

Walton Family Business Constitution

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Contents

Executive Summary3

Introduction.....4

Ownership4

Family Vision for the Future.....5

On Employment and Family Involvement.....6

Family Governance Structure7

Conclusion and Recommendations..... 11

Executive Summary

The family business constitution is the fundamental principle that guides a business that is owned by a given family. It serves in defining ownership conditions, managerial structures, and board composition. The family constitution is the fundamental guide against the perils of misdirection as the business moves from one generation to the next. The Walmart business is one of the most epochal examples of family business success. The Walton Family is the owner of the Walmart business empire, and has been a success due to its progressive family business. This report evaluates the cornerstones of Walmart Family business constitution.

Walton Family Business Constitution

Introduction

The Walton Family is arguably the richest family in the US, courtesy of its huge stakes in the Wal-Mart retail chain (Askinasi & Hanbury, 2020). The Wal-Mart retail chain occurs to be the largest private owned company in the world by revenues, and is arguably one of the largest employers. The Wal-Mart Company is a dream come true of Sam and Bud, the Walton brothers who opened the first store in 1962, and successfully grew the company to open thousands of retail stores across the globe (Askinasi & Hanbury, 2020). After the demise of Sam Walton in 1992, the test of the family business – which was passing the business successfully from one generation to the next started (Askinasi & Hanbury, 2020). The company transition proved to be a period of momentous growth for the company which took to the stratosphere in regards to the overall revenue growth, and market reach. Thus, the Walton Family has become a quintessential case study into family business management. To unveil the mystery of the success of the Walton Family, and their success with Wal-Mart, this paper discusses the key elements of Walton Family Business Constitution and how it has propelled Wal-Mart as a family business to the pinnacle of success while making the Walton Family the richest family in the US.

Ownership

The Walton Family Constitution notes that the business should always be owned by the family. Sam Walton, passed 50% of the shares or ownership of the Walmart business to his wife and children (Askinasi & Hanbury, 2020). The significance of this aspect of having majority of shares and keeping them within the family is to ensure that the overall decisions on key important issues fall on the family. This is an eternity clause with regard to the business.

The external circumstances that would necessitate sale of shares, if any, by the family is in the event of bankruptcy or when there is need to salvage the company. Thus, the shares or the normal price determinants of stock would be sold to private investors, although under the conditionality of temporal holding as the family can buy back the shares. This ensures that the equity of the company is maintained within the family, and at no given point shall the family loose key ownership of the business.

Arguably, the sale of shares may be appropriate when the company decides to go public. In this case, if Wal-Mart makes an initial public offering (IPO) which results in the company welcoming of public investors to buy parts of its equity, it may be incumbent that the family shall be required to liquidate its shareholding capacity and in effect purchase shares proportionate to the market value and based on its capacity to purchase the same.

Family Vision for the Future

The family vision of the Walton Family with regard to Walmart is to continue its dominance in the retail space and continue commanding a sizable share of the market (Alderson, 2011). Thus, the Walton Family legacy is tied or bound to the success of the Walmart business. This makes the family adopt an agile approach to its running and leadership, including embracing external leadership in its management structure which assures the company has the most competent skills. Nevertheless, the Walton Family reserves the right or the discretion to continue commanding direct control through representation to the board of management (Askinasi & Hanbury, 2020). At the present, this does not seem to change as the CEO of the company is a son-in-law of the Walton Family, which shows the commitment of the company to reserve the top leadership of the business to its family – either through top executive managerial control or through the board.

The Walton Family business is a generational business that is adoptive to the various times, and as long as the family name exists through the persons of children or inheritors, the

family ownership remains adaptive (Alderson, 2011). The family legacy and the business are the same thing, as such there is no time-bound specificity to when the interests of the family in the business have been fulfilled. As it occurs, the stakes of the family wealth, too, are tied to the success of the Walmart company. Therefore, the family is the business and vice-versa. To this extent, the interest of the family is to see continuity in the success of the company and to uphold the legacy of the Walton Family.

As there are no limits to the realization of the family business interests in the Walton Family, the restriction is against the loss of ownership of the family business. This is by or through loss of the shareholding majority or through acts that may compromise the success of Walmart. To this extent, the Walmart family business ensures that its interests are provided for either through direct heirs or through trustees who protect the interests of the family (Alderson, 2019).

On Employment and Family Involvement

With regard to employment of family members, it occurs that one must be a business or legal expert, or at least has satisfied the conditions necessary of business leadership. This includes having fulfilled the educational requirement of being a graduate from a recognized US university and having, as may be deemed appropriate, undergone mentorship in the business succession processes. This ensures that the family members have the requisite competence or qualifications to serve in the capacities given or that which refer to their designations. Thus, the essence of this approach is to ensure that competence and professional practices in the family business are assured. The provision of this clause is to include competence in the hiring and professional practices of the Walton Family and act as a rearguard against incompetence and recklessness in governance.

As established, the next generation of the Walton Family should keep the legacy of the family patriarch, Sam Walton. This is by ensuring that the company retains a majority of

shareholding as this ensures that the family retains control of the business. Otherwise, there is no significant change to the ownership structure that can be liberal to the extent of loss of ownership and control that can be deemed useful. Notwithstanding, with regard to the wealth structures that ensue from the monumental amounts of proceeds from the business, the company can use the advice or competence of experts such as investors (Montemerlo & Ward, 2011). This ensures that the family permeates to other sectors of the economy through reinvestment of its proceeds or wealth. This solidifies the family wealth, and keeps it safe from the perils of reckless generational family mismanagement which has been the threat of America's biggest family names or from stagnation that may arise from excesses of frugality and risk averseness.

As a matter of continuity, mentorship in the family governance plays a crucial role in preparing the young persons with competency with regard to the Walton Family Business (Alderson, 2019). It is therefore a necessary skill to cultivate leadership from an early age of the Walton children and generational competencies that are useful in business succession. While there is no imposed approach to the family business, influence and introduction to the family business plays a key role in cultivating interest and competence in the Walton Family business. Among the criteria that is used for mentorship include getting internship at various levels of management in the Walmart company (Alderson, 2019). This presents the person with direct exercise of the professional competencies and decision-making skills that are useful in the management of the business. Besides, it offers a practical or hands on approach to the issue of exposure and training.

Family Governance Structure

The family governance should remain as it is, although there should be a change to include women in the most senior leadership position. At the moment, even though there are women in the board, they are merely members and do not carry the position of influence as

their male counterparts. This can be part of allowing competency and effectiveness to thrive rather than simply choosing a patriarchal system where the man are the overall leaders.

The criteria for leadership are that one must be qualified, both by academic level and also by experience (Montemerlo & Ward, 2011). These are facets that should remain. The constitution allows for the leaders to be chosen based on competency, even though some of the board seats are reserved for the family. In this case, rather than perhaps having a CEO who is a member of the family, they can revert to the system where a competent person can assume leadership – not necessarily a family member. This shall help to bolster the confidence of investors, and other stakeholders on the commitment of the company to modernization. On the other hand, the leadership should consider loyalty and allegiance to the interests of preserving the family legacy as an important quality. Otherwise, a leader who is not committed to preserving or honouring the existing family legacy may initiate changes that alter the balance of power in the organization.

The board composition of Walmart is varied, with a majority being non-family members (Montemerlo & Ward, 2011; Flynn, 2019). The criteria of choosing the board members is based on their professional influence and political connectivity in the corporate sphere. This is useful to the interests of the family business in expanding its reach, influence and command beyond the scope of what the family could achieve single handily if it was largely composed of family members. Of the 12 board members, only four of them belong to the Walton family (Flynn, 2019). This shows that the Walton Family is liberal in the board composition to allow a vast majority of competent individuals rather than confining itself to having family members taking control even when they lack the experience and connections that other persons would bring (Baron & Lachenauer, 2021). This is a practice that should be maintained, as it is key to the family businesses' global success. At the same time, the company has been keen on influencing loyalties, with the current chairman being George

Penner, a son-in-law to the Waltons, and the immediate former chairman being Robb Walton (Flynn, 2019). Given that Walmart is a global company, it should make use of an expanded board with professionals of the exceptional portfolio with regard to experience, connection, and educational background. This is a facet that is at the moment notable in the Walmart board composition as a majority of its board members are former or current presidents of multinational corporations and organizations, and thus have the appropriate skills worthy to be in the highest decision-making organ of the Walmart company (Flynn, 2019). Indeed, Walmart has benefited from this rich portfolio over the years.

The geographic location or position of the board members in the case of Walmart does not affect the performance of the company in any way. While the headquarters of the business is in Bentonville, Arkansas, which is the original place of growth and start of the company, the Walmart business has grown in scope to be a global mammoth (Flynn, 2019). Thus, it is not restricted in governance by the geographic location since the top leadership of the family business is not involved in the managerial facets of everyday arrangements or practice. As such, the governance approach differs from what would be expected of a small family business where the family members play a central role in the daily management. Else, the Walmart family business is run by other professionals and the involvement of the family is on the core issues such as budget allocations, creation of new branches, entry to new markets, revenue oversight and other key corporate leadership roles (Ramadani et al., 2020). These corporate roles can be, and are, run from different locations – with modern technologies helping to have any emergency meetings. That notwithstanding, most of the Walton Family stays in Arkansas in the vast Walton Family empire.

The positions in family structures should rotate through the suitable family leadership rather than merely through branches or through locations (Montemerlo & Ward, 2011). The significance of choosing the positions on the family structure should be mostly based on the

demonstrated competence and interests of each family member. In the event that a given person has demonstrated competence in the area of corporate leadership compared to the rest, it should be a matter of meritocracy to offer them the key leadership position. In addition, the family structure should seek to advance the best qualities of leadership while eliminating any possible areas of dissent, contempt, or division in the family. As such, the Walton Family has the discretion, through the Walton Family Foundation, to make changes and key decisions on the roles of various persons in the family on certain roles (Alderson, 2019). In the event that there are disagreements or there is a need to experience a change, a rotational system can be adopted based on the competence of the available heirs.

On matters of legal governance, and legal advice and issues, the most appropriate approach is to have a common legal base (Montemerlo & Ward, 2011). This is to avoid cases of division, or a divisive approach where some members drift from the family fold. Therefore, the family members should always consult the existing legal and corporate lawyers and advisors of the company on any issue. This is aimed at reducing the influence of outsiders which might result in the creation of conflict among the family members. Any advice given should be considered at an individual level should be considered informal and only applicable in one's private affairs, and should not extend to the family issues (Baron & Lachenauer, 2021). On the other hand, one can seek a legal representative to present them in the family business in the event that they are incapacitated or are solving some of the internal disputes. Given that the business is established in under the Walton family name, one cannot have their own lawyers act in a manner that is contra to the common will of the family. This helps to reduce cases of legal backlogs and succession politics drama (Montemerlo & Ward, 2011).

In creating fundamental changes and repositioning of ethos and principles of the family and the family business, the family has the power to decide when it is appropriate (Baron &

Lachenauer, 2021). However, the family should not at any time choose a new set of ethos and principles that violate the founder's vision. In addition, the events that occasion change of ethos or principles should be based on the need to adapt to new market changes and practices. For example, in the wake of rising corporate social responsibility concerns and ESG as markers of business sustainability, the Walmart company can adjust to values congruent to these needs. Besides, the family can, at their own discretion decide to amend some of the ethos or fundamental doctrines that are no longer applicable in modern times. At the same time, they are restricted in their approach or practice on amendment of some charters of the family constitution as this would violate the eternity clauses or wishes of the founders. For instance, on the ownership of the family business, it is certain that this was established to be a legacy project passed from one generation to the next, and therefore the heirs are as much obliged to a duty of care and preservation.

Conclusion and Recommendations

It is certain that the legacy of the Walton Family, and its success is based on the adoption of a family constitution that allows it to be effective in its management, while preserving its ownership. Ergo, to take in cue of Sam Walton who noted that Walmart can only succeed when it embraces more persons in its leadership outside of the family, the existing Walmart structure is a prime structure that should be preserved. This is by ensuring a robust and balanced board, and an enterprising management. On ensuring that the family interests are kept, there should be promotion of employees to the executive positions. At the same time, to ensure that the Walton Family does not lose its command on the company, it should maintain its majority shareholding in the company as this would preserve the legacy and control of the business (Baron & Lachenauer, 2021). So, for Rob, Jim, Alice, Christy and Lukas – Sam's heirs; and Ann and Nancy – James' heirs, the legacy of the Walton Family in business lies in their discretion to adapt to change while preserving the ownership of the

company (Askinasi & Hanbury, 2020). Similarly, on matters that require legal and professional expertise, the family should consult with practitioners – family lawyers, and corporate experts for advice. This shall be useful in the investment of family wealth, and in future endeavours that regard the Walmart business. So far, the family has made prudent decisions in its investments and expansion of the family business including the ownership of Arvest Bank.

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Appendix

2020 America's Richest Families Net Worth

About half of Walmart's stock is held by seven heirs of founders Sam Walton (d. 1992) and his brother James "Bud" (d. 1995). Heirs include **Sam's three living children--Rob, Jim and Alice--his daughter-in-law Christy and her son Lukas, plus Bud's two daughters, Ann and Nancy.**



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Figure 1: Search Results showing Walton Family as the richest family in the world according to Forbes Ranking