

Wal-Mart and the Strategic Transformation of a Compliance Culture

In every crisis there is an opportunity. This was presented, perhaps less starkly, in an article in the spring 2012 Issue of the MIT Sloan Management Review, entitled “*Achieving Successful Strategic Transformation*”, by authors Gerry Johnson, George S. Yip and Manual Hensmans, “Happy accidents are unanticipated circumstances or events that ultimately support [strategic] transformation”. While those in Bentonville, Arkansas are probably not thinking that their current situation is a ‘happy accident’; Wal-Mart is presented with a unique opportunity to create a world-class compliance program. It will most probably be required to do so to aid in its inevitable negotiations with the US Department of Justice (DOJ) over any fine and penalty for any violations of the Foreign Corrupt Practices Act (FCPA), however it may also do so to demonstrate its absolute commitment to doing business ethically to the US and world’s courts of public opinion.

The authors begin by noting that companies which radically alter entrenched ways of doing business are the “exception rather than the rule.” Further, most companies do not adopt such new strategies without being forced to do so by some type of financial trauma. The authors studied 215 companies to find out if there were any key lessons from companies which were able to affect such transformational change. Their article can provide guidance to Wal-Mart or any other company which may find itself in the position where it needs to make a major strategic change to a culture of ethics and compliance.

The authors start with the proposition that to make strategic transformations, companies must “foster alternative management coalitions and value constructive tension and challenges to the status quo.” They have developed eight recommendations for making such transformational changes.

1. **Build on history.** A company should recognize the “importance of valuing history and building on it.” This requires managers within the company to “reflect on the evolution of their organization and the legacy they can build on.” The authors end this section by noting in light of what the response might be, what steps could be taken?
2. **Select and develop a new generation of leadership.** If a company is serious about transformation, succession planning must involve looking at different capabilities in a new set of up and coming leaders within the company. There needs to be a new generation of leaders groomed who have alternative ways of looking at problems and doing business. The authors note that this will not be easy as it will require the current senior leadership to “nurture replacements who will question, modify or even be willing to reject the company’s heritage.”
3. **Accept and encourage constructive mobility.** A company must not select the “most predictable successors” but rather “adopt a deliberate policy of cultivating internal talent.” To do so, a company must foster alternative coalitions within the company and

“encourage divergent perspectives on the future of the business” by identifying up and coming leaders who respect the past but “have a distinctly different view on the future.”

4. **Ensure that decision making allows room for dissent.** The authors begin this section by noting “There is a fundamental difference between an organization built to maintain consensus around a dominant logic and one where managers naturally challenge it.” I know of Law Departments that are viewed as “the land of No” because the business folks think that is the only word the legal department can articulate. The authors believe that a transformational decision making process must allow for dissent and the company must not only live with such a process but welcome and embrace it.
5. **Create enabling structures that encourage tension.** Creative tension occurs when there are opposing views which can be “fostered structurally.” This means that alternative views should be sought out and heard. In the compliance arena, it means that you might listen to certain front line business unit personnel to better understand how something might be accomplished. The authors write that even by creating such a structure, a company can “make a difference in how people see ideas internally.”
6. **Expect everyone to get behind decisions once they are made.** As important as the above structures and procedures are to creating transformational change, “there needs to be some point when leadership makes a decision and the different parties fall into line.” This is the concept of “corporate maturity” and the authors emphasize that it is not a way to stifle dissent but a realization that at some point it is time to move on for the greater corporate good. The authors conclude this section by noting that most companies did not fail in their transformational efforts because they made the wrong decision but because they otherwise botched the internal debate.
7. **Develop an arching rationale.** A company needs to have a clear position on “what we are about”. There should be “emphasis on a clear rationale supported by strong values” that allows for the necessary diversity of views, ideas and debates. This should be the set piece to begin the transformational change within the organization.
8. **Beware of market size and dominance.** No matter whether a company has a small share of its industry’s market, or, as in the case of Wal-Mart, it is the industry leader, the authors note that “ongoing strategic transformation requires relatively focused businesses.” In the case of Wal-Mart that means retailing and all aspects around its business model.

The authors conclude by stating that this type of transformational change does not happen overnight and readily admit that the concepts “are the antithesis of short-term management.” This would fit precisely into the place that Wal-Mart finds itself in now. The FCPA investigation could well take between 2-4 years; the negotiations regarding any fines or penalties could add significant length to that time frame. Avon is over four years into its FCPA journey and there is no public end in sight. However, this means that the opportunity for a truly transformational change is available to Wal-Mart or any other company which finds itself similarly situated. The authors have laid out for Wal-Mart or any other company concrete steps on a path forward which

could give them the title of not only the World's Largest Retailer but also the World's Most Ethical Company.

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