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 - HR Management
 - Legal Insight
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Feature: People Problems on Every Aisle

People Problems on Every Aisle

The world's largest retailer is beset by allegations of discrimination, overtime-law violations and turnover that is "spiraling in the wrong direction," to the tune of some 600,000 employees a year. For a company that practices what could be called HR lite, it might be time for a change.

By Douglas P. Shuit

Edith Arana's long résumé with Wal-Mart Stores includes jobs such as personnel manager and a stint traveling from store to store taking inventory, with commutes as long as an hour and a half one way. She received regular hourly pay raises and positive evaluations. Promotions came with regularity. She eagerly volunteered for tough jobs. "In my mind, I am saying, 'I am sacrificing my family, yes, but the company is making promises to me,'" she says. "Whatever was in my power to do, I did it. Down the line, I expected to make management." Instead, she found herself watching with increasing frustration as one man after another got jobs she coveted.



Daniel Hultshier/AP

Arana is now a former Wal-Mart employee with bad memories. She is one of legions of current and former female Wal-Mart employees who claim that the world's largest private employer denied them a chance to move into management or that they received lower pay than their male counterparts. The women expect a ruling from U.S. District Court in San Francisco any day now on a petition to

expand the suit to include 1.5 million current and former women employees. If successful, this would be the largest class-action lawsuit in history.

The case illustrates one of the mushrooming legal problems linked to the same Wal-Mart people programs that have helped the company vault over its competitors to become the world's biggest retailer. Thirty-eight other class-action lawsuits are working their way through the courts alleging labor violations, including claims that Wal-Mart stops the clock at 40 hours and pressures employees to work unpaid overtime.

Wal-Mart lost the first of the cases in a Portland, Oregon, civil trial in

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1. Labor and Benefits Expenses in Supermarkets
Charts showing how much money is spent on labor and benefits in grocery stores, broken down by store size.

2. Turnover in Supermarkets
Charts showing the amount of turnover in grocery stores, broken down by store size.

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Responding to Wal-Mart doesn't necessarily mean meeting its employment standards.

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December 2002, and a jury is now considering evidence on financial damages. Then last October, federal law-enforcement authorities rounded up 250 undocumented workers in raids on 60 Wal-Mart stores across 21 states in an ongoing investigation. By Wal-Mart's own admission, when the dust settles from the gender-discrimination suit, financial compensation to the women could affect the fast-growing corporate giant's business results for years.

**"Wal-Mart's success and their size
make them a big target."**

The company's escalating workforce-management problems have left Wal-Mart CEO Lee Scott and his executive team with monumental concerns. Scott has publicly vowed to fix things. But the issues go to the heart of the Wal-Mart culture, and any corrections, such as initiating more centralized control over pay and promotion policies, are likely to shock the system, experts say. That's because the company's worst problems relate so closely to its greatest successes: dramatic growth, tightly controlled labor costs and a strong corporate culture that reflects the firm's legendary roots in Bentonville, Arkansas. Critics trace Wal-Mart's workforce practices--call them human resources lite--back to the days when its founder, the late Sam Walton, fought minimum-wage laws and acknowledged that the company's male-dominated retail culture and transfer policy discriminated against women.

Strong outlook

So far, Wal-Mart's position as America's richest corporation has not been threatened. Most Wall Street stock analysts who follow the company still rate it a buy. "We think their growth outlook is strong," says Charles Cerankosky, a retail industry analyst for McDonald Investments Inc., who is bullish on the company's prospects despite the legal problems. With customers still flocking to the stores, Standard & Poor's expects Wal-Mart's yearly sales to increase 4.5 percent in 2004, reaching \$256 billion. Wal-Mart's annual revenues are more than those of three major competitors--Costco Wholesale, Target and Kmart--combined. This year the company plans to open 50 to 55 new discount stores and 220 to 230 new Supercenters in the United States. When combined with international expansion, it means that Wal-Mart will be opening at least one store for every day of the year. Wal-Mart's workforce of 1.5 million worldwide--about three times the size of the U.S. Army--is growing monthly and is projected to reach 2.3 million within a few years.

McAllister Yeomans, who follows Wal-Mart for Plunkett Research Ltd., credits the company with smart management in choosing store locations and driving hard bargains with vendors to keep prices down. But low labor costs are a key part of the company's formula. He notes that the company operates on a thin profit margin--income of \$8 billion on sales of \$245 billion in 2002, or a 3.26 percent profit margin--and controlling labor costs is a significant part of generating the profit.

Turnover at Wal-Mart is staggering. It has hovered at about 50 percent for several years, which experts say is high even in a retail industry known

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for its employee churn. Among full-time hourly employees, turnover jumped from between 30 percent and 45 percent in 1995 to nearly 56 percent in early 2000. Coleman Peterson, executive vice president of Wal-Mart's people division, said in a deposition taken for the sex-bias lawsuit that turnover was "spiraling in the wrong direction." What that means is that every year in the United States, 600,000 to 700,000 Wal-Mart associates walk out the door and must be replaced by fresh faces willing to work for starting hourly wages as low as \$7 to \$8. An analysis by Staffing.org shows that the retail industry spends \$2,379 for each new hire. At that price, the tab for hiring 600,000 workers would be \$1.4 billion.

"Until recently, the method of getting into management was not an open application process. Instead, it was a tap-on-the-shoulder process. Wal-Mart would reach down and anoint somebody and invite them into management."

Costco Wholesale Corp., which is competing against Wal-Mart's Sam's Club for retail supremacy, pays better than its larger competitor. Analysts say that it shows. Turnover at Costco is 23 percent yearly, but only 8 percent for employees with more than a year's experience, according to Smith Barney Citigroup Research. "They try to treat their employees better, and as a result their employees stay with them longer, which means they are more experienced and the company gets better production out of them," says Michael Clayman, editor of *Warehouse Club Focus*, which tracks big-box retailers. At the same time, Clayman says that he doesn't think turnover affects Wal-Mart negatively one way or the other. Hoping to change its image, Wal-Mart has launched a counteroffensive portraying the company as a good place to work. "My name is Theresa P," says an attractive woman in one TV ad. "I've been with Wal-Mart for 18 years."

Wal-Mart's sheer size and high turnover are both helping and hurting United Food and Commercial Workers, which is conducting an intense drive to organize the company. To do that, the union must overcome fear that the company will fire employees who support the organizing drive. "We tell people, 'You are going to lose your job anyway,'" says Harold Embry, a UFCW organizer, pointing to the high turnover. On the other hand, the union has a hard time holding on to active employees because they move in and out of the company so fast.

"Wal-Mart's success and their size make them a big target," says Patrick Wright, director of the Center for Advanced Human Resource Studies at Cornell University's School of Industrial and Labor Relations. "When you are a company that large, with that high a turnover, you have all kinds of opportunities for things to go naturally wrong. If the turnover is 700,000 employees a year, and 10 percent are unhappy when they leave, you have 70,000 people with a gripe against Wal-Mart. If just one in 100 wants to file a lawsuit, there are 7,000 lawsuits."

Current and former Wal-Mart workers paint a picture of a company growing so fast that relatively little attention was paid to costly but

necessary human resources practices. In the sex-bias case, lawyers are focusing on the company's failure to post notices about job openings for entry-level management trainees until last year. Such problems might have been averted by hiring college-educated human resources managers with more professional training. Former Wal-Mart store human resources manager David Pope, now a human resources specialist for the Texas Association of Counties, says that when he left Wal-Mart in 2000, there were relatively few professionals with degrees or credentials from the Society for Human Resource Management. Pope says that the company had an in-house people manager certification program, but it was limited and not at all like the exhaustive testing he underwent for his SHRM certification. Human resources managers often "were people who came in off the street and were hired," he says. "Maybe they had people skills, or experience with people, but they weren't familiar with human resources, employment law or human resources theory."

Ambitions crushed

Edith Arana is a case in point. She was hired in 1995 as the personnel manager of a new Southern California Wal-Mart store at \$7 an hour. Keeping time records and maintaining personnel records for 200 employees was a lot of work, she says, but she was also asked to change lights and close out cash registers when needed. She put up with the additional workload because she thought a management position was within her reach. Eventually, her ambitions were crushed and she was terminated in a dispute over time records.

"At first, I thought it was just me," Arana says of watching men get jobs she wanted. She learned of job openings only by word of mouth because open positions weren't posted. "The store manager would usually know when a job was coming up. If you didn't ask him, you wouldn't know."

"When you look at Wal-Mart's growth and the fact that we promote women at the same rate that they apply for jobs--or better--you can see that Wal-Mart provides more opportunities for women than any other employer in the country. It is simply not reasonable to think that the allegations of these plaintiffs represent the experiences of more than 1.5 million women."

Another problem frequently cited by women is the company's policy requiring managers to pick up and move at a moment's notice. Because of family considerations, women often are less able than men to relocate quickly. But even women who agree to move find they are spinning their wheels. Former assistant manager Stephanie Odle said in court documents that she made nine moves in eight years and still was not able to get a promotion to manager. She said that she complained to a manager when she learned that a man in a comparable position was making \$10,000 a year more than she was. The manager told her "to provide him with my personal household budget so he could decide whether I deserved to receive equal pay." She got a small raise, but still hasn't been able to shake off the feeling of humiliation.

"Until recently, the method of getting into management was not an open application process," says Joseph Sellers, one of the attorneys pressing the gender-discrimination suit. "Instead, it was a tap-on-the-shoulder process. Wal-Mart would reach down and anoint somebody and invite them into management." The suit argues that women make up more than two-thirds of the hourly workers but represent only about one-third of management-level employees. In addition, documents were submitted to the court showing that men made more money than women in nearly every job category, from entry level to management.

Wal-Mart spokesperson Sarah Clark characterizes the complaints by the women as isolated. "Wal-Mart does not tolerate discrimination against women or anyone else," she says. "When you look at Wal-Mart's growth and the fact that we promote women at the same rate that they apply for jobs--or better--you can see that Wal-Mart provides more opportunities for women than any other employer in the country. It is simply not reasonable to think that the allegations of these plaintiffs represent the experiences of more than 1.5 million women."

The problems confronting Wal-Mart today seem to have been generations in the making, rooted in what critics say is the company's white-male-dominated, militantly anti-union Southern corporate culture. Sam Walton was generous with company stock awards, which made many Wal-Mart workers wealthy. He also awarded big bonuses to high-performing stores. But he acknowledged in his own writings that he was famously cheap when it came to hourly wages. In his 1992 book, *Made in America*, Walton said that the company's policy of requiring managers to relocate at a moment's notice made it hard for women to move into management. The policy "really put good, smart women at a disadvantage in our company because at the time they weren't as free to pick up and move as many men were," he wrote. He claimed to have "seen the light." Legal complaints by women, however, tell a very different story. Bob Ortega, who covered Wal-Mart for the *Wall Street Journal* and wrote the book *In Sam We Trust* in 1998, says that despite the passage of years, "the overall corporate culture has not changed significantly in regard to gender issues at the top."

Spans generations

There's also a sense of history repeating itself in the dozens of class-action wage and hour lawsuits currently working their way through the courts. Wal-Mart managers take great pains to keep costs down by holding down overtime. It's an issue that spans generations. Ortega writes that in the 1950s, Walton fought a federal Department of Labor order requiring him to pay his employees at least a minimum wage. Walton claimed that each of his stores was independent, thus small enough to be exempt. More recently, the company has lost several early rounds in its vigorous defense of the wage-and-hour suits. In addition to losing the civil case in Portland, the company previously had settled two similar cases in Colorado and New Mexico. Women in the Oregon stores found themselves working off the clock so frequently that they formed an "Over-40 Club" of members who worked longer hours but charged the company for only 40 hours.

Much more is at stake in the lawsuits than financial settlements. When Coca-Cola Co. lost a \$192.5 million race-discrimination suit, the soft drink company was required to prepare diversity reports for its board of directors; create a seven-member task force of labor and civil rights officials,

attorneys, academics and others; staff a 24-hour complaint hotline and make other improvements. Such a settlement would be so punishing that Wal-Mart might decide it is too risky to vest that much power over people management to local managers. The company argues that rogue managers in local stores who were acting in defiance of company policies created many of the problems often cited in the lawsuits.

"Clearly, what Wal-Mart has bet on is that the benefits of this decentralization will outweigh the costs of having centralized decision-making, which is often not the most efficient way to do things," Cornell's Wright says. "What may come as a result of all this is a way of trying to balance the risk by having more centralized decision-making."

Sellers's Washington, D.C., law firm handled the race-discrimination case against Texaco Inc., which resulted in a \$176.1 million settlement in 1997 on behalf of 1,400 of the firm's African-American employees. Sellers says that the Wal-Mart sex-bias case could be much bigger. So mind-numbing are the numbers involved that Wal-Mart is arguing that there is no practical way to provide back pay or punitive damages for 1.5 million women. The company estimates that just giving a single day of testimony about promotion decisions at each store would require 13 years of daily courtroom sessions.

Failure to place a strong emphasis on human resources and people programs is at the heart of Wal-Mart's legal problems, Sellers says. "This is a company where the operations section makes a lot of money. The human resources group is seen as a cost generator, not a revenue generator--a necessary but unfortunate expense."

Indications are that the company already is in the process of beefing up its human resources programs. "I don't think Wal-Mart really realizes how important human resources is to them," Pope says. "They are learning, though. They are having to learn the hard way."

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