this literature]. However, little research has considered the relationship between organizational growth and crime rates. In the subsequent section this working paper seeks to develop theory that explains this relationship.

HYPOTHESIS DEVELOPMENT

The various causes of criminal activity have been a heavily researched topic in sociology. Social disorganization theory offers a well-known causal explanation linking crime and population structure. Utilizing social disorganization theory, a number of demographic processes and structures have been identified (e.g., population growth, population turnover, racial/ethnic heterogeneity) linking a community's ability to exert social control and limit criminal activity (Bursik, 1988). For example, Sampson & Groves (1989), arguing the importance of the community friend networks, found that residential stability is associated with low rates of crime. Furthermore, a number of studies which considered crime rates in metropolitan areas found that resident migration results in an increase in both violent and property crime (Crutchfield et al, 1982; Messner, 1986; South, 1987). Finally, self-reported criminal activity was found to decrease in areas where residential mobility was high as a result of reduced conformance to social norms (Tittle & Paternoster, 1988).

Beyond social disorganization theory, a number of population level determinants of criminal activity have been considered. The demographic characteristic of racial composition and its impact on criminal activity is highly controversial and has been heavily researched. This research argues that residential segregation, concentrated poverty, and social isolation from mainstream society are key contributors to crime rates among African Americans (Peterson & Krivo, 1993; Shihadeh & Flynn, 1996).

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Age has also been a key demographic variable explored to explain criminal activity. Easterlin (1987) argues that members of large birth cohorts have fewer economic opportunities due to an overcrowding of the labor market and are more likely to engage in criminal activity. A number of studies have explored Easterlin's hypothesis providing mixed findings (e.g., Maxim, 1985; Pampel & Gartner, 1995; O'Brien, 1989; Savolainen, 2000; Smith 1986; Steffensmeier et al, 1992). Regardless, this theory continues to generate interest among scholars of age distributions and criminal activity.

Gender represents yet another theoretical explanation of criminal activity. Research suggests that males are much more likely to be involved in crime, both as victims and offenders. Utilizing power-control theory, scholars argue that differences in the socialization process of sons and daughters results in different preferences for risk (Hagan et al., 1987). Research by Grasmick and colleagues (Grasmick et al., 1993; 1996) provides additional support for this argument.

This working paper seeks to carefully controls for these demographic drivers of criminal activity in communities and proposes a new antecedent affecting crime rates: the expansion into and growth of organizations in communities. Organizations grow for a variety of reasons. First, organizational growth tends to be the result of firms successfully satisfying the needs of their customers. Second, growth facilitates the management of the organization as surplus resources allow it to more easily meet its organizational goals. Third, organizational growth enables firms to reduce dependence on its environment for resources critical to its survival (Pfeffer & Salancik, 1979). For these reasons, organizational growth is a primary goal for firms.

When organizations grow, more resources are required to maintain the firm. Firm's have a number of strategic choices that may generate these needed resources. A common strategic

choice among firms seeking growth in their resource base is to expand geographically.

Expansion of the firm's scope of operations provides new customers and markets for the

organization (Chandler et al., 2009). However, as argued below, this expansion of scope may

also have a negative spillover effect on the communities into which the expansion and growth

occurs.

The Impact of Ecological Succession on Criminal Activity

The initial conditions of an environment have a direct effect on the promotion of

ecological succession. Environments in dynamic equilibrium (i.e., composed of species best

adapted to the average conditions in that environment) are thought to be an important initial

condition for ecological succession to occur (Clements, 1916). It is within these environments,

with a stable population of competitors, where introduced species may have an opportunity to

become invasive. This is because introduced species may possess novel adaptations or traits

which allow them to outcompete native species for resources (Kolar & Lodge, 2001).

Similar to ecological equilibrium, markets have also been characterized as tending

towards a state of economic equilibrium (Marshall, 2009). Indeed, numerous economists have

drawn comparisons between ecological and economic environments in regards to equilibrium

and resource constraints (e.g., Penrose, 1952; Robson, 2001; Stephen & Krebs, 1986). In these

economic environments, general equilibrium models determine market prices taken by

consumers and firms based on the supply and demand of resources available to the consumers

and firms (Arrow, 1968). Theory suggests that these economic environments tend toward a

dynamic equilibrium (Sandler, 2001).

Demographically, communities have also been compared to ecosystems and

characterized as being in equilibrium when the population replaces itself as residents exit the

community (Aldrich, 1975). In such stable communities, there exists limited social

disorganization. That is, in communities in stable equilibrium, the population has the ability to

realize the common values of residents and solve common problems (Kornhauser, 1978). As a

result of this strong structure of formal and informal control, lower rates of crime are likely to

occur (Bursik, 1988).

When a new organization is introduced into a stable community, it is expected to have a

limited effect on the underlying structure of that community. The formal and informal controls

already in place within the community act as a buffer to the invader. Further, the entry of a new

organization is unlikely to have immediate effects on the pre-existing economic equilibrium

within the community. In other words, the commerce within the community, built upon the

institutional norms of the exchange of resources between consumers and firms within that

community, is slow to change. Thus, combining ideas from ecological and economic

equilibrium with social disorganization, this working paper offers:

> *Hypothesis 1: In the year immediately following its founding, counties in which Wal-Mart*
>
> *stores are founded will experience no change in crime rates.*

Once a new organization enters a community in equilibrium, changes will ultimately

occur. As the new organization grows, there will be shifting resource flows among the existing

population of consumers and firms in that community. This ecological change can lead to social

disorganization within the community as the commitment to group standards among the residents

erodes. This erosion, in turn, results in the weakening of formal and informal controls and thus

behavioral deviation among the residents within the community becomes more likely. As a

result of the weakening controls at the community level, higher rates of crime become more

likely. Thus,

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Hypothesis 2: In the years following its founding, counties in which Wal-Mart stores are founded will experience an increase in crime rates.

While the social disorganization of the communities into which a new organization is introduced may increase in the near term, ecological succession theory suggests that in the long-term equilibrium will once again be achieved (Clements, 1916). In communities, this long-term equilibrium is likely to result from the residents in the community forming new formal and informal controls in the presence of the invading organization. Once these new controls form, the prior effect of social disorganization leading to increased crime rates will be attenuated. Thus,

Hypothesis 3: In the long-term, counties in which Wal-Mart stores are founded will experience a decline in crime rates.

METHODS

Data Sample

This working paper utilizes a longitudinal archival research design. As described, this study explores the relationship between organizational growth and social welfare by considering the impact of Wal-Mart's growth on crime rates in the communities in which the Wal-Mart stores were founded. Few corporations in America have experienced the type of growth Wal-Mart has experience over its fifty year lifetime. Wal-Mart opened its first store in 1962 in Rogers, Arkansas. By the end of 2012, Wal-Mart operated 4,479 stores within the United States (Wal-Mart Data Sheet). From its initial public offering in 1968 to the end of 2012, Wal-Mart's revenues grew, on average, 21% annually and today it is one of the largest corporations in the world, as calculated by its annual revenues. Thus, Wal-Mart represents an ideal organization to examine the social impacts of corporate growth.

Independent Variable

The independent variable for this study is the opening of Wal-Mart stores in the United States. This data was collected using a dataset created and made public by Thomas Holmes of the University of Minnesota, Federal Reserve Bank of Minneapolis and the National Bureau of Economic Research (NBER) (http://www.econ.umn.edu/~holmes/data/WalMart/). Data on store openings is available from 1962 to 2006 and includes the opening of all Wal-Mart stores in the United States, but excludes Wal-Mart stores opened in Alaska and Hawaii. Over this time period, 3,176 Wal-Mart stores were founded.

Dependent Variables

The dependent variables for this study includes an objectively recorded social indicator which scholars have reliably associated with quality of life indices (e.g., county crime rates) (Hagerty et al., 2001). Assessing social welfare using objective social indicators traces its roots back to the publication, *Recent Social Trends in the United States* (Ogburn, 1933), however social indicators did not gain intellectual status in the U.S. until the 1960s when NASA supported the development and publication of *Social Indicators* (Bauer, 1966). Publication of social indicator and quality of life research has grown substantially from 1974 to the present, with the publication of the journal *Social Indicators Research* launched in early 1974. From this research a number of objective social indicators of social welfare have developed including variables which assess wealth and income, crime, health and educational achievement [see Sirgy et al. (2006) for a review of this literature].

County crime rate. Data on crime rates at the county level was collected using the Federal Bureau of Investigation's (FBI) *Uniform Crime Reports* (UCR). UCR data is available annually for download from the University of Michigan's National Archive of Criminal Justice

(http://www.icpsr.umich.edu/icpsrweb/content/NACJD/guides/ucr.html). The three hypotheses in this working paper propose that crime rates will vary within the first year, the near-term and the long-term after a Wal-Mart store is founded within a county. For the near-term timeframe, this study considers the change in crime rates from year 2 to year 6 after the Wal-Mart store was founded. For the long-term timeframe, this study considers the change in crime rates from year 7 to year 12.

Control Variables

The demographic characteristics age, sex, and race are among the most common individual-level factors which drive criminal activity. Research consistently finds that young people, males, and members of disadvantaged minorities are at higher risk of becoming criminal offenders (e.g., Messner & Rosenfeld, 1999; Sampson & Lauritsen, 1994; Steffensmeier & Allen, 1996; Steffensmeier et al, 1989). As a result, this working paper controls for the age, gender and racial composition of the individuals in the counties within which Wal-Mart stores were founded. Population turnover has also been found to impact the rate of criminal activity within a community. Thus, this study also controls for resident migration into and out of the counties within which Wal-Mart stores were founded. Data on all demographic controls was collected from the United States Census Bureau. This data was primarily available only once every ten years (decadal), hence in considering how these variables changed over time, the decade-over-decade change was utilized.

Analysis

The longitudinal structure of the data provides information on changes associated with each Wal-Mart store across time. All data is annual. To analyze this data, ordinary least squares (OLS) regression was employed.

RESULTS

Table 1 provides the *preliminary* descriptive statistics and correlations for the variables used in this study. With a few exceptions involving controls, correlations among the predictors were modest. Importantly, the Wal-Mart store foundings variables and the dependent variables have low correlations with each other and the control variables.

Insert Table 1 about here

The Impact of Ecological Succession on Criminal Activity

Table 2 reports the *preliminary* results of the tests of this working paper's Hypotheses. Model 1 reports the results for the control variables. Regarding the immediate impacts of organizational growth on social welfare, Hypothesis 1 predicted that in the year following its founding, counties in which Wal-Mart stores were founded would witness no change in crime rates. As reported in Model 2, the positive and non-significant effect of Wal-Mart foundings (b = 0.23, p = n.s.) supports this prediction.

Hypothesis 2 predicted that in the near-term, counties in which Wal-Mart stores were founded would experience greater crime rates. As reported in models 4, the posiive and non-significant effect of Wal-Mart foundings (b = 0.031, p = n.s.) does not support this prediction. Finally, Hypothesis 3 predicted that in the long-term, counties in which Wal-Mart stores were founded would experience less criminal activity. As reported in model 6, the positive and non-significant effect of Wal-Mart foundings (b = 0.044, p = n.s.) does not support this prediction.

Insert Table 2 about here

DISCUSSION

In this working paper, organizational growth was proposed as an antecedent to criminal activity. Combining theory from sociology, economics and ecology, this research argued that as an organization enters and grows within a community, it has the potential to disrupt the relatively stable equilibrium that has developed amongst the existing firms and consumers within the community. As resources become scarce, increased competition for those resources ensues and social disorganization may result which can drive increased criminal activity. Over the long-term, a new stable equilibrium is reached and criminal activity is expected to decrease.

This working paper's hypotheses were tested using data on Wal-Mart foundings in the United States from 1962-2006. Wal-Mart's explosive growth over these four and a half decades makes it an ideal organization upon which to test this research's hypotheses. Preliminary findings of this study offer limited initial support for this paper's working proposition.

Going forward, this working paper must deal with several potential challenges. First, regarding theory, this working paper needs to solidify the proposed theoretical mechanisms linking organizational growth to criminal activity. Ecological succession theory offers a nice basis for the expectation of the equilibrium-disequilibrium-equilibrium process to occur in economic communities. However, more work is needed on how the underlying theoretical mechanisms which drive organizational growth results in social disorganization within communities. The next iteration of this working paper will seek to refine and bolster this relationship.

Regarding the data used in this working paper, additional work is also needed. While the Wal-Mart foundings data is complete through 2006, data on the dependent variable needs to be verified (crime rates) and data on the control variables is limited. First, with regards to the dependent variable, the Uniform Crime Report (UCR) that was used for this research is complete but there are a number of criminal activity types which the UCR provides. For this research, total criminal activity within a county was used, but this may not be the most appropriate metric. By further developing the theoretical mechanisms described above, it is possible that a specific type of criminal activity (e.g., non-violent crimes) may be the expected outcome of organizational growth.

Regarding data on the control variables, this information was collected from the U.S. Census Bureau. This data was available only once per decade though. Because this paper argues for a temporal effect of organizational growth on criminal activity, controlling for the affects of changes in age, gender, race and population on a decadal basis presents problems, most importantly data-time misalignment. In order for this working paper to move forward, a major hurdle will be finding and collecting data on the control variables on an annual basis.

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Table 1: Descriptive Statistics (Preliminary)

		Mean	S.D.	-1	-2	-3	-4	-5	-6	-7	-8
1	Immediate Crime Rate Change	0.03	0.461	1							
2	Near Term Crime Rate Change	0.04	0.478	0.507	1						
3	Long Term Crime Rate Change	0.09	0.471	-0.383	-0.721	1					
4	Population (change)	0.05	0.465	0.021	0.014	-0.003	1				
5	Age (change)	0.01	0.478	-0.038	-0.037	0.009	0.044	1			
6	Gender (change)	0.00	0.471	0.017	-0.009	-0.003	0.001	-0.028	1		
7	Race (change)	0.02	0.472	0.002	0.006	0.014	0.042	0.01	-0.022	1	
8	Wal-Mart Store Founding	1860.036	1357.581	0.005	0.024	-0.006	-0.014	-0.019	0.028	-0.002	1

N = 3,176

Table 2: OLS Regression of the Impacts of Wal-Mart Foundings on County Crime Rates (Preliminary Analysis)

	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6
Population (change)	0.022	0.022	0.016	0.017	-0.004	-0.004
	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)	(0.018)
Age (change)	-0.037*	-0.037*	-0.038*	-0.037*	0.009	0.008
	(0.017)	(0.017)	(0.018)	(0.018)	(0.018)	(0.018)
Gender (change)	0.016	0.015	-0.01	-0.011	-0.003	-0.003
	(0.017)	(0.017)	(0.018)	(0.018)	(0.018)	(0.018)
Race (change)	0.001	0.001	0.006	0.006	0.014	0.014
	(0.017)	(0.017)	(0.018)	(0.018)	(0.018)	(0.018)
Wal-Mart Store Founding		0.023		0.031		0.044
		0.002		0.007		0.006
Constant	0.003	0	0.004	-0.012	0.008	0.012
	(0.008)	(0.014)	(0.008)	(0.014)	(0.008)	(0.014)
Observations	3,176	3,176	3,176	3,176	3,176	3,176
R-squared	0.002	0.002	0.002	0.002	0	0

Standard errors in parentheses
+ $p \leq 0.10$
* $p \leq 0.05$
** $p \leq 0.01$
*** $p \leq 0.001$