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The HR Side of Sears’ Comeback

At least one-third of Sears’ dramatic financial and cultural transformation has been HR-driven.

By Jennifer Laabs

One Saturday morning in March 1994, one hundred of Sears’, Roebuck and Co.’s most senior executives met for one purpose: to continue strategizing the details of an organizational transformation plan they’d started back in 1992. The group had already accomplished much—in only two years, after a prior 10-year slump, the firm had pulled itself back into the black from having a net loss of $3.9 billion on sales of $52.3 billion (in 1992 alone), most of which was from the merchandising group.

But the agenda for this particular day was different than usual. Each executive had to pretend he or she was a news reporter, and had to arrive prepared to read aloud the first few sentences of an article they each had written about what they envisioned the Hoffman Estates, Illinois-based company would be in 1999—and how it got there.

“We spent five hours that day having our top 100 executives, one at a time, stand up and read his or her two paragraphs,” recalls Anthony J. Rucci, Sears’ former executive VP of administration, who left the post in 1998 to become the dean of the business school at University of Illinois at Chicago. “People’s ideas were all over the ballpark. Some people had us opening motorcycle dealerships in China and all kinds of innovative, if somewhat crazy, things,” Rucci recalls.

From that process and through several other steps, Sears’ senior management team gelled its firm’s new vision into a simple, but powerful vision statement: “To make Sears, Roebuck and Co. a compelling place to shop, work and invest.” A big part of achieving that strategy was to transform Sears’ solid 113-year culture into a vibrant, modern, customer-driven one. After some analysis, Sears realized its customers were primarily (70 percent) women. This inspired “the softer side of Sears” approach and store facelifts that included installing wider aisles, softer lighting and fancier displays to mimic more expensive department stores.

Sears also narrowed its focus. After having seen other more-focused retailers like Wal-Mart and Target take significant market share away from the long-established retailer, the company’s new chairman and CEO, Arthur C. Martinez, was determined to see Sears not only regain its position, but to lead the market. To achieve market leadership, Martinez folded the company’s long-standing catalog operations and refocused the company by divesting it of its insurance and real estate subsidiaries—“The Allstate
Corporation and The Homart Development Co. In 1996, the company marked its first year of operations focused exclusively on retailing since 1931.

Over the past seven years, Sears' drive toward financial and cultural transformation has involved unwavering effort from the entire senior management team and every Sears associate. But it has also been a drive that wouldn't have been accomplished without the efforts of Sears' HR team, first led by Rucci, and now headed by John T. Sloan, Sears' senior vice president of human resources who succeeded Rucci in March 1998.

Achieving the initial financial turnaround by 1994 and coming up with a compelling mission statement were big steps in the right direction. But for HR, it was only the beginning of a long road to implementing the transformation of HR's own processes and the entire company's culture. HR was not only up to the challenge; it has exceeded expectations and has become a model for the retail industry—and others—to follow.

**Transforming Sears' HR group.**

While the rest of the company was immersed in a transformation effort, Sears’ HR department was undergoing its own metamorphosis. Back in late 1993, shortly after Rucci came on board at Sears, he challenged his senior HR team to take six months and come back with a redesign of the HR function. The design had to be radical, and it had to treat the internal organization as if it were the customer.

That meant they had to go out and identify the requirements of the customer before they could figure out what the HR function ought to look like to meet those requirements. They extensively surveyed their customers—finding out what they liked and what they didn't like based on a specific set of questions, such as: “How do you think the comp and rewards side of HR is functioning? How about selection and college recruiting? And what about HR information systems and support?”

Based on data derived from surveying, the HR transformation team went back and completely changed the HR function. It reassessed everyone in the HR function with these new standards of customer service orientation, responsiveness and so on. Then it completely restaffed the department using a “zero-based” staffing approach. In addition, Rucci changed the reporting relationships of HR people—rather than reporting to him, he had them report to the businesses they supported. Moving HR back to the line, so to speak, is an idea that is now only just beginning to take hold for most HR departments, and helps move HR into strategic business partner status.

“We asked a lot of all of our HR people,” says Rucci. “On one hand, people responded marvelously. We couldn’t ask them to do anything more than they did. On the other hand, change, if not done well—even under the best circumstances—creates a certain degree of anxiety for people.” Rucci explains that having a clear vision early on about what excellence was supposed to look like in the transformation process paid huge dividends later on.

“When we came back and asked people to make these changes, at least they knew what the end vision looked like,” says Rucci. “We spent an enormous amount of time communicating and getting people at all levels involved in the change process.”

Today, having transformed the HR operations and processes, Sears' 650 HR people spend most of their time continuously helping associates align with the company’s new vision. Adds Sloan: “Although HR at Sears is vitally linked to all three aspects of the vision of the company, we spend the bulk of our time on making Sears a compelling place to work.” That has translated into a host of training, development and rewards strategies.

**Employees learn new ways of working.**

By 1994, Sears had done a good job of transforming senior managers’ ideas around Sears vision, but the average associate still wasn’t fully engaged in the process. The new mission statement was rolled out, but it needed legs to help employees understand what it meant for them. With 838 full-line department stores, more than 2,700 off-the-mall stores and more than 300,000 employees, Sears needed to embark on a company-wide plan to spread the word.

“One of the things we discovered—and it’s sort of a fundamental principle of organizational change—is that change is much more effective if people understand why you’re asking them to change rather than just saying ‘do it,’” explains Steve Kim, Sears’ vice president of organizational learning and development. “You have to give them a framework for why particular kinds of changes are important.”

Sears’ learning chiefs figured out a powerful way to show employees why the transformation was necessary, rather than just tell them by using Learning Maps™ (Learning Map™ is a trademark of Perrysburg, Ohio-based Root Learning & Inc.) and town hall meetings. Learning Maps provide information and encourage employees to think about the industry and the company they work in. At Sears, groups of roughly 10 employees at a time “walk through” each map aided by a written guide and questions. For example, the first Learning Map Sears associates (employees) walked through was called “A New Day on Retail Street.” It takes people on a time-capsule journey from the '50s through the '90s and shows people how the retail environment has changed, how demographics have changed—from the country’s ethnic makeup to the number of working women—and how much free time people have on their hands to go shopping.

During these sessions, employees learned that the number of visits the average shopper made to a shopping center per month was 12 in 1980, but only four in 1990. “So the group looks at that number and ends up saying, ‘Whoa, we don’t have as many opportunities to see our customers as we used to. We’d better make shopping easy for them because it looks like they’re shopping with a greater eye toward convenience,’” says Kim. At town hall meetings, larger groups of employees who had been through the Learning Maps process came together to talk about what changes they could make in their individual stores to help Sears reach its overall goals. Employees were asked to figure out one thing they could do, could stop doing or could simplify when they returned to work the next day to improve Sears’ competitive position. Because they were local improvements, headquarters didn’t have to approve the changes.

In general, Sears associates get much more training now than before the transformation began. Over the past four years, Sears
has spent the equivalent of millions of dollars on training its associates about Sears' new goals and in world-class retailing skills.

The good news for Sears is that all the training around Sears' new vision has stuck firmly in the minds of its associates. "The impact now is the sense of ownership that associates feel," says Gale Book, Sears' store trainer in Pensacola, Florida. "It's no longer just a small group of people who have an impact on assignments. It now comes from all different areas of the store."

Whereas some companies initiate turnaround projects and get their initial goals met, Sears has built a platform on which to root its long-term business planning. Employees use the company's three C's (compelling place to shop, work and invest) to test management decisions in day-to-day business. They also learned about the beliefs that senior managers had identified as important to Sears for the future, the three P's—"a passion for the customer, the belief that Sears' people add value to the enterprise and an uncompromising belief in performance leadership."

For example, though no formal orientation existed before, now there's an eight-week orientation process. And management education, which had been virtually nonexistent before the turnaround because of severe cost-cutting measures, is a high priority. Some of that learning takes place in person at Sears University (SU) which was established in 1995. Since SU opened, more than 40,000 Sears managers have been trained through the program. They also operate a strategic-retail-management program, which more than 250 senior executives have attended in groups of approximately 30 at a time.

Other learning takes place through desktop or distance learning courses. Employees can borrow audio or videotapes to brush up on everything from selling techniques to strategic planning. And employees can demonstrate their mastery of courses or modules they've taken through Sears Training Tracking System (STTS)—an interactive voice-response testing system. Today, more than 20,000 Sears employees a year are in learning programs that range from one to six days a shot.

"The really important message is: There's no magic bullet when it comes to how you deal with people," says Kirk. "You create cultural transformation by doing things in an array of business areas. The trick is to make them all interlock, and not to compete with one another."

Measuring the return on investment.

As the former head of human resources, Rucci led the transition team sanctioned by Martinez, organized by Rucci and made up of 16 line executives—that was responsible for implementing the culture change Martinez envisioned. The transformation team figured it wasn't enough to just have a vision, they had to determine exactly how to put that vision into action. They set out to come up with an econometric model that would show people how to add true value to their retail operation.

They postulated a theory that a company's financial performance—rather than an obvious sign of how a company is doing—actually is a lagging indicator. This means that by the time Sears (or any company for that matter) publishes its annual report, it's too late to do anything about financial performance—especially if it isn't favorable. They figured there had to be some "leading indicators" that would help predict later financial performance. For Sears, those turned out to be something that may seem rather obvious to most business people, but few, if any companies have made the link as directly as Sears. They theorized that things like employee attitudes and whether customers see their stores as fun places to shop were directly linked to financial performance, and they've actually proved it.

By calling many taskforce suggestions and through much of their own work, the transformation team arrived at a business model that would track success in many areas including management behavior, employee attitudes, customer satisfaction and financial performance. To track and measure the outcomes of the business model, they developed a highly effective and world-class performance index called the employee-customer-profit model. It comprises six measurements: one measure for a compelling place to work, two for a compelling place to shop and three for a compelling place to invest. By means of an ongoing process of data collection, analysis, modeling and experimentation, the Total Performance Indicators (TPI) show Sears how well it's doing with customers, employees and investors.

In an elaborate 800-store study of employee attitudes recently conducted by Sears, researchers found there's a direct correlation between employee satisfaction and profitability. Sears found that if positive employee attitudes on 10 essential factors—including workload, treatment by bosses and so forth—increase by 5 percent, then customer satisfaction will jump 1.3 percent, leading to a one-half percentage-point rise in revenue.

Sears' customer satisfaction ratings began creeping upward in 1993 measured against their leading competitors. A Fortune magazine survey published in February 1997 showed Sears' customer satisfaction jumped 5.6 percent from 1995 to 1996, more than twice as much as any other retailer surveyed. In '96 and '97, its customer satisfaction scores rose two more percentage points,
placing it at parity with its target competition. Since March 1997, Sears cash registers have been randomly kicking out receipts that ask customers to call an automated toll-free number and respond to questions. The survey results are then compiled into a statistically significant customer satisfaction score—a number that has risen several points since 1996.

Associate satisfaction scores also increased during that period. The employee satisfaction score is now 69.5, and has risen 1.5 percent in the past year and a half alone. "It's extremely difficult to move up a quarter of a point, so every move up really is a significant move in the right direction," says Sloan. "And what we've found is the stores that have higher scores basically perform better financially than those with lower scores." So the firm knows where to focus its energy and attention.

Another measure of employee satisfaction is the fact that the company's turnover rate has plummeted from 100 percent turnover when the transformation project started to 66 percent—the bulk of the turnover being in the part-time hourly ranks. For salaried personnel, turnover is about 20 percent. "Our largest area of opportunity is continuing to address our part-time, hourly workforce," says Sloan. "But that has dropped significantly since we started the transformation, and continues to drop."

The increase in employee satisfaction scores and drop in turnover further indicate there's alignment inside the organization with the firm's strategy and direction. For Sears—with annual revenues of approximately $44 billion—this increase amounts to more than $200 million in additional revenues for the company each year. That alignment and performance needs to be rewarded.

**Transforming rewards and compensation.**

When Sears redirected its vision, it also needed to drastically change the way it paid and rewarded people. "Too often, companies attempt to change employee behavior by changing pay and incentive practices," said Martinez in an interview with the *ACA Journal* (Autumn 1997). "Over the long term, people change their behavior not because of pay practices, but because they relate to the organization's vision and strategy. Pay practices then need to reinforce that strategy."

On January 1, 1996, Sears' senior management took the bold step of placing a substantial portion of the company's 200 top executives' long-term incentive compensation at risk based on the TPI: being a compelling place to shop, work and invest. This means executive incentives are based on non-financial as well as financial performance—divided equally between customer measures, employee measures and investor measures. "That puts the retailer on the corporate world's cutting edge in using a 'balanced scorecard' that includes non-financial factors," commented Bob Duncan, professor of leadership and change at the J.L. Kellogg Graduate School of Management at Northwestern University in a *Chicago Tribune* article last year.

Putting executive pay on the line is the hot compensation trend of the '90s, but it's a radical departure for the once-pater-
nalistic Sears, where paychecks were steady and benefits were better than average. Now all of Sears' 19,000 salaried managers have pay tied to financial performance of their business units and company performance. Six years ago, 90 percent of a Sears manager's pay, on average, came in the form of salary. Now it's closer to 80 percent, and it's even lower for top execs whose bonuses can exceed their salary. It's all in an effort to move away from entitlement mentality, and toward a focus on what drives financial rewards: the customer.

**Turnabout is fair play.**

Financially speaking, the market value of Sears increased by nearly $15 billion from 1992 through the end of 1997, adjusting for the effects of spinoffs (exact final figures for 1998 weren't available at press time). "We didn't have a great year in '98," admits Jan Drummond, a Sears spokesperson. "However, we're on the right course." Sears has come a long way. She explains that Sears' revenue back in 1993 was $29 billion when Sears Merchandise Group was the retail arm of Sears and included Allstate and other service businesses. "The revenue now for us as a stand-alone retail organization is going to be in the neighborhood of $43 to $45 billion in 1998," adds Drummond. Even Wall Street analysts are impressed by Sears' comeback, even if some think Sears' retailing strategy still seems fuzzy. Sears managers admit they still have work to do.

Said Martinez in the firm's 1996 annual report: "While we have made good financial progress and have solid growth plans, we have not yet achieved fully the kind of transformation that we seek for the business. Transformation requires a workforce, from top to bottom, who is committed to embracing and fostering change. Associates must think like owners if we're to keep the process of continuous reinvention alive inside the company."

Still, Sears' human resources efforts in nurturing the company to where it is today are no less than heroic, and have earned much notice by the media, HR analysts, consultants and academicians. "Sears has been creative in both the theory and practice of HR. The company recognized early that employee commitment predicted and affected customer commitment," says Dave Ulrich, a professor at the University of Michigan Business School where he co-directs the Human Resource Executive Education Program, and has been a consultant with Sears' HR executives during the transformation process. "As a result, it focused HR practices on enhancing employee commitment." Just about everything HR could change to help add value to the organization, it did change with a high level of excellence.

Perhaps its cliché to say that Sears is a true Dickie®. With a 113-year history, that may be obvious. The ultimate compliment is that a company with such a long history can figure out how the eldest player on retail street can still be a wise player. Certainly, the fact that Sears has determined its human resources are a key to playing the game effectively is noteworthy. While we await the fully transformed Sears, we applaud the HR side of Sears for its world-class efforts thus far. It's a compelling HR example to follow.

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