THE 2004 FORTUNE 500

The Most Underrated CEO Ever

The legendary Sam Walton got the credit, but it was David Glass who turned Wal-Mart into the world's largest company. In an exclusive interview, Glass talks about the early days, the boom years, and how China will keep the mega-merchant going strong.

FORTUNE
Sunday, March 21, 2004
By Hank Gilman

Though Sam Walton died more than a decade ago, his spirit and legacy still loom large, both at the company he founded and in the popular imagination. But lost in the Wal-Mart lore is one of the great CEO success stories of recent times: the 12-year run of former chief David Glass. Compared with his larger-than-life friend and mentor, Glass is low-key, without any outward evidence of ego or of the charisma of his predecessor. But what he has achieved blows away anything taught in Harvard case studies. During Glass's tenure—from February 1988 to January 2000—the retailer's sales rose more than tenfold, to $165 billion; earnings soared to $5.4 billion from $628 million, and its stock price, adjusted for splits, moved from $3.42 a share to $55. The number of stores more than tripled to almost 4,000, and the number of employees rose to 1.1 million from 183,000. Glass also spearheaded Wal-Mart's overseas expansion and launched the supercenter concept, the massive merchandise-grocery combos that fueled Wal-Mart's growth at a time Wall Street had doubts about the company's long-term prospects and even about Glass himself. For the 50th issue of the FORTUNE 500, deputy managing editor Hank Gilman met with Glass, 68, in his modest, ten-by-ten-foot office at the company's Bentonville, Ark., headquarters. Though he now owns the Kansas City Royals baseball team, Glass is still active at the 42-year-old chain, inspecting stores (he checked out a local Wal-Mart garden department during our visit), serving as chairman of the executive committee and an advisor to CEO Lee Scott and other members of the management team. In the wide-ranging interview, Glass discussed everything from his early days at Wal-Mart to becoming a target of critics and expansion into China. Edited excerpts:

A few years back FORTUNE's Carol Loomis described you as "one of the great unsung achievers of American business." Does that sum it up pretty well?
Whatever has happened here at Wal-Mart, which is what I'm sure people are basing those opinions on, has been done by all the people here. It's a joint effort. It's all of us together, and I just happened to be at the right place at the right time. That's it.

A lot of outsiders assume it must have been hard to follow Sam Walton. How did you manage your career in the shadow of a charismatic leader?
Most people have enough ego that they want to distinguish themselves from a charismatic leader, and that's what creates the problem. I've never had much ego, and I'm not worried about things like that. I'm more interested in the satisfaction that we are doing the right things and we're getting it done, and being a part of it. I like being part of a winning

team. I don't have to be the winning team.

Let's talk about the early days. [Glass was hired in 1976.] What was so special about Sam? The company?
This company was completely different from any I had been around. Mostly because of Sam and the charisma and the drive he had. He had this desire to improve that I've not seen. I can count on one hand the people I've known who got up every morning and really tried to improve something—either in their business or in their lives. Sam worked at it seven days a week. The company was more intense than any I'd been around. We had to be. We were 4%, 5% the size of Kmart. Sam was doing some things, even when I came, that were foreign to me. He shared total financial information with everyone in every store, in every community. Sam felt we were all partners, and he wanted to share everything. And he was absolutely right. He believed that everyone should be an entrepreneur. If you ran the toy department in a store in Harrison, Ark., you'd have all your financial information. So you're just like the toy entrepreneur of Harrison: You know what your sales are, what your margins are, what your inventory is. And then we had another philosophy where we had grass-roots meetings in every store. And there was an absolute belief that the best ideas ever at Wal-Mart came from the bottom up. Ideas would come up from those meetings and be implemented companywide. The door greeter, for example, was the idea of a hourly associate in Louisiana.

Lost in the lore of Sam Walton is that this company was doing things operationally that gave it an enormous advantage then and now. For example, you were among the first to buy directly from manufacturers and pass on the savings. How did that evolve?
Discount chains like Kmart and Korvette bought from wholesalers, and that was a big benefit [to the merchant]. The wholesaler came in, wrote the order for you, and when the merchandise arrived, he'd come in and put it on the shelves for you, and that was great. We never considered that here because there were no wholesalers available for us. So from the beginning we had to be self-sufficient. I wish that had been a conscious decision because it would have been brilliant.

Speaking of those competitors—did you see the flaws that you would later exploit? I know you shared information with other small retailers.
We had a research group in which six of the regional discount chains would come together. One of the first meetings I attended was in October 1976 in Arkansas. You had all the senior officers, and they'd go out to your stores and critique them. There were a few of us who spent more time in our competitors' stores than they did—looking at what they were doing, copying, and trying to improve on everything we copied. Kmart was better than any of us. But it did so well that one of its executives said in the latter part of the '70s that the only way they were vulnerable was if they changed from what they were doing. So they just decreed that no one could change anything. They sat for about five years running stores, but did not change a thing. All of us copied everything they were doing and improved upon it. [Kmart] woke up five years down the road, looked around, and saw there were retailers better than they were. They just never caught up.

If you could name a few decisions that you and Sam made over the years that were crucial to the company's growth, what would they be?
The way we involve the people, because that creates the culture. If

you're talking about the strategy and how you operate the stores—the early commitment to technology has to be a major driver in the success of this business. With growth that doubles your size every other year, you can't control it without technology. Distribution and logistics had to be another area, because we have the most efficient distribution logistics system. And we do things others can't do. And, then, perhaps the supercenter—it's probably the most powerful retail vehicle on the street today.

The story is that Sam had to be persuaded to invest heavily in technology. Did you do the persuading?
I did. Sam wasn't sure about technology. He used to take computer reports and copy them all by hand onto his spreadsheets. Retail is about zillions of transactions. And because we were in small towns, we had to know a lot more about what was selling. And you could only call each store so many times per day. But then came satellite technology in 1986. It really turned things loose for us because you could talk to all your stores at the same time, as many times as you wanted. So we tied everything together—stores and vendors—with one big network.

One of the greatest management tools ever has to be Wal-Mart's Saturday-morning meeting, where companywide decisions can be executed in an instant. How does it work?
The idea of it is very simple. Nothing very constructive happens in the office. Everybody else had gone to regional offices—Sears, Kmart, everybody—but we decided to send everybody from Bentonville out to the stores Monday through Thursday and bring them back Thursday night. On Friday morning we'd have our merchandise meetings. But on Saturday morning we'd have the sales for the week. And we'd have all the other information from people who'd been out in the field. They're telling us what the competitors are doing, and we get reports from people in the regions who had been traveling through the week. So we decide then what corrective action we want to take. And before noon on Saturday the regional manager was required to be hooked up by phone with all his district managers, giving them direction as to what we were going to do or change. By noon on Saturday we had all our corrections in place. Our competitors for the most part got their sales results on Monday for the week prior. Now, they're ten days behind, and we've already made the corrections.

The supercenter [there are 1,504 now] provided a massive boost in growth. I remember an early experiment that didn't quite go the way you wanted.
I've always been a proponent of one-stop shopping. And I had done this before when I was with a grocery chain [before Wal-Mart]. It made a lot of profit, but we didn't roll it out because it was a little ahead of its time. But by the mid-1980s I knew the time was right. I went to the opening in Garland, Texas, and you must have had 50,000 people show up that day. But [the original stores] were overdesigned and large, and they weren't efficient. Too much of an investment up front. So we scaled them back.

Sam's Club, which you oversaw, was another spinoff of the discount store. What was behind that?
When we hit the '80s, we were well over a billion dollars and rolling. The investment community, which influences all of us, whether we acknowledge it or not, got to saying, 'Everybody has to have an alternate strategy. What are you going to do when you run out of locations for discount stores?' We'd gotten to know Sol Price [of Price

Club, now called Costco], so I had the responsibility of creating Sam's. It complemented the Wal-Mart store: We can put them side by side; they get different customers. Sam's was also more of a metro strategy than what we were doing in Wal-Mart.

There was a time, around 1995-96, when some stock analysts started to doubt the company. The supercenters were low-margin, they said. Your 100th quarter in fiscal 1995 was, in fact, your first down-quarter ever. What happened?
We just had too much on our plate at the time. But I became convinced that if we were going to grow this thing in the future, we had to have an international operation. So we bought Woolworth in Canada. And we had a joint venture going in Mexico. We also bought Pace [wholesale clubs] from Kmart, and we were doing several other things. We were managing all of it, but when you were fighting the battle on multiple fronts, you lost some of your focus. But we turned it around quickly. We got through that in about six months.

Did Sam Walton's passing in 1992 affect the company and the way you ran it?
I had an advantage. Sam and I had been together long enough and thought enough alike that people were very accustomed to both of us. They missed him, but they weren't uncomfortable with me. And because he and I had pretty much agreed on the basic philosophy of the company and where we were headed, I didn't need to make big changes. I think maybe one of the best things we did is that rather than creating something different from Sam, we just took his basic philosophy and continued to use it. And today you can't go to meetings at Wal-Mart where you don't hear someone talking about what Sam felt about this or how his thoughts were about that or what he did.

One thing that changed after you became CEO—and after Sam passed on—was the public's perception of the company. Wal-Mart went from being the plucky underdog to becoming the neighborhood bully. The Dateline NBC piece in late 1992 was the turning point, when they accused Wal-Mart of, among other things, selling foreign goods under the made in the u.s.a. banner.
Until Sam died, we were kind of everybody's hero. We were pretty naive. We ignored PR, and we ignored government relations, and we figured that if we ran our business, all that would take care of itself. And then the Dateline thing came along, and that really changed things. We got blindsided. Jane Pauley had written a letter to Sam before he died saying, "Hey, look, the country's just a big mess, and we need a feel-good story of some kind. Would you consider doing this?" And Sam didn't much want to do it, and he wasn't in any shape to do it. [After Walton died] our PR guy convinced me that I should go ahead and do it—that Sam was gone, and it would be good for the associates. So I did the interview, and they asked me questions about things I knew nothing about. The interview itself wasn't nearly as bad as the way they edited it. I was pretty irritated for a little bit, but it didn't make any difference at all to the customers. In fact, business went up.

How does the company handle those questions now?
I think we've begun to realize now that it comes with the territory. If you look at the whole thing, some of it we bring on ourselves. For example, we just had a wage-and-hour lawsuit [in Oregon]. The way it wound up, it was just a fraction of what they [alleged]. But you could find that somebody wasn't given a lunch hour, or something like that. If you have a sex-discrimination suit, you could probably—in 3,000 stores—find a

woman who was passed over for promotion who might have had a case to be promoted. There's no way you're ever going to get it all right all the time. If your intentions are to do it all right, all the time, then you can live with it. But then you get to the point where you start having to defend yourself and push back on some of the stuff—the things that are absolutely not true. If you just let [the media] put them out there, you run the risk of people accepting it as truth.

Part of your legacy is your successor Lee Scott and the aggressive expansion overseas. Let's talk about Lee first. What did you see in him back in 1979?
The first thing I saw in him was "capacity"—how much you can grow in the job. That was one of my biggest challenges because you double in size every year, and you outgrow people constantly. You double the size of the job, and they can't do it. They're good people, so you find another place to put them and put someone else in their slot. Lee had a lot of capacity. He was also a generalist, and in those days all of us [had to be] generalists. Did you hear the story about how I met Lee? He came in demanding that we pay a $9,000 [freight] bill, which I told him I wouldn't pay. We didn't owe that doggone bill. But I was impressed that he handled himself very well, was sincere, and was committed to doing the right job for his company. So I asked him before he left the office if he'd consider working for Wal-Mart. He told me, "Why would I work for a company that can't pay a $9,000 bill?" I didn't have a good answer.

And I'm told he still feels he's owed the money. But he did eventually join the company. When did you know he had the stuff to run Wal-Mart?
In the mid-1990s I put him in charge of merchandising. We always had this cross-pollination thing, and I took him out of transportation. He did an outstanding job, and I knew then that he would make an exceptional CEO. Lee also had the benefit of being here in the early days. He saw it go together a brick at a time. You don't understand how large that is.

By the time Lee took the helm, you had already expanded Wal-Mart internationally. You have said that the big challenge for American business is doing business globally. How so?
Other countries are much more sophisticated in doing business worldwide than Americans are. We're pretty spoiled and expect everyone to speak our language. We don't travel as easily as other people do. So if it weren't for the fact that we have all this money to invest, we would be at a disadvantage. And I think Americans are naive about how to go about it.

Even Wal-Mart has had problems doing business in places like Germany. Why?
Well, the laws make it difficult—there are laws regulating store hours for example. But for the most part, all our problems in Germany were self-inflicted. We bought one company, which was successful for us but too small. So we bought a company that wasn't a good company, forced a combination of the two, and then moved the home office. We just made one mistake after another and are recovering from it now.

China seems to be a different story. Why is it such a great market for you?
I was just there, and in the last ten years we've built a great organization. They are as excited about their business as anywhere I've ever been in Wal-Mart. They've embraced Western culture as they've gotten exposed to it. But here you have a country of 1.3 billion people

and there's not a lot of organized competition. There are a lot more people now in China who have money. Their workforce is extremely bright. Over time, if China stays the course, it will become a major world power. And in that case, we're in on the ground floor. We have 35 stores now, and I think the government is going to let us ramp up.

What's China's advantage over, say, Europe?
If you look at Europe, it's difficult to green-field or grow a company of much size. But you can build an enormous-sized company in China if you make some fairly aggressive assumptions about what's going to happen to it. It's the one place in the world where you could replicate Wal-Mart's success in the U.S.

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