

CORPORATE COUNSEL

Walmart Rolling Out Big Compliance Reforms

The Compliance Strategist

Donna Boehme, Corporate Counsel

April 29, 2014



Photo: Mike Mozart of JeepersMedia, via Wikimedia Commons

It's not easy being the world's largest company, especially after making some of the world's largest compliance blunders.

Ever since April 2012, when an exhaustive [8,000-word New York Times investigative report](#) broke wide the allegations of Wal-Mart Stores Inc.'s "vast" Mexican bribery scandal, compliance and legal professionals have been following the company's crisis response with particular interest.

With headline-making details such as a whistleblower willing to air all of the corporate dirty laundry, an army of shadowy "gestores" trained to grease the company's domination of the Mexican retail market and reports that a handful of C-suite executives had "hushed up" an internal bribery probe, this was a riveting case.

[Two years and \\$500 million dollars later](#) (purportedly racking up \$1.1 million per working day in costs, Walmart is rolling out some encouraging "enhancements" to its compliance program.

A new global chief compliance officer, Jay Jorgensen, was appointed in October 2012, and under his direction [some big reforms have been put in place](#). Decision No. 1 was the separation of the company's compliance and legal functions. They both now report to the EVP global governance and corporate secretary, Jeff Gearhart. And Jorgensen also reports directly to the board's audit committee. That's a solid start.

Asked about Walmart's compliance changes at last week's Dow Jones Global Compliance Symposium, Jorgensen highlighted the creation of a stand-alone compliance function, a decision reached after "extensive" cross-industry benchmarking of leading compliance practices.

Previously, compliance for each of the company's 12 main markets was managed by a local general counsel, who also wore the "dual hat" of compliance officer and reported to that country's CEO. Now, each country has a stand-alone senior-level compliance officer who sits on the local CEO's leadership team, but reports in a centralized compliance line to the Bentonville, Ark., headquarters.

Jorgensen comes down squarely on the side of independence for the compliance officer. [As he told Compliance Week's Matt Kelly:](#) "The chief compliance officer can't be buried in the organization. She can't be wearing half a hat." He further emphasized that the company's compliance officers "need to be independent, senior executives, who all report back into Bentonville."

Walmart's new compliance structure is yet another confirmation of the built-in mandate conflict when compliance is run purely through a legal lens. That's because when the legal department's "defend and protect" mandate runs up against the compliance function's "seek, find and fix the problem" mandate, an automatic veto of the compliance mandate [rarely benefits the company.](#)

The retailer has also released its first annual Global Compliance Program Report for Fiscal 2014, [which can be read in its entirety here \[PDF\]](#). Here are some of the big compliance reforms Walmart has undertaken:

- Fourteen responsibilities and risk areas have been identified as part of the clear mandate for the newly independent compliance function, including antitrust, anticorruption, anti-money laundering, labor, environment, privacy, food safety and, of course, permits and licenses (the risk area under the microscope in the Mexican bribery probe).
- The addition of a compliance officer for each of the company's massive e-commerce business and Responsible Sourcing (Walmart's supply-chain program).
- At least \$100 Million spent on additional full-time compliance personnel—now numbering 2,000—and financial controls.
- A global escalation and review process to ensure that certain categories of allegations are brought quickly to the attention of the company's Global Ethics Office in Bentonville.
- The addition of enhanced financial controls in all international retail markets.
- Tying 20 percent of (certain) executive compensation directly to performance against the company's compliance goals, set last year by the audit committee and top management (Jorgensen says, "It keeps your vision on the long ball.")

And although not qualifying as a "major reform," the establishment of an "Integrity in Action" award program for Walmart employees achieving "exceptional levels of integrity" is enough to warm a jaded compliance officer's heart. If implemented well, it will speak volumes to the wider organization about the company's post-2012 priorities.

For those keeping track of such things, check the box for: (i) independence, (ii) empowerment, (iii) seat at the table, (iv) line of sight and (v) resources—all five of the key criteria to an effective compliance function that [I have written about here](#). Prior to 2012, each of these features in Walmart's compliance function was either absent or in short supply. Make no mistake, these are big reforms.

Wide-ranging compliance reform covering 2.2 million employees at the world's largest company is not going to be easy, and the proof will be in the implementation. But so far Walmart has hit most of the right notes in its comprehensive compliance overhaul.

One of the toughest reform elements, a linkage of certain executive compensation to the company's compliance objectives, is a step in the right direction and a work in progress. In its annual proxy statement filed last week, the company reported that its board had deemed the 2014 compliance objectives achieved, so no associated reduction in executive compensation was necessary.

But in 2014 the linkage of compliance to compensation was limited to just six top execs. In keeping with the time-honored compliance axiom that ethical culture must be embedded down the line into the organization, compliance professionals will be watching closely to see if that linkage is cascaded further into line management. (Bonus points if the company decides to identify and link ethical leadership *behaviors* to compensation as well).

Overall 2014 grade: Walmart gets an A for effort and extra credit for “so far, so good” in these early stages of its big compliance overhaul. If a company this big and prominent can right its compliance ship, there will be important lessons for other companies—of all sizes—down the line.

Donna Boehme is an internationally recognized authority in the field of compliance and ethics, designing and managing compliance and ethics solutions for a wide spectrum of organizations. Principal of [Compliance Strategists](#), a N.J.-based consulting firm, Boehme is the former chief compliance and ethics officer for two leading multinationals. She has been named to The Top 100 Thought Leaders in Trustworthy Business 2014 by Trust Across America, and can be reached at dboehme@compliancestrategists.com.

Read more: <http://www.corpcounsel.com/id=1202652963244/Walmart-Rolling-Out-Big-Compliance-Reforms#ixzz30JDOSKkn>