



# How Wal-Mart Minimises Risk

by Aligning Business Strategies with HR Practices

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Did you hear that Wal-Mart is in exclusive talks to buy Massmart, South Africa's third largest retailer, and that Wal-Mart's strategy is to eventually own stores across the African continent? The buying habits of consumers, supply chain practices of manufacturers, and retail competition as you have known it in Africa is about to change, and it will change quickly! For this reason it is important for African business leaders to know and understand the HR best practices and the business strategies of the world's largest company.

Still not convinced of the importance of understanding Wal-Mart's HR and business practices? Think about Wal-Mart this way, if the company were a country, based on its 2009 sales, it would be the 22<sup>nd</sup> largest country in the world (compared to GDPs of all countries) with more than US\$400 billion in annual sales! To put that into perspective, on that same list South Africa is the number 32 country with an annual GDP of US\$287 billion! Wal-Mart is big and it is getting even bigger! In terms of an important HR measurement Wal-Mart employs more employees than the U.S. Military has soldiers!

It may be hard to believe, but it's true, Wal-Mart employs more than two million employees around the globe! Imagine the business risks and Human Resources (HR) challenges Wal-Mart faces as the world's largest employer. Fortunately, Wal-Mart's founder, Sam Walton, realised that the people working for his company were his most important asset, and he passed his beliefs along to the company's current leaders. Sam Walton placed so much value on his employees that he called Wal-

Mart's HR Department, "The People Division" rather than the "Human Resources Department". Sam Walton valued his employees as much as he valued his paying customers! Interestingly Sam Walton once told me that he wished he didn't need an HR department because he felt the job of HR was the job of every manager in the company, not just those who officially worked in the HR Department.

Sam Walton felt that the employees who are closest to the customer are the most important people in any company. To that point, at one of his famous Saturday morning meetings, he told the headquarters staff that they were second class in his eyes when compared to the first class associates in his stores, who were in daily direct contact with Wal-Mart's customers! Despite their founding father's strong conviction for customer service and unwavering concern for employees, Wal-Mart's leaders today still face daunting "people" challenges that put the success of their business at risk. At Wal-Mart just getting all of their managers and employees to understand and execute their business strategies is a monumental task.

Why is the connection between business risk and HR important to the success of Wal-Mart's retail business model? I think the answer to that question, at least at Wal-Mart, is that the two are hopelessly intertwined. On one hand, it is almost impossible to accomplish any worthwhile endeavour at Wal-Mart without the threat of some kind of business risk. On the other hand, it is also impossible to get anything done, risky or otherwise, without the effort and results of people. For this reason, the achievement of business strategies, and

the management of risk at Wal-Mart, is interconnected with the tactical execution by those employed at all levels of the organisation.

So how does the People Division at Wal-Mart help to reduce the risk of business failure, and help drive the company's success through people? The answer is that the employees are the common organisational bridge that ties all of Wal-Mart's strategies and tactics together to insure the achievement of the company's aggressive goals. In the past it was Sam Walton who recognised the importance of the People Division (HR) as a unifying cultural force. Out of respect and necessity, today's Wal-Mart leaders also rely on HR as a valued business partner to maintain the culture, align people, drive performance, reduce risks, and insure results. Because retailing is people intensive, the only way the company's executives can accomplish their seven overriding strategies (Price, Operations, Culture, Key Item/Products, Expenses, Talent and Service) is by aligning their business strategies with their HR practices.

Here's my opinion on how they do it:

### Strategy 1: How does HR help protect Wal-Mart's Price advantage?

Wal-Mart's pricing strategy is simply put, "to provide value for its customer's hard earned money." Having the lowest possible prices is the reason Wal-Mart has clobbered its competition. Wal-Mart's low prices are made possible because the buying team makes certain products are purchased at the lowest prices while simultaneously all of Wal-Mart's employees are focused on managing controllable expenses. The HR strategy to allow the lowest possible prices is to focus Wal-Mart's employees to do everything they possibly can to hold down costs. . . and, they do. Culturally cost containment is reinforced by the employees themselves. Lower prices drive inventory turnover which in turn lowers overall costs. It is a never-ending battle to see how little the company can charge for its products. Whenever Wal-Mart is successful in lowering its expenses, it passes those savings along to its customers in the form of lower prices, putting even more pressure on its competitors.

The real motivation behind the desire of Wal-Mart's employees to drive down prices is a bit selfish. You see, if the company achieves its sales and profitability goals, the employees themselves are eligible to receive profit-sharing. Over the years many of Wal-Mart's truck drivers, distribution centre, and store employees have become millionaires (USD\$) as a result of earning their company profit-sharing. Especially in the early days the employees opted for profit-sharing in the form of company stock, and over the years that stock has split 11 times!

The Wal-Mart name for an "employee" is an "associate." Sam Walton preferred the term "associate" over "employee" and because of his "profit-sharing mentality" he viewed his employee associates as business partners. Sam Walton shared his profits but in exchange he expected all of his employees to take ownership of the business. Interestingly, he was among the first business leaders of a large company in America to establish profit-sharing for all of his non-management employees.

Wal-Mart's low-price strategy is its most important sustainable competitive advantage in the marketplace, and without the commitment of its employees to help maintain the lowest possible prices the company would fail.

### Strategy 2: How does HR focus people to insure operational success?

When you have 8 500 stores and 125 000 different products, operations, including IT, distribution and supply chain, are all critical to maintaining profitability. I often say, "Wal-Mart is a supply chain (operationally) driven company that also has retail stores!" From an operational risk standpoint, without superior operational execution on the part of its people, Wal-Mart would fail; it is as simple as that. Business schools around the world study Wal-Mart Operational Case Studies, and Fortune 500 Companies use Wal-Mart as an operational benchmark because of its best practices in store operations, distribution and supply chain. Even the United States Federal Government has studied Wal-Mart's renowned logistical practices!

The key to the success of Wal-Mart's operations, and its supply chain, is the way the efforts of its employees are focused around the world. Certainly cutting-edge technology is there. Wal-Mart has the largest IT infrastructure in the business world, second only to that of the Pentagon in Washington DC! But nothing gets done operationally at Wal-Mart without the efforts of people. Of course HR has worked with functional managers to establish performance standards, and scorecards, for measuring all kinds of sales and expense management metrics. Additionally, HR invests a great deal of time, energy and effort in the orientation and training of its employees on the importance of execution.

HR's role is to focus Wal-Mart's leaders and employees on continuous learning, continuous improvement, superior execution, employee empowerment and employee ownership. Wal-Mart likes to hire people who are entrepreneurial minded who aren't afraid to roll up their sleeves and work like they own the business. They also like problem solvers. Team success

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is valued over individual success with the goal being the achievement of team synergy. Wal-Mart teams are highly productive but at the same time the staffing levels are lean. Managers are taught to pitch in to help employees get the work done without the need to have employees work high-cost overtime.

So how does HR focus Wal-Mart's leaders operationally? With the help of top executives, HR identified the 11 core leadership competencies that are most important to the success of Wal-Mart's operations. These operational competencies are categorised as "people skills" and "work processes." The five "people skills" are: communication, developing others, motivating others, customer focus, and listening. The six "work processes" are: continuous improvement, sense of urgency, team development, organisation/planning, expectations/accountability, and resolving problems. Wal-Mart's leaders, to this day, integrate the 11 core leadership competencies into: interviewing, hiring, orientation, training, position descriptions, employee opinion surveys, performance appraisal, and consideration for promotional opportunities.

One of the most important business risks to manage operationally is simply keeping products in-stock, thus the operational mantra in stores is, "out of stock is out of business." Empty shelves represent missed sales opportunities. The employees at Wal-Mart are the key to making certain shelves are filled with those too good to be true, bargain-priced products. HR makes certain store employees are operationally accountable for keeping a balanced focus on customer service, expense control (theft prevention), and keeping products in-stock.

### Strategy 3: How does HR foster a culture committed to business success?

During their first week of employment new managers go through cultural orientation, which includes working in a Wal-Mart store serving customers. At some point early on in their career managers attend a week of cultural training at The Walton Institute at the University of Arkansas (Wal-Mart's version of McDonald's famous Hamburger University). HR arranges for all new managers to go through this cultural indoctrination to acclimate them to the Wal-Mart Way of doing things. Cultural indoctrination is critically important to insuring the Wal-Mart Way of doing things is in place across the world. At a company the size of Wal-Mart, culture and people are like the glue that insures the company standards are upheld, and the business continues running smoothly regardless of changes of managers or employees.

Interestingly, Wal-Mart refers to its "employees" as "associates", its "customers" as "neighbours or friends" and its "managers" as "coaches." These kinds of cultural nuances are critical to understanding "The Wal-Mart Way" of doing things.

Without cultural know-how successful integration into Wal-Mart is extremely difficult. Maintaining the Wal-Mart culture protects the company from the risk of becoming just like all of its competitors!

Culturally, Wal-Mart has found that many of the best solutions to fixing problems have come from ideas generated by their own employees. HR established a formalised programme that asks all of the employees to let the management team know if they have a good idea, or a better way of doing things, or, most importantly, a way to save money. Sam Walton liked the money-saving ideas the best, and he recognised and rewarded good ideas that were implemented! Many of the best practices in place across Wal-Mart's stores today were a result of employees suggesting better ways of doing things. Employees are trained to look for opportunities for continuous improvement, and if they find a better or cheaper way of doing things, that can be easily implemented, they are rewarded. Wal-Mart's leaders challenge all of the store employees to come up with cost-saving ideas of \$5, \$10 or \$20 or more at a single store, because they know when they implement a \$10 cost-saving idea across their chain of 8 500 stores the savings will be US\$85 000! Wal-Mart has tapped into an inexpensive, often untapped resource for finding quality solutions to company problems. . . the brains of their own employees!

The Wal-Mart Culture carefully maintained by HR is a diverse collection of entrepreneurial-minded people who by design all have a stake in the success of the company. Acting like business owners they look for opportunities to solve problems which helps eliminate business risk.

### Strategy 4: How does HR connect Wal-Mart's people to products?

At Wal-Mart Sam Walton expected everyone to think, and act, like retail merchants. Everyone in the headquarters, no matter what job they held or what department they worked in, was expected to focus on how to help the stores improve service to customers. Each week the top 500 headquarters staff members from all functional areas would attend Sam Walton's famous Saturday Morning Meeting in the auditorium at the Bentonville Headquarters. The attendees were a cross-section of every department including: Accounting, Real-estate, HR, Corporate Communications, IT, Store Operations, Marketing and Merchandising. Each week business strategies and tactics were the first topic of discussion, and then he would discuss products which the buyers intended to purchase for the stores. Merchandise buyers would bring a single product to this meeting to present to those in attendance that they were proposing to buy for Wal-Mart's stores. The top 500 listened to the presentation and, as a group, would approve or disapprove the recommended products. This exercise was intended to connect the headquarters staff to the stores, and to teach them to think

like merchants. The result of this weekly barrage of merchant training was the preparation of headquarters staff members to be moved into jobs cross-functionally with ease. It was not unusual for HR to approve the movement of someone into a job in a cross functional area for which the incumbent had no prerequisite experience or training. This happened all the time and it worked beautifully. The secret was teaching everyone to think like a merchant, and to focus on customers!

So how does Wal-Mart teach merchant skills? It starts by treating people like entrepreneurs and valued business partners who have a stake in the success or failure of the business. Sam Walton pushed the decision-making process downward empowering local managers and associates to make business decisions on behalf of customers as quickly as possible. The culture at Wal-Mart is a "culture of discipline" that values integrity, honesty, hard work, teamwork and execution. Those who perform are rewarded with bigger jobs, offering higher pay and more responsibility. On the other hand, those who do not perform their jobs properly are unceremoniously moved out of the company quickly.

One of the most important ways Wal-Mart teaches merchant skills actually reduces business risk. Company managers communicate the profit and loss (P&L) statement for each store to the 400 to 600 associates who work in that store. Each day a member of the store management team conducts a brief stand-up meeting with associates to provide updates on any current topics that need to be discussed including an update on that month's P&L. By treating the employees like trusted business partners, Sam Walton knew he could expect them to act like owners to help him solve problems and make the business even more successful.

### Strategy 5: How does HR focus employees to reduce expenses?

Unlike any place I ever worked Wal-Mart succeeded in culturally engraining the importance of controlling expenses at all levels of the organisation. This is noteworthy in an organisation with sales exceeding US\$400 billion annually. Expense control is one of the largest areas of risk that is still

within the control of any business, but unfortunately in many businesses it is out of control. That is not the case at Wal-Mart. Decades ago HR was successful in making expense control one of the pillars of total quality, and today the management of expenses is embedded in the cultural DNA of the company. Everyone thinks about and talks about cutting expenses, and HR has made certain that every performance appraisal includes a review of expenses.

The philosophy on expense control at Wal-Mart is quite simple: As sales go up, expenses as a percentage of sales must always go down. At many companies once an expense budget is set, expenses rise as sales rise. The risk with this approach is that if sales fall, a weak expense structure is exposed immediately. Wal-Mart's approach protects the company, if sales were to fall, and allows it to drop expenses savings to the bottom line as sales rise. Whenever Wal-Mart reduces its costs, it immediately passes those savings along to customers in the form of lower prices.

Wal-Mart's leaders and employees are taught to recycle and to make due with the resources they already have. There are countless examples of employee-driven cost-control initiatives at Wal-Mart, but let me share with you just one example concerning the procurement of office supplies. When I went to work at Wal-Mart's HQ I was told to get the furniture and furnishings I needed for my office from the free samples in Wal-Mart's vendor sample room. I was told the headquarters employees created a grassroots expense control programme of their own which required everyone, including me, to bring their office supplies for outfitting their desks from their homes! Like everyone else at Wal-Mart, I brought my own stapler, staples, paper clips, rubber bands, pens and pencils from my home to outfit my office. When asked why they did it, the employees told me it was there way to help lower costs to improve their chances of receiving profit-sharing!

The proactive management of expenses at Wal-Mart reduces business risk, and is one of the most important areas where the actions of its own employees have had a positive direct impact on the bottom line.

### Strategy 6: How does HR's talent strategy drive results at Wal-Mart?

Wal-Mart is big on the use of acronyms and here is another one HR uses operationally to drive its performance culture, "H.E.A.T.K.T.E." This acronym stands for "High Expectations Are The Key To Everything." Sam Walton used a company ritual at stand-up meetings with employees which included a HEATKTE song and a HEATKTE dance designed to reinforce H.E.A.T.K.E. At Wal-Mart high expectations really are the key to everything they do operationally. The goal is to motivate Wal-Mart's team of mostly average talent to achieve the company's above-average goals.

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## How Wal-Mart Minimises Risk by Aligning Business Strategies with HR Practices (continued)

Getting talented people in place quickly to maintain the continuity of Wal-Mart's business is one of the biggest risks the giant organisation faces every day! In the early days Sam Walton was forced to hire employees for Wal-Mart from off the farms around Bentonville, Arkansas. He developed an approach to hiring that is quite unique in my experience. He hired people with a good attitude, with no prior experience in retail, and taught them the skills they needed. To this day the People Division teaches company leaders this hiring philosophy, "Hire for attitude and teach the skills." Because I joined Wal-Mart from PepsiCo I didn't believe this approach to finding talent could possibly work but it did, and it does, and it always will work at Wal-Mart. They do the same thing when they fill internal positions. They promote from within 75% of the time with people they move across functions or from out of the stores to headquarters. I would not have believed it before I worked at the company but having seen it from the inside I can tell you it works successfully eight or nine out of ten times!

The HR challenge is attracting talent, training them properly, and providing pay/incentives that motivate them to serve customers, and that actually improve retention. According to the company's executives, the talented people at Wal-Mart have always been the company's greatest asset. Their self-professed talent goal at Wal-Mart is to hire the best, provide the best training, and to be the place to work.

Attracting and retaining a motivated staff of more than 600 employees in their giant stores is a never-ending battle. Wal-Mart recently announced it will employ 3 million employees by 2015! Imagine the challenges with growing their current staff from 2,3 million to 3 million in just five years! That's 700 000 new employees! Add to that challenge the natural turnover in retailing and Wal-Mart's staffing becomes a real nightmare.

Wal-Mart currently has about 40% annual turnover of its staff. I figure that represents about 800K new hires per year at current employment levels, which easily represents more than 4 million new hires just to back fill their own turnover over the next five years! Add to that Wal-Mart's projected annual growth in staff to 3 million and the real five-year staffing challenge will be to hire more than 5 million new employees around the globe between now and 2015! Simply having the right talent in place to match the growth of the company may be the biggest risk Wal-Mart faces. To insure a stream of great people are in the promotional pipeline Wal-Mart hires aggressively from more than one hundred colleges and targets the colleges with "Retail Institutes."

Future staffing may be the company's biggest risk and the most difficult challenge the giant retailer must overcome!

### Strategy 7: How does HR align every functional area with service?

I'll never forget the first Saturday Morning Meeting I attended at Wal-Mart. It was 07:00 in the morning and Sam Walton stepped onto the centre of the stage and led the 500 top leaders of the company in a Wal-Mart Cheer. He called out, "Give me a W, an A, an L, an M, an A, an R, and a T. . . What does that spell. . . We all enthusiastically called back WAL-MART. . . He said who is number one?. . . We all yelled back, THE CUSTOMER!"

Sam Walton referred to his customers as "The Boss" because he believed customers could fire everyone in the company, from the Chairman on down, by simply deciding to spend their money elsewhere. He believed one of the biggest risks any business faces is customer service complacency. For this reason Wal-Mart's goal is to provide not just "good service" but "legendary service" to its customers. In every department there



is one shared company agenda, THE CUSTOMER. Whether an employee works in IT, HR, Accounting, Merchandising or Store Operations, everyone is thinking about ways to improve the customer shopping experience in the stores.

Sam Walton always said the biggest risk to his business was that his customers would stop shopping at his stores. Driven by that fear Sam Walton was fanatical about the importance of serving customers. That fanaticism continues to permeate the Wal-Mart culture, and is reinforced by HR to this day. Culturally, everyone is expected to share that same enthusiasm for improving every aspect of customer service, because they know the biggest risk of all may depend on it... their own job!

## Minimising risk by aligning business strategies with HR practices

The reason the alignment of business strategies with HR practices at Wal-Mart is so critical, and difficult to manage, is due to the complexities of geographic dispersion of its stores, sheer number of employees, and scale of the organisation. Add to that the challenges of communication, adversity of people to change and the turnover of staff, and the complexity is multiplied geometrically! Additionally, the risks for Wal-Mart have risen ever since Wal-Mart became "the world's largest company." It was only when it had achieved "largest company status" that Wal-Mart became the target of community groups, the news media, special interest groups, and political organisations, that have joined Wal-Mart's competitors with the intent to dethrone the retail giant! Despite all the risks and challenges Wal-Mart faces at its current size, company leaders are positioning the massive retailer for even more global growth in the years ahead.

For these reasons, aligning Wal-Mart's business strategies and HR practices are one of the most important challenges the executives face as they try to maximise profitability and minimise business risks across the globe, while continuing to grow the company! People are simultaneously Wal-Mart's greatest asset and its greatest risk to achieving business strategies. HR must overcome these challenges if Wal-Mart is to continue to expand, grow and prosper around the world.

**Their self-professed talent goal at Wal-Mart is to hire the best, provide the best training, and to be the place to work.**



Regardless of the type of business risk at Wal-Mart, the common denominator for mitigating risk comes down to consistent leadership of Wal-Mart's army of people.

It is clear that small and large companies across Africa share many of the same challenges (on a smaller scale) as Wal-Mart in managing business risk and aligning HR strategy. The successful management of business risks at Wal-Mart, and the management of business risks at your company, is hopelessly intertwined with the success, and/or failure of your people. Sam Walton gave credit to his employees around the world who he believed make the difference every day by achieving sales goals, serving customers and controlling expenses. Today's Wal-Mart leaders feel the same way.

## About the Author

Michael Bergdahl (SPHR) is an HR guru. He is a professional international business speaker, author and turnaround specialist. Bergdahl worked in Bentonville, Arkansas, for Wal-Mart, as the Director of "People" for the headquarters office, where he worked directly with Wal-Mart's founder Sam Walton. It was Sam Walton who gave Bergdahl the nickname, "Bird Dawg!" Previous to Wal-Mart he worked in the FMCG Industry for PepsiCo's Frito-Lay Division in HR in the sales organisation and headquarters staff assignments. He is also a turnaround specialist who participated in two successful business turnarounds as a VP of HR at American Eagle Outfitters, and Waste Management. Bergdahl is the moderator of a LinkedIn discussion group called, "Wal-Mart's Best Practices – Super Group" with more than 3 000 worldwide members including: Retailers, HR Professionals, FMCG Product Manufacturers/Suppliers, and Supply Chain Professionals.