STRATEGIC HUMAN RESOURCE MANAGEMENT AT SEARS

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This article describes the HR Management System in place at Sears. Key emphases of Sears' HR management infrastructure include: (1) formulating and communicating a corporate mission, vision, and goals, (2) employee education and development through the Sears University, (3) performance management and incentive compensation systems linked closely to the firm's strategy, (4) validated employee selection systems, and (5) delivering the "HR Basics" very competently. Key challenges for the future include: (1) maintaining momentum in the performance improvement process, (2) identifying barriers to success, and (3) clearly articulating HR's role in the change management process.

Introduction

We'll know we have been successful as HR leaders when there is no perceived need for HR anymore—when we are transparent.
—Senior HR Professional, Sears

Sears, Roebuck, & Company incorporated in 1886 and is currently a retailing giant with a market capitalization over $41 billion. Arthur Martinez, CEO of Sears, is effecting a significant transformation of this retailing institution by broadening its scope to include an expanded array of home repair services and thousands of small stores, most of which will be closer to consumers and farther from shopping malls. Martinez took the helm in 1992, when Sears was losing $3.4 billion annually, and has since rejuvenated the company through eliminating the *Sears Catalog*; downsizing 50,000 jobs; closing 113 unprofitable stores; selling the famous Sears Tower; and divesting Allstate, Coldwell Banker, the Discover Card, and Dean Witter brokerage in order to focus on Sears' core businesses. Sears is now in the midst of a five-year-old transformation that includes a $4 billion store refurbishing program. The makeover also included a focus on a target customer—the middle class American mom (25–54, homeowner with a household income between $25,000 and $60,000)—and implementing a complementary marketing campaign of focusing on "the softer side of Sears". These efforts have been rewarded by an increase in market share and profits, and by Sears being named by *Fortune* this year as the most innovative general-merchandise retailer.

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The firm's recent reorganization (in early 1996) left it with five distinct business units: (1) full-line stores (approximately 250,000 employees), (2) home or "off the mall" stores that include hardware, Homelife furniture, dealer stores, and a variety of new concept

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specialty stores under development (approximately 10,000 employees), (3) automotive (tires, parts, service, and Western Auto; approximately 35,000 employees), (4) home services (product services and licensed businesses; approximately 30,000 employees), and (5) Sears credit (12,000 employees). These business units were created to discourage management from making decisions solely through the lens of the full-line stores, and to help management develop and implement strategies tailored to their particular market segments. Sears recently sold off its interest in Sears Mexico, leaving a 49% stake in Sears Canada as its only international operation. CEO Martinez does not have any further international expansion plans, noting that internationalizing Sears is "eleventh on his top ten list of things to do". The company is, however, moving into marketing and selling certain key products via the Internet.

Central to the implementation of Sears' new strategy will be the opening of 380 new stores this year, of which 358 will be freestanding specialty outlets (e.g., some of which will sell only hard goods like tools and automotive parts representing "the harder side of Sears"). Martinez explained the irony of the obvious contradictions by stating "a hallmark of great companies is an ability to recognize the game has changed and to adapt". In order to achieve this flexibility, he also recognizes his people have to be re-educated to the structural and business strategy changes and made to "feel comfortable outside a command-and-control environment . . . getting them used to risk taking and innovation. . . ."

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HR at Sears

The HR community at Sears, under the direction (through early 1998) of Senior VP of Administration and HR, Tony Rucci, has been widely identified as the single most important business group in leading the change efforts within the firm, most of which have come about largely as a result of purposive changes in the way in which Sears manages its people. The HR function has clarified its vision, added more resources, and moved its staff closer to the stores, but this has raised the expectations of the firm around HR going forward. There is the sense that HR at Sears has eliminated much of the "low hanging fruit", and that going forward, incremental improvements through HR will be much harder to find.

Both CEO Martinez and Tony Rucci point to the importance of employee ownership in facilitating the implementation of Sears' strategy, stating that "Ownership is the next phase in the transformation of Sears". They argue for the importance of creating an "ownership culture" at Sears that involves each employee staying informed, taking action, and building a financial stake in the future of the business. In the following sections we highlight those HR practices, policies, or strategies we consider to be "high impact" (i.e., Sears was very good at them and such policies did have or were expected to have a significant effect on the success of the firm).

High Impact HR Policies at Sears

Formulating and Communicating a Corporate Mission, Vision, and Goals

Perhaps the most salient of Sears' "best practices" in the management of people is reflected in its process for developing a clear competitive strategy and associated operational goals, and then relentlessly communicating both strategy and goals to employees. After some experimentation with a more "conventional" mission and vision statement (which was found to have little direct impact on employee behavior), Sears developed a conceptual model of firm performance linking employees, customers, and shareholders in a causal chain. This model, known throughout the firm as the "three Cs" (for the creation of a compelling place to work, compelling place to shop, and a compelling place to invest), was subsequently validated with very substantial amounts of data collection and econometric analysis. In 1995 Sears hired a consulting firm skilled in econometrics to help analyze data taken from 800 stores throughout the system (Rucci, Kirn, & Quinn, 1998; Yeung & Berman, 1997). These analyses confirmed what Sears' management had long believed: Corporate financial performance is a lagging indicator, informative about what *has already happened* throughout the firm, but providing little information about what *will* happen.

Sears was able to establish that in its "high touch" retailing environment, employee attitudes affected customer attitudes and behavior, both of which affected Sears' financial performance. Moreover, Sears has been able to show that an increase in employee satisfaction in one quarter will increase customer retention in the next quarter, which will subsequently be reflected in shareholder returns the quarter after that. Yeung and Berman (1997) describe the magnitude of these interrelationships as follows:

> . . . for every 5% improvement in associates behaviors, customer retention was increased by 1.3%, revenues by 1.04% and profit by 0.4%.
>
> What does this mean to Sears? It means that if Sears succeeds in improving associates behaviors by 5% (e.g., from 50% to 55%), its revenue will be increased by $300 million (Sears' current revenue is approximately $38 billion). (p. 326)

As such, much of Sears' competitive strategy involves making the firm a compelling place to work and to shop, which it has demonstrated will subsequently make it a compelling place to invest. Sears' "3C" model and its associated measurement indicators consist of the following elements:

1. *Compelling Place to Work*. Measured via associates' attitudes toward their company and their jobs (the "My Opinion Counts" survey).
2. *Compelling Place to Shop*. Contains measures of both customer satisfaction and customer retention.
3. *Compelling Place to Invest*. Contains measures of revenue growth, operating margin, and return on assets.

As a result of this research process, and simplicity and clarity of the message contained in the three Cs, this framework has a considerable amount of credibility in the eyes of management. Data are collected on an ongoing basis on workplace, customer, and shareholder outcomes; and these data are presented to the Sears workforce on a quarterly and an annual basis—including the most recent results along with the target and the stretch goals that have been set for the firm. The hope and intent is that they will cause managers to become more proactive.

Given Sears' focus of the development of the three Cs, it should come as no surprise to learn that the firm has identified a series of 12 leadership competencies that are intended to support each of the three "Compellings". There is significant commitment to the 12 competencies because there was widespread participation in their development. Over 100 executives participated in the process, which included a significant amount of survey work and focus groups. An interesting point is that the 12 competencies do not apply exclusively to exempt employees: Sears has four levels of employees throughout the firm, and the competencies are generic to all levels, although each level may have different behavioral expectations.

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As noted above, in developing the three Cs a large number of focus groups were conducted at all levels of the organization, in one way or another involving 80,000 associates. One surprising and consistent outcome of this process was the finding that most employees had very little understanding of the financial and operations aspects of Sears' business. Thus, the firm developed a series of interventions to increase the level of economic literacy among the employees while concurrently reinforcing the firm's mission, vision, values, and the three Cs.

One very visible way in which Sears does this is through the development of a series of *Learning Maps*. Learning Maps take the form of large poster-sized graphical representations of a variety of topics of importance to the implementation of Sears' strategy. Highly colorful and engaging, Sears has developed five Learning Maps to date, covering such topics as (1) *Ownership*: How does it create value? What effect does it have on shareholder wealth?; (2) *Sears Total Performance Indicators,* including a detailed description of the interrelationships among the three Cs; (3) *a New Day on Retail Street,* which describes the changes in the retailing industry and documents the shift from mall to "off the mall" stores; (4) *Voices of Our Customers*, which describes the changing demographics and product/service choice processes of the Sears' customer base; and (5) *The Sears Money Flow*, which describes how each dollar of revenue is spent at Sears. Learning maps are presented to employees in focus groups of ten employees, and the response to them has been overwhelmingly positive. Learning Maps, in conjunction with a variety of other communication tools, all help Sears to help its workforce become engaged and informed.

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Education: The Sears University

Designed to a very great extent as a vehicle to help Sears transmit its culture and "DNA" to the new and continuing workforce, *Sears University* offered its first courses in the fall of 1994. With a curriculum consisting of classroom as well as cassette, CD-interactive, and self-paced instruction, employees self-select into classes based on a developmental plan negotiated with their managers (as part of the performance management process). The capacity of Sears University is currently about 20,000 managers annually. Course sign-ups are on a first come-first served basis, and the University is currently only able to satisfy two-thirds of the demand for the courses. The courses are offered at Sears' corporate headquarters in Chicago and at seven regional centers located around the country. Entry-level courses are taught almost exclusively by Sears' managers, with outside faculty used more frequently at the senior management level. Outsiders are used only if they can demonstrate that they know Sears very well and are able to effectively integrate the three Cs and the 12 leadership dimensions into their courses. Going forward, the firm is considering the use of additional distance learning methodologies and going on-line with courses. Interestingly, Sears U makes its faculty available for 4 to 5 weeks a year for consulting on "special projects" that might come up; this often involves working with a team to solve a problem in a troubled store. And as a general rule, Sears U has a strong preference for teaching and working with intact teams or work groups, as it is felt that this facilitates the transfer of knowledge back to the store or office.

The concept has been wildly successful, so much so that the firm plans to build a dedicated building for Sears University. The impetus for Sears University came from the Senior Executive team, who fully funded the initiative. While there is recognition that at some point they may have to charge back regions or stores for services, the initial intent was to fully fund the program at the corporate level to reduce any resistance to using the services and also to build a strong base of support for what the leadership is trying to do. Executives in charge of Sears University cite the strong links between the curriculum, the Sears' strategy, and senior management buy-in, as critical success factors in the project's success.

Performance Management and Incentive Compensation Systems

Like many organizations, Sears has increased its emphasis on performance management and incentive compensation systems in the recent past. Sears believes that its management process must be linked closely to the three Cs for it to be effective, and it is well on the way to achieving this objective. For Sears this has meant a recrafting of these systems to reflect the importance of the three Cs on evaluating and developing the 12 leadership competencies that the firm has identified (this process is described in a 70-page manual made available to managers).

While the firm has provided managers with multi-perspective performance appraisals for nearly five years, this process is now being much more broadly implemented throughout the firm. To deal with any potential negative consequences arising from this process, the firm is providing coaching and training on dealing with the feedback plus individual attention as well, if necessary. Overall, it is felt that this process (which is mandatory all the way down to mid-level managers) has effected a significant change in the behavior of managers because they know that they will be held accountable for their behavior. For the Sales Associates working in the stores, the process differs somewhat. In an effort to gain more direct feedback on employees, Sears randomly prints a $5 coupon on sales receipts, which can be redeemed if customers call an 800 number (at their convenience) and provide the store with detailed feedback about their shopping experience.

For managers, total compensation is comprised of base, annual incentive, and (for the top 250 managers in the firm) long-term incentives. Sears is now focusing more on pay for performance (incentive pay is becoming more variable), and this pay is based to a larger extent on customer service than in the past. Sears bases variable pay 50% on financial performance, 25% on measures linked to creating a compelling place to work, and 25% on measures linked to creating a compelling place to shop (for 1998 these proportions will be 33% each). Sears has also increased incentive pay levels from the 50th to the 60th percentile in its benchmark sample of firms with high total shareholder return (the target is to move to the 75th percentile). The intent of this move was to increase the quality of new applicants and to aid in the retention of high potential employees. In addition, all salaried associates receive annual stock option grants.

Employee Selection Systems

Still another area of competency for Sears is reflected in the development and deployment of a series of validated selection devices for hourly and managerial employees, as well as an extensive series of structured interview guides for a wide variety of positions. For example, selection tools have been developed to assess an applicant's "customer service aptitude and dependability". There is a stated policy that all applicants will be administered a selection test if one is available for the position for which they are applying. These selection tools are aided by a computerized system to manage employee hiring (RESTRAC) and a recently introduced job posting system. The use of these tools is facilitated through the development of a very clear written documentation for these tests.

Delivery of the "HR Basics"

Finally, and of significant consequence, the firm is described as consistently delivering the "nuts and bolts" HR very competently. For example, the basic transaction processing issues are handled so efficiently that a number of consulting firms have told Sears that they cannot deliver the services better or cheaper on an outsourced basis. One way this process has been facilitated was to reduce over a seven-year period the number of associate service centers (handling employee benefit questions) from 200 to just a single center. The delivery of the HR basics in a world-class manner is one important way in which the firm keeps and gains legitimacy with line managers and other constituencies throughout the firm.

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Challenges Facing HR at Sears

The business turnaround at Sears in the last four years and the ongoing efforts at cultural transformation have been impressive. A cornerstone of this process has been the articulation of what Sears wants to be known for (a compelling place to work, shop, and invest), and substantial energy has been invested in infusing the three Cs into Sears' culture. Over the past several quarters, however, the pace of improvement in revenues, customer satisfaction ratings, and associates' attitudes about Sears as a place to work has slowed. In addition, there is a growing sense that the firm is losing momentum (or even worse, losing ground) in the desire and willingness to do what it takes to continue the significant levels of improvement recently achieved. In fact, the firm describes itself as "reaching a crossroads". Actions taken today may determine whether Sears:

- successfully reinvigorates the organization to continue improving,
- accepts its progress to date as "good enough", or
- regresses to a pre-turnaround mentality.

The challenge, of course, is to build a strategy that ensures the "successful reinvigoration" outcome for Sears. Those leading the HR organization at Sears are currently using the following questions to help frame a discussion on how to achieve this:

- What makes us think that we're losing momentum in our desire to improve?
- What does a "compelling place" look like to our associates, customers, and investors?

- Do we know people who exemplify this vision when we see them? What do we do about those that don't? Do our promotion, termination, and recognition programs accurately define who's "got it" and who hasn't?
- What barriers slow us down or undermine change efforts?
  - Few people know what "transformation" means—and many more are just plain tired of hearing that word?
  - Loss of heart or lack of commitment at the top?
  - Diffusion of focus or lack of cooperation across multiple business formats?
  - Failure to connect our many part-time employees to the three Cs?
  - Seeing "change management" as something that can be put in a binder or around which a meeting can be built?
- What is HR's role in driving continued improvement? Have we abdicated responsibility by saying "it's not an HR issue"? If so, is that a mistake?
- Is it *possible* to create a large, continuously self-renewing organization or must change, by necessity, proceed in "bursts", precipitated by some crisis?
- What are the *likely* consequences for Sears if we don't fully engage our associates in making Sears a compelling place to work, shop, and invest?

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ENDNOTE

1. Dr. Rucci was employed at Sears during the preparation of this article.