

*Executive Briefing at
The Home Depot*

Proceedings of the 2005 Fall Meeting

By
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*Human Resources Policy Institute
2005 Fall Meeting
October 6 & 7, 2005*



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Human Resources Policy Institute 2005 Fall Meeting

Wednesday, October 5, 2005

7:00 p.m. Welcome Reception in The Gallery at The Ritz-Carlton, Buckhead

Thursday, October 6, 2005

7:00 a.m. Depart Ritz-Carlton, Buckhead for The Home Depot

7:25 a.m. Arrive at The Home Depot. Check-in and badge pick-up.

7:30 a.m. Breakfast Buffet Begins

8:30 a.m. **Welcome & Introductions**
Professor Fred K. Foulkes
Director, Human Resources Policy Institute

Mr. Dennis Donovan
Executive Vice President, Human Resources
The Home Depot

8:45 a.m. **Building a Winning Future on a Foundation of Change**
Mr. Dennis Donovan
Executive Vice President, Human Resources
The Home Depot

10:00 a.m. **Open Forum / Question & Answer**

10:30 a.m. Coffee Break

10:45 a.m. **Breakout Session Rotation #1**

Team 1: *Hire the Best (A)*
Team 2: *HR Processes, Metrics & Reporting (B)*
Team 3: *Employer of Choice (C)*
Team 4: *Leadership Development (D)*

11:45 a.m. **Group Photo**

12:15 p.m. Lunch



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- 1:00 p.m. **Breakout Session Rotation #2**
- Team 1: *Leadership Development (D)*
 Team 2: *Hire the Best (A)*
 Team 3: *HR Processes, Metrics & Reporting (B)*
 Team 4: *Employer of Choice (C)*
- 2:00 p.m. Afternoon Break
- 2:15 p.m. **Breakout Session Rotation #3**
- Team 1: *Employer of Choice (C)*
 Team 2: *Leadership Development (D)*
 Team 3: *Hire the Best (A)*
 Team 4: *HR Processes, Metrics & Reporting (B)*
- 3:15 p.m. Afternoon Break
- 3:30 p.m. **Breakout Session Rotation #4**
- Team 1: *HR Processes, Metrics & Reporting (B)*
 Team 2: *Employer of Choice (C)*
 Team 3: *Leadership Development (D)*
 Team 4: *Hire the Best (A)*
- 4:30 p.m. **Open Forum**
 Mr. Dennis Donovan
 Executive Vice President, Human Resources
 The Home Depot
- 5:00 p.m. **Closing Thoughts**
 Professor Fred K. Foulkes and Mr. Dennis Donovan
- 5:30 p.m. Adjourn and Depart for Donovan Residence
- 6:00 p.m. **Reception and Dinner Hosted by Dennis Donovan**
- 8:30 p.m. Depart Donovan Residence for The Ritz-Carlton, Buckhead



Friday, October 7, 2005

The Ritz-Carlton, Buckhead

7:15 a.m. *Breakfast Buffet Begins*

8:00 a.m. **Panel: Lessons Learned at The Home Depot**

Dr. Bruce Bonnevier, Ph.D.
Vice President, Global Human Resources
Hillenbrand Industries

Ms. Cheryl Fells Davis
Vice President, People Development
Sun Chemical Corporation

Mr. V. Michael Ferdinandi, Ed.D.
Senior Vice President, Human Resources & Corporate Communications
CVS Corporation

Moderator: Professor Fred K. Foulkes

9:30 a.m. *Coffee Break*

10:00 a.m. **Member Roundtable Discussion**
Professor Fred K. Foulkes

11:45 a.m. **Wrap Up**
Professor Fred K. Foulkes

12:00 p.m. *Boxed Lunch Buffet Begins*

1:00 p.m. Adjourn



Introduction

The Home Depot Executive Briefing

Since taking the reins of The Home Depot in 2000/01, Bob Nardelli, Chief Executive Officer, and Dennis Donovan, Executive Vice President of Human Resources, have leveraged their business partnership—which began when they worked together at General Electric—to facilitate necessary and sweeping change, energize the workforce around their change initiatives, grow sales by 60%, and posture the company for growth within the home improvement market.

Throughout the Human Resources Policy Institute’s October 6, 2005 site visit to The Home Depot’s Store Support Center in Atlanta, Georgia, The Home Depot human resources and operating managers led Institute members through the history of the company’s historic change period between 2001 and the present, as well as four prongs of the human resources architecture: “Hiring the Best”; “HR Processes, Metrics, and Reporting”; “Employer of Choice”; and “Leadership Development.”

The Home Depot’s Executive Briefing meeting was an impressive journey into understanding a company that can be considered, “the gold standard of data-driven human resources,” according to Fred K. Foulkes, Professor of Organizational Behavior at the Boston University School of Management and Director of the Human Resources Policy Institute. During the fall 2005 meeting, HRPI members and guests gained in-depth insight into the home improvement giant whose sales reached \$73B in FY2004, and is postured to climb to \$100B in the coming years, driven by an executive team that recognizes the value of employees as the source of growth and success.

Building a Winning Future on a Foundation of Change

It became clear on the morning of October 6 that The Home Depot employees do things differently. After introductions and welcoming by Fred Foulkes and Dennis Donovan, 30 associates from The Home Depot wearing orange aprons led HRPI members and guests in shouting The Home Depot cheer. While The Home Depot's historical success rests on doing business uniquely, in 2001, employees were introduced to a whole new paradigm for conducting business—things would be done quite differently from the way the business was run in the past. In 2001, Dennis Donovan was hired by his friend and former supervisor, Bob Nardelli, to be Bob's "co-change agent" at The Home Depot. Why did The Home Depot need to change?

Since its founding in 1978, The Home Depot had experienced 22 years of tremendous success. Founded as three "do-it-yourself" warehouses, by 2001 The Home Depot had grown to become the youngest retailer in the *Fortune 500*. By 2000, The Home Depot operated more than 1,100 stores and employed more than 200,000 people.

Despite this growth, the business model had remained the same. The company was decentralized, allowing each store to operate as a relatively autonomous unit. Simultaneously, the growth to \$46B in annual sales had strained the company's infrastructure and impacted its capability.

While acknowledging the undeniable success of the company in the past, the company's board of directors recognized the need to "move the needles on the company's dashboard and change the way things were done." More recently, new stores were struggling, and within various functional areas—e.g., supply chain management, human resources, and information technology—inefficiencies were evident and mounting.

From an employee perspective, however, past successes meant for future success. Growth in the company's stock price had generated substantial wealth for The Home Depot employees. Furthermore, employees were feeling the impact of the founders' retirement and did not immediately embrace the new leadership team or the need for change.

Nardelli and Donovan, along with the leadership team, did not falter in their vision and plan to get the company back on track. At the core of their efforts was a change architecture founded on systemic principles surrounding the development of a competitive advantage. According to Donovan, companies must have a process for change—one that "connects the dots" among each contributing component. "Competitive advantage is the end game ... and change is the common denominator," he said. "Change is the engine that drives competitive advantage ... so if you are going to be effective, you need to hit on all cylinders. A well-defined change process allows you to do this."

In order to build a competitive advantage, according to Donovan, The Home Depot must not only have leadership in the marketplace, but also the within the workplace and the community, which includes the media, public and government. To be a leader, the company carefully considers



and executes strategic, operating, and resources imperatives; collectively, they are referred to by the acronym, **SOAR**.

The HR value proposition at The Home Depot is that “our ability to attract, motivate, and retain human talent gives us our competitive advantage.” Dennis Donovan and the HR team have successfully leveraged the HR value proposition, and, in doing so, have driven and implemented the change architecture to position The Home Depot to garner a significant share of the \$970B home improvement market it is targeting. Change management underpins the strategy. Donovan asserts, “The best definition I have ever heard of a healthy organization is one in which the rate of internal change exceeds the rate of external change.”

Hire the Best

As the 8th largest company listed in the S&P 500 index, The Home Depot employs approximately 345,000 associates. To attract associates whose talents add to the company's "people advantage," The Home Depot has developed a unique hiring strategy that leverages hiring partnerships and technology, and rigorously builds and adheres to job assessments.

The Home Depot has forged strategic alliances with a number of organizations that facilitate mass hiring and account for demographic trends relevant to the workforce and the company's customer base. Partnerships have been established with the AARP; the U.S. Departments of Defense, Labor, and Veteran Affairs; Hispanic organizations, and the Art Institute, among others.

Not only do these partnerships aid accelerated hiring of diverse and talented associates, they also allow The Home Depot to attract employees who are in strategically targeted demographic groups. Recognizing that older individuals demonstrate a strong work ethic, leadership, and maturity, have lower attrition levels than their younger counterparts, and possess excellent skills and project knowledge, The Home Depot has entered into a partnership with the AARP, the country's largest organization for the 50+ population.

Another demographic trend that is of strategic importance at The Home Depot is the significant growth in the Hispanic market, which is three times that of national population growth. With the goal of having an associate base that reflects its customer base, The Home Depot has formed hiring partnerships with four leading Hispanic organizations: ASPIRA Association, the Hispanic Association of Colleges and Universities (HACU), National Council of La Raza (NCLR), and SER—Jobs for Progress National. The company works with these organizations to recruit part- and full-time employees across the country.

"Operation Career Front" is the result of The Home Depot's alliance with the U.S. Departments of Defense, Labor, and Veterans Affairs. Having found that former military personnel demonstrated a strong work ethic and possessed relevant leadership competencies, the company now hires a high percentage of former junior military officers for its leadership development programs.

Each of these partnerships aids mass hiring events, during which The Home Depot leverages pooled resources, standardized tools, and an efficient process to meet with and make offers to a select group from a large volume of applicants.

The Home Depot has developed Web EA (Electronic Application) to expedite the hiring process, minimize paperwork, ensure the collection of all relevant job candidate information, and offer potential applicants a user-friendly interface. Given that, on average, each job candidate applies to seven stores, having a standardized template eases the application process for the HR team and for applicants.



Another critical facet of The Home Depot’s “Hire the Best” strategy is the company’s commitment to developing and utilizing job assessments in the hiring process. The HR team rigorously uses multiple methods—interviews, observations, and questionnaires—to analyze jobs and subsequently design competency-based assessments. The Home Depot has benchmarked leading service providers such as American Express, Disney, and The Ritz-Carlton to ensure that the right competencies are being measured and that their competency-based assessments are cutting-edge.

In addition to a rigorous design strategy, the I-O psychologists on the HR team also conduct extensive research to ensure the statistical validity of their selection tools and to evaluate the impact of selection on business metrics. Through various studies, with more than 10,000 cases, the HR team has been able to demonstrate strong positive relationships between their subscales and average ticket and shrink, which are essential performance metrics for Store Managers and other business leaders. More importantly, the subscales are predictive of future job performance. With technology as an enabler, the next generation of Home Depot’s selection tools will include the web-enabling of specialty assessments used to test the experience and technical skills of applicants of critical store departments (i.e., electrical, plumbing, millwork, etc.).

Taken together, The Home Depot’s hiring alliances, utilization of technology, and job assessments allow the company to hire accurately and expeditiously. One HRPI member labeled one of The Home Depot’s strengths as its ability to be “big and fast simultaneously.” Not only does The Home Depot hire quickly and en masse, it also attracts some of the “best and brightest” talent in the marketplace.

HR Processes, Metrics & Reporting

As discussed throughout the day, since Bob Nardelli and Dennis Donovan arrived at The Home Depot, the HR function has been a critical force shaping the company. Since 2001, in order to maximize HR's "Value Added" to the company's performance, the HR team has vigorously implemented process mapping and process improvement methodologies as an organization-wide transformation and developed HR metrics to measure how well customer, financial, process, and people goals are being met.

One of the core elements of the HR strategy, and one the first processes that Donovan launched, was a systematic method for evaluating the HR organization. The HR team toll-gated each of the critical HR processes for the purpose of identifying strengths and opportunities in strategy and execution. As a result of this in-depth analysis, the HR team became aligned around a clearly defined set of metrics and created a series of cross-functional initiatives to close any gaps that were identified. Today, that metrics dashboard is the primary measure of HR effectiveness.

The HR team at The Home Depot also utilizes Six Sigma as its main process improvement tool. With its systematic approach and emphasis on statistics and problem solving techniques, Six Sigma offers HR a sophisticated methodology that can guide the way employees think about The Home Depot's business. The use of Six Sigma necessitates that associates start to think sequentially about multiple process methodologies. The DMAIC (Define, Measure, Analyze, Improve, and Control) methodology requires that one does not move from one step in the process without completing the prior steps in their proper order.

An example of a successful HR process improvement came out of a Six Sigma Project that focused on improving selection by investigating the cost of vendor-managed, manual background checks. In this particular project, the project team utilized the Six Sigma methodology and determined that not verifying candidate information at the time of input (e.g. social security numbers) caused requests for background checks to be returned or not processed by the vendor company. This caused lengthened time-to-fill periods and higher vendor costs. By eliminating these defects through process improvement, HR significantly reduced vendor fees. In addition to Staffing, HR has realized savings through Six Sigma Projects in areas that include Learning, Compensation, Employee Practices and HR Information Systems.

Six Sigma is not only influencing the way The Home Depot does business; it is also transforming the culture toward greater discipline, continuous innovation, and methodological thinking. In contrast to four years ago, when Six Sigma was perceived as "something from Mars," as one speaker explained, it is now requested frequently from managers who seek to enhance processes and performance outcomes.

Another prong of HR's business philosophy relates to the importance of metrics in driving business results and providing tools to support this belief. As presented, The Home Depot has developed a cache of dashboard reports to monitor progress towards Key Performance Indicators. The Home Depot also created a performance management process that aligned the organization around achievement. The company utilizes three basic documents to achieve this: 4-Block metrics



(financial, operational, customer and people); performance screens; and performance and development summaries that drive rating distribution and reward differentiation throughout the entire enterprise.

Four years ago, Nardelli and Donovan arrived to a company largely bereft of HR metrics, common pay structure, HRIS infrastructure, and incentive standards. Today, the HR function is exemplary of cutting-edge HR practices.

Employer of Choice Survey and Employee Engagement

Why focus on being the Employer of Choice? What key processes support that focus? How are they implemented? What is the store perspective? How is the survey used? What are the key success factors? These were just a few of the questions posed, and answered, by The Home Depot team in this segment.

Why focus on being an employer of choice? The Service-Profit Chain (*Harvard Business Review*, March 1994) is one reason and employee engagement is another. The Service-Profit Chain demonstrates that customer buying behavior is significantly influenced by the service behavior of sales associates and that service behavior is significantly influenced by associate engagement. Simply put—high associate engagement drives high customer engagement which drives positive business results. The Home Depot is committed to optimizing all links in this very important chain of relationships.

In the journey to be an Employer of Choice (EOC), The Home Depot administers a bi-annual survey to its associates. The results provide a clear reading on associate engagement. The Home Depot has empirically demonstrated that fourteen key elements drive associate engagement and are key to being an Employer of Choice. These 14 elements are measured by 84 questions. Some would assert that 84 questions is far too many and no one will take the time to answer the survey.... Not at The Home Depot, where participation rates exceed 80% at each administration.

After surveys have been collected from each store and results are aggregated and analyzed, feedback is cascaded through the organization, starting with the CEO and his senior team. From there it flows to the functions, regions, districts and each individual store. All feedback is provided as a partnership between HR and Operations. The Home Depot avoids the “Achilles heel” of effective organizational surveys by measuring every step in the process, providing real time feedback, driving action implementation and reporting accomplishments regularly. In fact, EOC survey scores are part of the talent management and leadership assessment processes, reviewed by senior leadership every year. Good leaders focus on optimizing their EOC scores. These, the company says, are key elements of why the program is so successful and why “EOC” is part of the associate lexicon. Now that momentum has been built, employees anticipate completing the survey, receiving immediate feedback and taking action.

Research by multiple consulting firms (e.g., Towers Perrin, Gallup, etc.) and by The Home Depot itself has shown that high engagement drives revenue and lowers costs – consistent with the promise of the Service-Profit Chain. Highly engaged customers spend more money than lesser engaged customers during store visits. The HR team considers the EOC to be a critical factor in ensuring an engaged workforce. Given that The Home Depot associates interact with customers about 1 billion times a year, the HR team considers building a highly engaged workforce to be a linchpin of the company’s success.



Leadership Development

Dennis Donovan’s statement that “if I had a dollar, I’d spend 99 cents on leadership” epitomizes The Home Depot’s commitment to leadership development. Just consider the following: five multi-year leadership pipeline programs; two multi-week executive development programs; a 418-hour retail leadership development program; five to seven high potential leaders forums each year; a comprehensive, annual talent management and succession planning process; annual 360-degree assessments of all leaders; more than 100 internal leadership coaches and a multitude of assessments at key junctures in career paths to ensure feedback and job success.

Leadership Pipeline Programs: These five programs serve to develop a pipeline of leaders who can fill functional positions, including accounting, finance, human resources, marketing, and merchandising. Candidates for each of the four programs are evaluated rigorously via assessment centers which include role plays, business cases, critical thinking tests, leaderless group exercises, and simulation to ensure candidates possess the skills and competencies necessary to thrive in the early-career programs.

- The Home Depot targets early career candidates through its **Future Leaders Program (FLP)**. Each year, college students are chosen for summer paid internships and given structured learning opportunities that focus on challenges and initiatives key to the company’s strategy. The *Wall Street Journal* recognized the FLP as one of the leading internship programs in the nation.
- The **Business Leaders Program (BLP)** targets high-performing student leaders who are approaching their final academic year in top-school Master’s degree programs. The BLP involves two years of rotational assignments during which participants are oriented to and learn about various business functions and store management.
- The **Internal Audit Program (IALP)** seeks out candidates who typically have public accounting backgrounds and master’s of business administration degrees to develop their financial acumen, process, and operational leadership.
- **Merchandising Leadership Program (MLP)** participants are groomed for The Home Depot’s senior merchant team. The company offers 12- and 24-month programs, depending upon the skills candidates need to develop and hone. The programs involve cross-functional and store rotations
- **Store Leadership Program (SLP)** participants are experienced professionals with proven leadership capabilities that have a commitment to taking leadership positions in one of the more than 2,000 stores. Their educations and experiences are diverse, from the armed forces to retailing. In fact, approximately 50 percent are junior military officers.

Executive Development Programs:

The Executive Leadership (ELP) and Accelerated Leadership Programs (ALP) are designed to groom officer- and director-level employees for the executive pipeline.

ELP is an in-residence program hosted by Emory University. Annually, up to 30 officers (Vice President or above) who have demonstrated superior performance and potential are invited by the CEO to participate. The program focuses on strategic thinking, operational excellence and leadership. Its faculty is a “who’s who” of thought leaders from the nation’s top business schools in combination with the best leaders at The Home Depot. Participants examine the best practices of other outstanding companies. Past benchmark companies have included Dell, Disney, General Electric, Staples, Starbucks and Yum! Brands. Further, CEOs from the most successful *Fortune 500* are invited as guest speakers to discuss their organizations’ challenges, best practices, and opportunities. Each session includes one-on-one question and answer sessions. Such prominent CEOs as Meg Whitman, Jim McNerney, Michael Dell, David Novak, and Larry Bossidy have been featured.

ALP is an in-residence program also hosted by Emory University. Two classes are conducted annually each with a target audience of 30 high potential, high performing “officer-level candidates” who are chosen through a rigorous nomination and approval process overseen by the CEO. This program focuses on ‘leaders teaching leaders’ and is an example of co-teaching between internal HD faculty and external university faculty. The focus is again on strategy, execution and leadership. A key element of this program is the action learning projects assigned to teams that focus on key operational challenges facing the company and often result in programs/initiatives that are implemented enterprise wide.

Retail Leadership Development Program (RLDP): New in 2005 is the Retail Leadership Development Program (RLDP). This is a comprehensive leadership development curriculum that ensures that The Home Depot retail leaders get “the right learning, for the right person at the right time.” Each leadership position has a customized course path that includes a blend of self-directed learning, instructor-led learning, e-learning and action projects. This program is required for all associates in leadership positions in The Home Depot stores.

High potential leadership forums: Each year approximately 2,000 high performing, high potential store leaders are invited to participate in a multi-day leadership development forum. The forums focus on execution and leadership, are highly interactive and employ an array of multi-media techniques. In addition, these large-scale **learning forums (up to 300 people)** include case studies, simulations, role plays and group discussions. For example, during a recent district management meeting, coaches taught sales skills related to four products; since the forum, sales for the targeted products have doubled, which subsequently drove sales in these areas.

Human Resources Review: The Home Depot’s talent review and succession planning process is referred to as the Human Resources Review. This annual process provides a human resources “MRI” of the organization where the CEO and EVP of HR look at organizational design, staffing, learning, performance management, career development and communications as well as conduct a detailed assessment of the talent pipeline in the field and Store Support Center (corporate headquarters). Through a series of meetings that start at the district-level and build on



one another successively to the division and functional levels, the Senior Leaders are able to review critical people metrics, including 360s, attrition, performance and diversity, as well as bench strength and key development plans for high-potentials. One of the unique elements of the HR Review process beyond the talent discussions and succession planning, is the “town hall” format that gives the CEO an opportunity to “kick the tire” with emerging talent from each of the company’s functions and divisions. The CEO and EVP of HR preside over this very comprehensive process, and their involvement is indicative of their commitment to leadership.

Annual 360° assessments: Each year 5,000-plus Home Depot leaders are required to participate in the annual multi-source feedback process to assess their leadership skills relative to the company’s leadership competency model. From the Store Managers to the CEO, leaders invite their direct reports, peers, bosses and business partners to complete their 360° assessment using an online survey tool. The results of the 360° are interpreted by and discussed with an internal coach to facilitate development planning, and leaders are strongly encouraged to share results with their teams. While the 360° is primarily a development tool for leaders, the results are used as key data points in performance appraisals, succession planning, and promotion decisions.

More than 100 internal leadership coaches: To support these key leadership development processes, an internal cadre of more than 100 leaders have been trained and certified as leadership coaches. Coaches are available to leaders for one-on-one advice, 360 review, new leader assimilation, mentoring, etc.

A multitude of assessments at key junctures in career paths: The Home Depot uses a multitude of assessment processes to ensure that leaders are getting feedback on their effectiveness, their strengths and their development opportunities. These processes include assessment centers, executive assessments, 360s, performance evaluation, coaching and mentoring.

It is unquestionable that leadership is critical to The Home Depot’s success. The first five years have gone extremely well, and everyone is looking to see what happens during the next five years.

Panel: Lessons Learned at The Home Depot

Dr. Bruce Bonnevier, Ph.D., Vice President, Global Human Resources, Hillenbrand Industries

Ms. Cheryl Fells Davis, Vice President, People Development, Sun Chemical Corporation

Mr. V. Michael Ferdinandi, Ed.D., Senior Vice President, Human Resources & Corporate Communications, CVS Corporation

On Friday morning, HRPI members enthusiastically discussed lessons learned from The Home Depot Executive Briefing. What were some of the key takeaways for HRPI members?

The Employer of Choice Survey

Michael Ferdinandi facilitated a discussion about the Employer of Choice survey's applicability to other HRPI organizations as well as challenges that might be faced in its implementation outside The Home Depot. HRPI members agreed that:

- The EOC survey has been administered efficiently;
- Results are offered in a timely fashion to stores; and
- The company's attentiveness to action plans and teams is laudable in that it ensures interconnectivity between survey feedback and implementation in Home Depot stores.

One member asked whether the Employer of Choice survey's intent is to declare the company as the "employer of choice," or to assess the extent to which the company is meeting employee needs. Is it declarative or aspirational? A few other members noted that while the EOC survey implementation is viable for The Home Depot, their respective organizations' cost structure would not allow a similar initiative.

In general, HRPI members applauded the EOC as indicative of The Home Depot's commitment to openness and continuous change.

It's a Journey, Not a Destination

The Home Depot seems keenly aware that "it's a journey, not a destination," Ferdinandi asserted. HRPI members wholeheartedly agreed that Bob Nardelli and Dennis Donovan's relationship has been the linchpin in facilitating effective change at The Home Depot. One member suggested that HRPI members' respective CEOs should be invited to subsequent meetings as a possible point of inflection for recognizing the possibilities for closer partnership between the CEO and the head of HR.

The HR Team's Commitment to "Improve Everything We Touch"

Bruce Bonnevier described four points of learning from Thursday's briefing. First, The Home Depot has been highly effective at scaling solutions to the size of its problems. The strategic alliances with the Department of Defense and the AARP, for example, have allowed for expedient, mass hiring to meet large-scale company headcount needs. They "think big," Bonnevier said. Second, the company has managed to "be big and fast simultaneously." Third, the company has built an impressive cadre of HR leaders to ensure that its HR value proposition is enacted. Finally, Bonnevier expressed appreciation for the company's ability to recognize the importance of leadership at the store level and gain acceptance and credibility among store and district managers



for HR’s strategic change initiatives. As an example of support for HR as a critical force within The Home Depot, a district manager had stated during the site visit that he encourages HR to build tools because the function allows him to better conduct his responsibilities.

Another HRPI member noted the HR team’s wisdom in building hiring partnerships based on The Home Depot’s need to have a workforce that matches its customer base. Collectively, HRPI members and guests agreed that The Home Depot’s executive HR team is a dominant function in the company and has demonstrated an ability to create and execute a bold vision.

Speed, Simplicity, Execution, and Decision Science at The Home Depot

Cheryl Fells Davis summarized lessons learned from her perspective in three words: “Speed. Execution. Simplicity.” The Home Depot’s methodology for change, to her mind, is simple and elegant. Davis further noted the importance of Bob and Dennis’ partnership and their view of change on The Home Depot’s strategic trajectory and HR’s role as the key change agent.

Davis asserted that Bob and Dennis’ prior experience with Six Sigma and metrics initiatives at General Electric has enabled the initiatives to add value to The Home Depot. Furthermore, the executives’ GE background has facilitated the shift from a company that was driven largely by intuitive, “gut” decision-making to one based on data-driven decision-making. The Home Depot uses data to determine its needs and it has successfully enabled strong networks among members of a diverse employee base.

An HRPI member explained his belief that The Home Depot has managed the balance between honoring its past and boldly and quickly moving toward a new future without alienating the people who have contributed to the company’s historical success. Another member described The Home Depot’s transformation toward data-driven and metric decision-making as the essence of “decision science.” The use of data forces innovation and allows the executive team to recognize the need for change, thus enabling the internal rate of change to exceed that of external change.

The Home Depot’s Future

Although HRPI members and guests agreed that the company has been a paragon of HR success in numerous ways, they offered questions about the future of HR practices and the company’s strategic posturing. Several members pondered whether the changes that have occurred at The Home Depot would be sustained in the event that Bob Nardelli was to leave the company. One member postulated that, in contrast to General Electric, The Home Depot has not had ample time to institutionalize change. Another HRPI member advocated that the company’s hiring and leadership development practices would continue in Bob or Dennis’ absence.

One HRPI member asked whether The Home Depot executive team may currently underestimate the impact of key competitors’—e.g. Lowe’s—strategies on the company’s ability to garner market share in the future. Another HRPI member questioned whether The Home Depot’s scalability strategy would be effective in China or Europe.

Jean Halloran of Agilent Technologies captured the essence of HRPI member views of the prior day: “I haven’t seen a more impressive multi-year plan in some time—the HR alignment with business strategy, setting of goals with strong metrics, and process-rich project plans,” she said.

Membership Roundtable Discussion

During the Roundtable discussion, HRPI members addressed issues pertinent to the human resources field and to their respective companies. Among the issues discussed were compensation trends, HR outsourcing, and disaster relief related to Hurricane Katrina.

Compensation

HRPI member organizations continue to grapple with how to best provide a mix of equity and other compensation incentives to align executive and managerial interests with shareholder value. Members discussed issues surrounding eligibility requirements for stock option grants; shifting equity grades to ensure that the best talent is rewarded for outstanding performance; metrics that are used to measure executive performance; and a shift from stock options to restricted stock.

Retaining Top Talent—One critical issue that companies face relates to attracting and retaining high performers who drive value. Members discussed the importance of shifting equity grants to favor top talent who yield the highest return to their respective organizations. In driving pay for performance, member organizations should consider their respective cost structures. One HRPI member described the results of a recent “value survey” in which employees reported less perceived value for stock options compared to other incentives. Not surprisingly, however, the company’s best performers reported placing a high value on options; the survey results are consistent with the pay for performance philosophy that top talent prefers incentives that maximize compensation differentiation.

Stock Option Considerations—HRPI member companies generally seem to be scaling back on option eligibility in favor of granting more restricted stock. For example, one HRPI member reported that stock option eligibility has declined recently from 90% to 60% of its employee base. Members cited a shift in the ratio of stock option conversions to restricted stock. Some members explained a general shift in the mix of options and restricted stock from a much higher percentage of the total incentive value in option granting to one that is more balanced between the two incentive programs. One member noted that his organization has shifted board of director incentives to favor restricted stock, but still leans on options as the key pay delivery mechanism for top executives.

Zoning guidelines are becoming a greater consideration as companies grant stock to members of their global workforce. For example, one HPRI member explained that her organization, in offering equivalent grants across global regions, was overpaying some employees whose national currency inflated the value of the options. More recently, the company has adjusted the number of options granted to reflect regional/comparable cost zoning considerations.

Pay for Performance Metrics—What metrics are member organizations choosing to measure performance? HRPI member reported using varying metrics, including sales, earnings per share, and mixed metrics such as performance measured on the basis of 50% total shareholder return and 50% on return on asset goals.



HR Outsourcing

As HRPI companies continue to outsource transactional capabilities in order to focus on higher value-added HR activities, they tackle challenges related to vendor management, change management, and potential outsourcing “backlash.”

One member explained an outsourcing project that is underway at her company. The HR team’s goal is to outsource transactional functions that inhibit an ability to focus on understanding and assisting business strategy and capabilities. The company will continue to manage employee relations and executive staffing and coaching, and outsource activities with lower value-add.

At this point, the HR team members will conduct site visits at the remaining vendors under consideration to assess fit and their respective capabilities. One HRPI member recommended being very careful about managing the pace of the change efforts associated with the outsourcing project. He pointed to his company’s outsourcing efforts, stating that relying too heavily on a vendor to manage the process can backfire if service delivery issues occur. Employees are unlikely, he asserted, to hold the vendor accountable; rather, they will blame the company’s HR group. Furthermore, he warned, companies that opt to outsource HR functions should be prepared to manage a potential backlash from employees who perceive those functions as HR’s responsibility; to those employees, he explained, outsourcing may feel like an abandonment of HR’s role in the company.

More generally, one member opined whether the HR vendor market has matured in recent years. Another HRPI member explained his organization’s dilemma in determining whether to outsource HRIS or invest in building an appropriate system internally. The question of whether to outsource a capability or keep it in-house seems to be a critical issue facing all HRPI organizations.

Civil Rights Survey and Hurricane Katrina Relief Efforts

Lon O’Neil, Senior Vice President of Human Resources at Kaiser Permanente, updated HRPI members on a forthcoming survey jointly developed and administered by the EEOC, SHRM, Kaiser, and the Gallup Organization. The survey, which was developed to recognize the 40th anniversary of the Civil Rights Act, is intended to assess societal strides made since the Act was passed in 1964.

The Society for Human Resource Management has established a website and the Hurricane Response Employment Center to assist members who have been displaced by Hurricane Katrina or Rita to find employment. SHRM, in partnership with government agencies, the Red Cross, and the Employee Assistance Professionals Association, among other organizations, have enabled adversely affected members to post resumes, search for open positions, and generally locate information and resources. More information is available online at <http://www.shrm.org/issues/hurricane/>.