

# Wal-mart final paper on political legal forces

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## **Wal-mart Final paper on Political/Legal forces**

NSU H. Wayne Huizenga School of Business & Entrepreneurship Assignment  
for MGT 5012 21st Century Management Submitted Dr. Bahaudin G. Mujtaba

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Title of Assignment: Wal-Mart: Stagnant Employee Compensation Despite  
Rising Corporate Profits

CERTIFICATION OF AUTHORSHIP: I certify that I am the author of this paper  
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data, ideas or words, either quoted directly or paraphrased. I also certify that  
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Wal-Mart: Stagnant Employee Compensation Despite Rising Corporate Profits

## Introduction

Wal-Mart has known all kinds of success, which would insinuate that the employees are as much part of this triumph as the company. Yet Wal-Mart has faced many lawsuits over the years. One perturbing recent situation is that despite increased company profits, employees are struggling to survive financially due to their execrable compensation. This particular situation begs the question: should employees' compensation rise with corporate profits? In an effort to determine an answer, an analysis of Wal-Mart's policies and reviews of company practices will be examined through the lenses of equity theory, internal and external environmental forces, value driven management, and market-based management principles.

## Management Structure and Strategies used by Successful Companies

Management strategies and structures have changed over the years. The design of these elements can have a large effect on the success of companies that implement them. The business environment today is constantly changing and has made it difficult to apply just one strategy. Factors such as globalization, customer value concepts, and new innovative technology have changed the way companies approach management decisions. It is important for modern organizations to have a flexible management structure to adjust to the industry trends. The most successful companies are able to adapt their strategy based on the industry, customer, product and employee.

Fortune Magazine developed a list of the "World's Most Admired Companies" voted on by employees and business professions. The magazine measured different factors to develop the list: innovation, company success,

talent management, and industry dominance. The majority of the top companies have a unique approach to management structure. Modern companies are applying a strategy that fits the industry and company mission and “operating models that enable companies to be dynamic, admired companies can bend in the wind without breaking” (Kimes, par. 2). Wal-Mart cracked the top ten and landed at number nine on the list. The company’s low price strategy has evolved and proved to be successful during the recent economic downturn. Wal-Mart has decentralized into a product divisional structure, operating in three business segments: Wal-Mart stores, International stores, and Sam’s Club.

TAYLOR: Examples of the top ten companies...what they do and how they do it. Walmart structures and strategies.

DIANNE: Expand on 2 companies on the list what they do and how they do it. Strategy and structure. Then compare to Wal-Mart

Equity Theory: Pros & Cons in Workplace

The practice of equity theory in the workplace could help keep a level of integrity and ethics within the company. By management creating such an ambiance for their employees, it only encourages them to perform to the best of their abilities for they know appraisals, rewards, and benefits are included as well. As the employees feel cared for and useful, they are willing to put in the work needed or go exceedingly above what is expected.

Like other theories, some aspects may be difficult to successfully integrate into the workplace. Who determines what is fair, the employees or management? Are employees ever satisfied or feel like they are being treated fairly according to their own standards? The introduction of equity

theory in the workplace might increase tensions within the work environment.

AMANDA: Pros and Cons of using Equity Theory in the workplace. Expand using research to support ideas.

Direct Environmental Forces: Competitors and Customers

Of the direct environmental forces that affect a company, Wal-Mart focuses primarily on competitors and customers. Wal-Mart utilizes just-in-time inventory, high-tech inventory systems and communication procedures between suppliers and distributors to deliver desired goods to customers while minimizing the cost of holding inventory. Additionally, due to the volume of product turnover, the company develops strong relationships with suppliers. Customers benefit from these supplier relationships as the purchases yield savings that are passed to the consumer.

This method is so effective and efficient that the giant is able to reduce prices to customers, making them unbeatable in cost leadership. This greatly affects competitors who may be less efficient and unable to sell the numbers that Wal-Mart can, making it impossible for these competitors to compete with Wal-Mart on the basis of price (Chetwynd, 1994). These companies then must pursue another avenue to develop comparative advantage over Wal-Mart.

The cost-benefit for customers to shop with Wal-Mart goes beyond financial savings. As Wal-Mart expands its offerings from products to products and services, such as on-site film developing, a pharmacy and health-clinic, customers reduce the amount of time spent on errands (Chetwynd, 1994).

Creating a one-stop experience increases Wal-Mart's comparative advantage

over competitors and further cements their position as industry leader.

JESS: Competitors: Target, Costco and locally owned stores. Customers: expand.

Indirect Environmental Forces: Sociocultural and Economic Factors

Sociocultural and economic forces are two indirect forces among Wal-Mart's global environment that directly affect the way the human resource base of the company operates as part of the larger organizational structure (Utterback, 2004). The current impact of sociocultural forces on modern companies such as Wal-Mart is to ensure that the welfare of their employees is placed in such a way that makes employee development function normally in the rapidly complex social environment of the 21st century. Economically, companies are also impacted to ensure that the wages and rewards they give to their employees are the types that can be referred to "living wages," making it possible for employees to be accommodated in the current economic climate and with the changes in economic variables such as "interest rates, inflation, ... and other factors that affect the general health and well-being of a nation or the regional economy of an organization (Jones & George, 2011). At Wal-Mart, there are two major strategies, one of which focuses on ways of making the company as a collective entity to fit these two forces and other of which focuses on employees. Since the scope of employee compensation is the focus of the paper, the "Living Wage Strategy" used by the company will be emphasized.

The Living Wage Strategy is only a system whereby Wal-Mart tries to identify various sociocultural and economic forces that affect the way their employees spend in their social environment. This is mainly done by

undertaking market-based management practice that requires the company to engage itself in research and development that makes it come to terms, for example, with what goes on in other companies, what the labor laws approve of, what the legal provisions of the labor department say, and what can be motivating enough for its employees. In effect, the Living Wage Strategy is a core part of the equity theory, which seeks to outline factors that bring about rational satisfaction in the wake of fair or unfair distribution of resources at an interpersonal level (Nielsen, Nykodym & Brown, 2011). Even though these attempts by the company to pay realistic minimum wage to its employees is commendable, it is recommended that the company could do more by way of involving employees in decision making on their wages.

#### Political and Legal Forces

The political and legal variables that face Wal-Mart are best described as macroeconomic factors as they affect the totality of the industry rather than affecting Wal-Mart alone as a company. Three of these forces can be noted as inflation, international relations and unemployment. Inflation and international relations are political and legal factors that affect Wal-Mart directly in their production. Whereas inflation determines the rate at which prices of raw materials will rise, international relations also determine the limitations or opportunities that Wal-Mart will have in its ambitions to grow its international franchise (Shugan, 2007). On the unemployment factor, it is the consumer of Wal-Mart that is directly affected by this. This is because employment serves as the major means by which people get their incomes, for which they are able to make purchases (Sadri, 2001). This

notwithstanding, the issue of unemployment comes around to affect Wal-Mart also because if customers are not empowered through employment to make purchases, the company's income will also go down. Even though companies have no direct power in directing the course of political and legal factors that affect their business, they have an opportunity of controlling the impact of these on their organizations (Shugan, 2007). This is because companies have the right to use strategies that put them in a better position to ensuring that such political and legal factors as those discussed above do not affect them negatively.

At Wal-Mart, there is 2-tier approach to dealing with political and legal macroeconomic factors that confronts it. This 2-tier approach combines strategic management with market based management practices. For example the company deals with the problem of inflation in most of its operating countries by hedging the prices of goods and raw materials. Through price and currency hedging, the company mitigates shocks that come through sudden rises in inflation rates. The company has also started engaging vigorously in electronic commerce as a way of ensuring that various international trade restrictions do not serve as a hindrance to their ambitions to expand (Sadri, 2001). Through e-commerce, customers around the globe are allowed to make purchases without necessarily needing the company's presence in those countries. On the issue of employment, the company uses the all important market based management practice of cost leadership, which has also been found to be an effective strategic option to ensure that its cost of production is as low as possible. This way, the prices of goods and services from the company are so low that they can be



afforded by a larger demography of people based on their economic incomes.

Into the future, there are a number of recommendations that can affect the market positioning of Wal-Mart in relation to the political and legal macroeconomic variables that face the company. For example, it will be important that as much as the company makes adequate use of strategic option of cost leadership, it would also give much attention to using various marketing mix that puts the emphasis of business and trade at the microeconomic level for the company rather than the macroeconomic level. The implication of this is that the company must ensure that there are in-house marketing principles that focus on such marketing mix as place, promotion, price, and product. The effort of growth must therefore come from within the company's internal arrangements that make it competitive against key competitors rather than battling the larger macro economy. Using product as a marketing mix for example, the company can focus on the need to introducing differentiated products that are unique from what competitors have to offer.

#### Wal-Mart's Use of Market-based Management Practices

Wal-Mart uses "superior communication and transportation links between individual stores, warehouses, and suppliers...[which has created] a comparative advantage in getting customers the merchandise they want quickly and efficiently" (Gable, 1993). Wal-Mart has the buying power to receive volume discounts that almost no other consumer of goods on the planet can match, short of the federal government. Companies such as this can also use that power to decimate smaller businesses. A Wal-Mart

superstore opening in a small town with a mom and pop drugstore would almost certainly put them out of business.

Although a large entity such as Wal-Mart has the resources to venture into other areas, it would be a mistake to branch out into markets it is not well equipped or prepared to. The oil or banking industries would not be a good fit for Wal-Mart; due to large barriers to entry and the lack of Wal-Mart's experience in these industries that would result in great expense and very little comparative advantage for Wal-Mart to compete with industry leaders. Trying to enter either of these industries would most likely lead to failure. According to the market-based management theory this is actually a benefit to the market as the strong, well suited players will survive and resources will be better allocated benefiting consumers and society as well.

DINO: Expand.

#### Value Driven Management Application

There are many forces that impact organizations in this global marketplace; some of these factors include new technologies, the economy, a new generation of workers, legal, social, and moral issues. One of the most prominent facets is Employee Values. It has been proven that employee's values drive decisions and attitudes in the workplace. What employees value such as job security, satisfaction, and the relationship they have with supervisors and leaders need to be accounted for. When this aspect is examined, it comes down to matching the right employee with the right job. Instead of assuming this responsibility falls only with the employer, encouraging employees to take an active role in this process helps the company, management, and employees to be responsibility for success.

(Pohlman, 2000). This is a definite value adder.

That is not to say that organizations are forfeit of responsibility to ensure that employees are well-fitted to the position, properly trained, sufficiently managed and in sync with the corporate culture. All too often, job seekers and employers seek to fill vacancies looking at criteria such as pay, academics, or previous accomplishments alone. This can inevitably lead to customer dissatisfaction, low productivity and higher employee turnover that are especially prominent in good economic times with low unemployment; this is a value destroyer, as it will negatively affect value over time.

The article " Developing Corporate culture as a Competitive Advantage" describes corporate culture and its effect on corporations; it studies and affirms that corporate values must be consistent with employee values and the environment in which they operate (Sadri, 2001).

The article " Employee Retention:" The secret behind Wal-Mart's successful hiring policies, looks at the programs Wal-Mart has in place for hiring and retaining employees. The hiring process is the last line of defense for employers and employees alike. This is where both sides need to carefully evaluate the congruency the opportunity poses in contrast to the individual's values, priorities and interests.

Another force for consideration is the customer's values. Each individual is a consumer, and what each person values will shape his purchasing decisions. Some will be willing to sacrifice service for the lowest price; others will be willing to pay more for superior service or treatment. Much has been written about improving customer service. Frequently, companies claim a strong customer orientation through slogans and advertisements, such as " the

customer is always right," or seek customer feedback regarding their efforts to improve customer opinion via surveys. Companies are interested in customer satisfaction and service but many times in theory and not in practice. All companies are concerned but when it comes down to the lowest level, where the customer directly interfaces with the employee, most often the message is lost. Poor delivery of a good customer focused plan is fatally flawed, very deceptive, and hypocritical. Customers will feel deceived and lied to.

Competitor values are another significant facet. Many great businesspeople understand that awareness and responsiveness to competitor values is necessary to surpassing the competition. According to value-driven management, it is necessary to examine what the competitor's values are and act on that information to develop a corporate strategy.

In the market place today there are several prime examples. Blackberry and Blockbuster are two. In the case of Blackberry, the company remained rigid and unwilling to adopt new platforms and technologies; this led to their ultimate failure and has driven them to the brink of extinction. Blockbuster also failed to act to the changing marketplace dynamic of online streaming video rentals. Conversely, Blockbuster's competitors, Comcast and Netflix, capitalized on this market trend and are thriving, while Blockbuster is no more.

Effective leadership means being more proactive and responsive to the market, customer values and technology. Being consistent is important to customers, but ignoring new products that are well received by the public is a "fatal conceit;" a concept from market-based management that states top

leadership knows everything and does not need outside input (Gable, 1993). Demographic forces affecting employees include the aging workforce, as Baby Boomers that are staying on the job much longer than expected. These workers' values and priorities can often conflict with those of Gen Y and the Millennials. Corporations have to find a way to incorporate these new players to the workforce while finding a way to motivate older employees (Jones, 2011).

These forces affect customers and their changing needs. With an aging population, healthcare and related services will be in greater demand. Hospitals, healthcare facilities and geriatric services are all areas that have seen an increase in demand in the last decade. Corporations such as Wal-Mart are also experiencing this trend. Older workers often work alongside younger employees, and are compensated similarly. This has the potential to be a value destroyer if not handled correctly.

Competition in the industry is at the highest level ever. Advertising and competition for these customers has prompted the industry to market these services like never before. Commonplace today are billboards advertising hospitals, rehabilitation facilities and doctors who specialize in every field imaginable. Also commonplace are advertisements for local emergency room waiting wait times. Wal-Mart has been actively pursuing this demographic as well with their pharmacy and healthcare clinics; an ambitious stretch from the basic core business model, that is attempting to keep up with the needs of the changing demographic and market. This type of attention to the customer trends and competitor offerings can be a value adder.

While there are many political and legal forces affecting employees, two

important aspects include resistance to unionization and the increase of minimum wage. In order “ to coerce Wal-Mart, trade unions are attempting to increase the cost of business by increasing the minimum wage, increasing mandatory overtime pay, mandating health care benefits and supporting ambiguous rules that would force retailers to defend their compensation plans in court” (Shugan, 2007). Should corporations like Wal-Mart be unionized, or should the minimum wage be raised to the actual cost of living in modern society? These can of course be both value adders and destroyers.

The forces affecting competitors and competition are similar. Once an industry giant such as Publix or Wal-Mart is legally forced to change its corporate strategy or pay structure, then the rest of the industry will follow suit. What will be the repercussions of such a bold legal mandate? Will society as a whole benefit from workers earning more and subsequently having more discretionary capital to spend and put back into the economy? Will it backfire and bankrupt businesses? How much regulation can organizations tolerate and still survive? Many variables for consideration have the potential to be value adders and destroyers.

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