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by Ram Charan

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When Robert Nardelli arrived at Home Depot in December 2000, the deck seemed stacked against the new CEO. He had no retailing experience and, in fact, had spent an entire career in industrial, not consumer, businesses. His previous job was running General Electric's power systems division, whose multimillion-dollar generating plants for industry and governments were a far cry from $10 light switches for do-it-yourselfers.

Nardelli also was taking over what seemed to be a wildly successful company, with a 20-year record of growth that had outpaced even Wal-Mart's—but with latent financial and operational problems that threatened its continued growth, and even its future, if they weren't quickly addressed.

To top it off, Nardelli's exacting and tough-minded approach, which he learned at General Electric, set him on a collision course with the freewheeling yet famously close-knit culture fostered by his predecessors, Home Depot's legendary cofounders, Bernie Marcus and Arthur Blank. It was this culture that Nardelli had to reshape if he hoped to bring some big-company muscle to the entrepreneurial organization (which, with revenue of $46 billion in 2000, was sometimes referred to as a "$40 billion start-up") and put the retailer's growth on a secure foundation.

Not surprisingly, Nardelli tackled the challenge partly through personal leadership, mixing encouragement with ultimatum and fostering desired cultural norms like accountability through his own behavior. But he also adopted and adapted an array of specific tools designed to gradually change the company's culture—many of them initiated, coordinated, and implemented by an unlikely lieutenant.

Shortly after arriving, Nardelli hired an old colleague from GE, Dennis Donovan, as his head of human resources. By placing a trusted associate in a position known for its conspicuous lack of influence in most executive suites—and by making him one of Home Depot's highest paid executives—Nardelli signaled that changing the culture would be central to getting the company where it needed to go.

Over the past five years, Home Depot's performance has indeed been put on a stable footing. Although its share price is well below the peak it achieved shortly before Nardelli arrived, and the rate of revenue increase has cooled from the breakneck pace of the late 1990s, the company continues to enjoy robust and profitable growth. Revenue climbed to around $80 billion in 2005, and earnings per share have more than doubled since 2000. Just as important, a platform has been built to generate future growth.

I worked with Bob Nardelli, Dennis Donovan, and other senior executives during that period, and I know that these changes in the business would not have happened without a real and observable change in the culture. Home Depot's experience shows—in perhaps the best example I have seen in my 30-year career—that a cultural transition can be achieved systematically, even under less than favorable conditions, not simply through the charisma of the person leading the change but through the use of mechanisms that alter the social interactions of people in the organization.

The effectiveness of this approach was perhaps most dramatically displayed when a group of Home Depot employees, in a public and spontaneous way, threw their support behind the change in an incident guaranteed to give even the toughest CEO goose bumps.

An Entrepreneurial Environment

Home Depot is one of the business success stories of the past quarter century. Founded in 1978 in Atlanta, the company grew to more than 1,100 big-box stores by the end of 2000; it reached the $40 billion revenue mark faster than any retailer in history. The company's success stemmed from several distinctive characteristics, including the warehouse feel of its orange stores, complete with low lighting, cluttered aisles, and sparse signage; a "stack it high, watch it fly" philosophy that reflected a primary focus on sales growth; and extraordinary store manager autonomy, aimed at spurring innovation and allowing managers to act quickly when they sensed a change in local market conditions.

Home Depot's culture, set primarily by the charismatic Marcus (known universally among employees as Bernie), was itself a major factor in the company's success. It was marked by an entrepreneurial high-spiritedness and a willingness to take risks; a passionate commitment to customers, colleagues, the company, and the community; and an aversion to anything that felt bureaucratic or hierarchical.

Longtime Home Depot executives recall the disdain with which store managers used to view directives from headquarters. Because everyone believed that managers should spend their time on the sales floor with customers, company paperwork often ended up buried under piles on someone's desk, tossed in a wastebasket—or even marked with a company-supplied "B.S." stamp and sent back to the head office. Such behavior was seen as a sign of the company's unflinching focus on the customer. "The idea was to challenge senior managers to think about whether what they were sending out to the stores was worth store managers' time," says Tom Taylor, who started at Home Depot in 1983 as a parking lot attendant and today is executive vice president for merchandising and marketing.

There was a downside to this state of affairs, though. Along with arguably low-value corporate paperwork, an important store safety directive might disappear among the unread memos. And while their sense of entitled autonomy might have freed store managers to respond to local market conditions, it paradoxically made the company as a whole less flexible. A regional buyer might agree to give a supplier of, say, garden furniture, prime display space in dozens of stores in exchange for a price discount of 10%—only to have individual store managers ignore the agreement because they thought it was a bad idea. And as the chain mushroomed in size, the lack of strong career development programs was leading Home Depot to run short of the talented store managers on whom its business model depended.

All in all, the cultural characteristics that had served the retailer well when it had 200 stores started to undermine it when Lowe's began to move into Home Depot's big metropolitan markets from its small-town base in the mid-1990s. Individual autonomy and a focus on sales at any cost eroded profitability, particularly as stores weren't able to benefit from economies of scale that an organization the size of Home Depot should have enjoyed.

A Dose of Discipline

Nardelli's arrival at Home Depot came as a

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Store managers' autonomy freed them to respond to local conditions, but it made the company as a whole less flexible.

shock. No one had expected that Marcus (then chairman) and Blank (then CEO) would be leaving anytime soon. Most employees simply couldn't picture the company without these father figures. And if there was going to be change at the top of this close-knit organization, in which promotions had nearly always come from within, no one wanted, as Nardelli himself acknowledges, an outsider who would "GE-ize their company and culture."

But the Home Depot board had decided that a seasoned manager with the expertise to drive continued growth needed to be brought in to run what had become a giant business. The first step would be to deal with immediate problems that weren't readily apparent either to employees or investors. In addition to the shortage of experienced store and district managers and the challenge from Lowe's, which was successfully attracting women shoppers with its brighter stores and a focus on fashionable kitchen, bath, and home-furnishing products, these problems included poor inventory turns, low margins, and weak cash flow.

Nardelli laid out a three-part strategy: enhance the core by improving the profitability of current and future stores in existing markets; extend the business by offering related services such as tool rental and home installation of Home Depot products; and expand the market, both geographically and by serving new kinds of customers, such as big construction contractors.

To meet his strategy goals, Nardelli had to build an organization that understood the opportunity in, and the importance of, taking advantage of its growing scale. Some functions, such as purchasing (or merchandising), needed to be centralized to leverage the buying power that a giant company could wield. Previously autonomous functional, regional, and store operations needed to collaborate—merchandising needed to work more closely with store operations, for instance, to avoid conflicts like the one over the placement of garden furniture. This would be aided by making detailed performance data transparent to all the relevant parties simultaneously, so that people could base decisions on shared information. The merits of the current store environment needed to be reevaluated; its lack of signage and haphazard layout made increasingly less sense for time-pressed shoppers. And a new emphasis needed to be placed on employee training, not only to bolster the managerial ranks but also to transform orange-aproned sales associates from cheerful greeters into knowledgeable advisers who could help customers solve their home improvement problems. As Nardelli likes to say, "What so effectively got Home Depot from zero to $50 billion in sales wasn't going to get it to the next $50 billion."

This new strategy would require a careful renovation of Home Depot's strong culture. Imagine the challenge: Clearly, you wanted to build on the best aspects of the existing culture, particularly people's unusually passionate commitment to the customer and to the company. But you wanted them to rely primarily on data, not on intuition, to assess business and marketplace conditions. And you wanted people to coordinate their efforts, anathema to many in Home Depot's entrepreneurial environment. You wanted people to be accountable for meeting companywide financial and other targets, not contemptuous of them. You wanted people to deliver not just sales growth but also other components of business performance that drive profitability.

Resistance to the changes was fierce, particularly from managers: Much of the top executive team left during Nardelli's first year. But some saw merit in the approach and in fact tried to persuade distraught colleagues to give the new ideas a chance. Over time, attitudes slowly began to change. Some of this resulted from Nardelli's successful efforts to get people to see for themselves why the strategy made sense. But other, more concrete tools, designed to ingrain the new culture into the organization, ultimately prompted employees to pick up a hammer and paintbrush and join the renovation project.

Tools for Culture Change

The mechanisms that Home Depot employed, working in concert, changed what I call a company's *social architecture*—that is, the collective ways in which people work together across an organization to support the business model. Many of them are familiar operating tools. But they were employed in such a way that they changed the human side of the equation: people's behavior, beliefs, social interactions, and the nature of their decision making. It was this social element that allowed Home Depot to achieve—and, more important, to sustain—its dauntingly large-scale and complex cultural transformation. (For a list of some of the tools Home Depot used, see the sidebar "A Culture Change Toolbox.")

The mechanisms fell into several categories: *metrics* (which describe what the culture values and make clear what people will be held accountable for); *processes* (which change how work is done and thus integrate the new culture into the organization); *programs* (which generate support for and provide the first demonstration of the new culture's effectiveness); and *structures* (which provide a framework for the new culture to grow, often by changing where and how decisions are made). Let us examine each in turn.

Metrics: to emphasize new cultural priorities. One of the early things Nardelli and Donovan did was to begin instituting common metrics that produced companywide data in areas that hadn't been consistently measured before. These new performance measurements clearly had an operational purpose, but they also had an important psychological effect. Initially, these metrics showed employees that things weren't going as well as many had thought. For example, data quantifying customer perceptions of the Home Depot shopping experience replaced anecdotal reports of customer satisfaction. Such data made clear that some deeply held beliefs about the stores—the importance, say, of low lighting and other warehouse-like characteristics—needed to be reevaluated.

At the same time, the metrics made clear and reinforced the collaborative behavior and attitudes that Nardelli and Donovan wanted to encourage. Take accountability. When Donovan arrived at Home Depot, he found the company's performance assessment practices less than rigorous. Reviews were usually qualitative and subjective, and standards varied from region to region or even from manager to manager. Donovan would meet with, say, a district manager to go through the performance of store managers and, after some probing, often find managers who enjoyed superior ratings but whose stores were delivering mediocre performance.

Donovan wasn't surprised, given the subjective nature of the performance reviews. As he says, "One of the hardest things for a leader to do is to look somebody in the eye and be honest with them about their performance." So Donovan introduced a standard, companywide performance management process that used mostly quantitative criteria. This made it easier for managers to assess their employees honestly and fairly, enabling them to make the tough calls and put the right people in the right jobs. It also, incidentally, reduced the more than 150 employee evaluation forms used throughout the company to three one-page electronic documents.

Metrics were also used to promote a savvier understanding of the business. For example, with standardized, detailed business data, people could see the relationship among revenue, margins, inventory turns, cash flow, and other

A Culture Change Toolbox

For large corporations to achieve a major—and permanent—change in business performance, they must create a sustainable change in culture. Aware of this, the leaders at Home Depot identified key aspects of the culture that had to change for the company to meet the new performance goals. They then adopted a variety of standard tools in such a way that they strengthened the business *and* modified the culture. As the mechanisms took hold, the energy of employees became positive, further accelerating the change.

Among the tools Home Depot has used are:

Data templates, detailed forms to organize performance data for quarterly business review meetings, which encourage personal accountability, give employees a deeper understanding of business performance, and foster collaboration by putting people on the same page when making decisions.

Strategic Operating and Resource Planning, or SOAR, which is built around an annual eight-day session when Home Depot's 12 top executives work together to balance priorities and select the investments most likely to achieve financial and other business targets.

Disciplined talent reviews, conducted frequently—and consistently from one to the next—which emphasize the need for candor and fairness in dealing with employee performance.

Store manager learning forums that, through role playing, simulations, and other exercises, highlighted the level of competitive threats and made transparent the company's future plans, helping attendees understand the need for the new strategy.

Monday morning conference calls, involving the company's top 15 executives, during which accountability (for business results and for promises made the previous week) is emphasized, as is sharing information (about operations, customers, markets, and competitive conditions).

Employee task forces, staffed by individuals from all levels of the company, to elicit unfiltered input from the people closest to a problem and gain their support for the changes the solution requires.

An array of leadership development programs, including the Future Leaders Program, the Store Leadership Program, and the Merchandising Leadership Program, which raise the bar for performance and ensure continuity of the culture.

Mapping of the HR process, which identified 300 ways that HR tasks could be improved and highlighted the importance of instituting processes to sustain cultural change.

What got Home Depot from zero to $50 billion in sales wasn't going to get it to the next $50 billion.

measures from store to store and region to region. Getting managers throughout the company to look beyond sales as the sole business goal spurred them to make better decisions.

This might seem obvious, but it's a common problem of companies in periods of rapid expansion. Carl Liebert, executive vice president for Home Depot stores, who worked at Circuit City during a period of high growth in the early 1990s, says that in such an environment, "you don't spend a lot of time thinking about inventory turns. Instead, you focus on opening more stores because the customer loves your box." That's fine until you suddenly find yourself with a competitor that has its own lovely box, as Circuit City did with Best Buy—and Home Depot did with Lowe's.

Companywide metrics also provided a platform for collaboration. By making various aspects of Home Depot's performance transparent to all employees, managers could clearly see—in cold, hard facts—the broader financial impact of their own decisions. This prompted candid discussions about how to improve that performance and focused employees' vaunted commitment on taking the needed actions.

For example, people in merchandising, operations, and stores traditionally distrust one another, as the individuals who buy the goods, get them to the retail outlet, and sell them to the customer seek to shift blame for poor performance along the value chain they all share. Paul Raines, the vice president for stores in Home Depot's southern region, recounts that in the pre-Nardelli years a meeting involving these three groups "was basically a food fight. We would all blame each other for problems, and it was very anecdotal: 'You didn't send me that tractor I needed' or 'Your stores are terrible.' We might throw a P&L up on the wall, but that was about it."

Today, the quarterly business review meetings that Raines runs for his region are hardly polite tea parties. But the tension is channeled through a template, which includes such data as store-by-store gross margins and category-by-category sales forecasts. With everyone in the room (and across the company) on the same page—more accurately, the same 15 pages—there is little opportunity to offer anecdotal evidence to defend your position or use your rank to support your case. Jointly discussing the data helps people set priorities collectively and even accept allocations of resources that might hurt their own parts of the business.

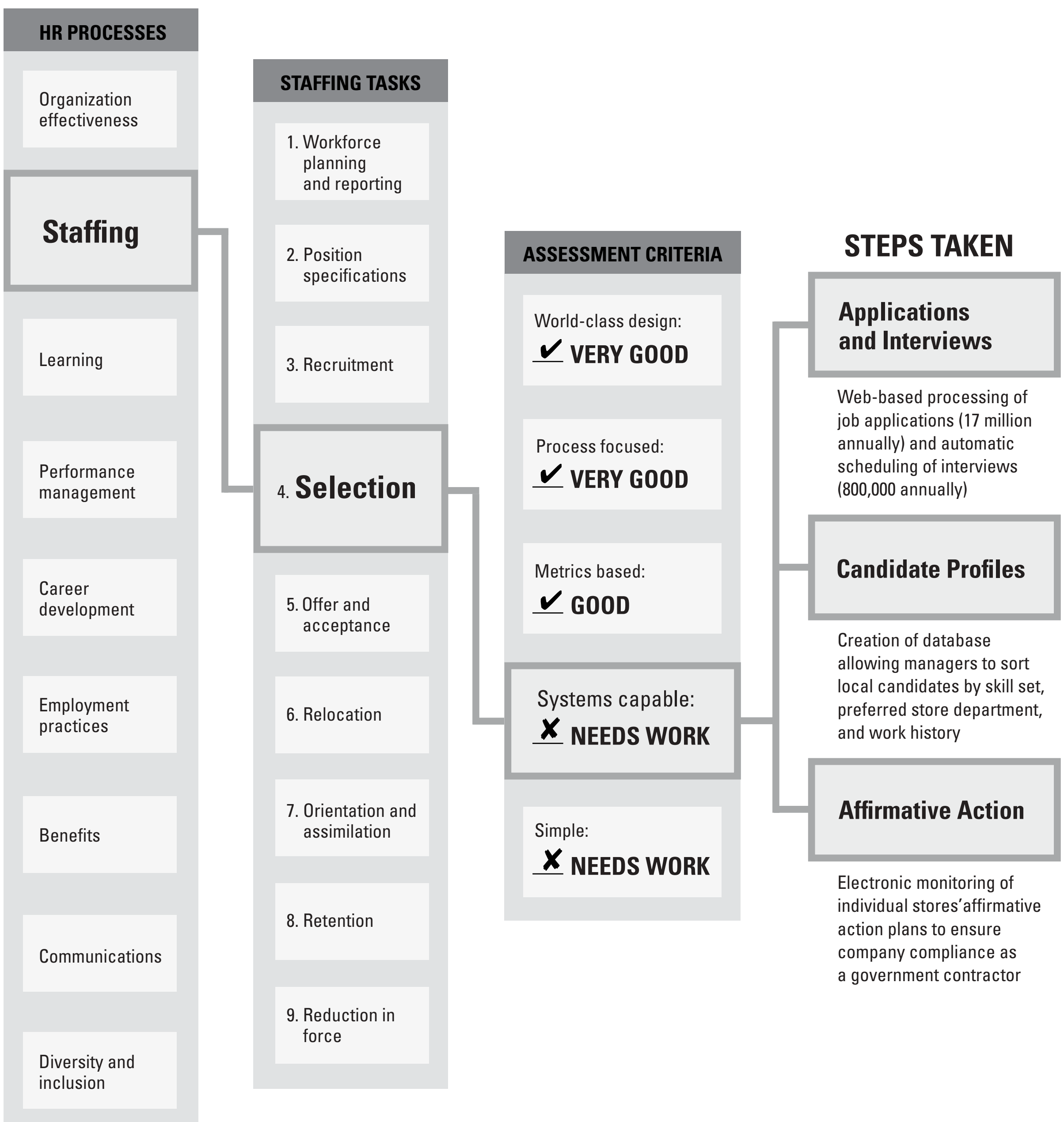
Processes: to integrate the new culture into the organization. Right after Nardelli became CEO, he instituted a two-hour Monday morning conference call in which the top 15 or so executives give individual reports on the previous week's activities in their areas of responsibility. Initially, the call helped Nardelli educate himself about the business. But over time, his questions evolved and began focusing more on holding people accountable for what they had promised to do the previous week. In fact, the calls have become a powerful tool for Nardelli in his efforts to create a culture of cooperation and accountability. Week after week, the top executive team comes together, hears the same information, makes decisions, and commits to actions that are reviewed by everyone in subsequent calls. This process, repeated like a drumbeat, has built the executive group into a highly integrated team.

The Monday call is mirrored on Monday afternoons by a video cast that goes out to all 1,800 Home Depot stores in the United States. The transmission focuses on the week ahead—upcoming product promotions, the introduction of new product lines, the revenue needed in the last week of a quarter to meet bonus plan targets for sales associates. The broadcast, actually called "The Same Page," creates a link between each store's activities and the bigger picture—and reflects a shift from the old culture, in which all those memos from headquarters were thrown out unread.

A particularly bold social change was the implementation of a Strategic Operating and Resource Planning (or SOAR) process, which melds strategy, operations, and human resource planning. The core of SOAR is an annual, eight-day marathon (referred to by some participants on the final day as "SORE"), during which the senior leadership team decides which competing investments in the business will best help the company meet its three-year financial targets. SOAR was radical for Home Depot on a number of fronts: First, it requires resources to be allocated on the basis of projected future needs rather than, as in most companies, from extrapolations of past events. Second, like the regional quarterly business reviews, in which different functions must balance their interests, SOAR is a collaborative process, one that, in Liebert's words, rises above

Assessing and Improving the HR Function

To better manage Home Depot's workforce and to signal the importance of analytic processes in the new culture, human resources head Dennis Donovan conducted a detailed assessment of HR's work. He and his staff examined each of the HR processes, such as staffing, career development, and benefits, and mapped the "toll gates" of each process—that is, the sequence of tasks that must be completed to successfully get the work done. They then evaluated how well the HR organization was performing each of these tasks, based on five criteria: world-class design, a focus on process, the use of quantifiable metrics, systems capability (whether the task could be completed on desktop PCs throughout the company), and simplicity. More than 300 initiatives were identified, all of which were completed.



the narrow "you're doing something that pushes costs from your P&L to my P&L" mind-set.

What makes the process so emblematic of the new Home Depot culture, though, is the way that the planning meeting is integrated with HR planning so that decisions about human resources are aligned with strategic and operating decisions. In a retail business, where human capital is vital to success, a sophisticated HR-planning process is crucial. "Sales associates are to Home Depot what engineers are to NASA," Nardelli says.

Every year, Donovan and Nardelli spend several weeks engaged in a complete and detailed assessment of all aspects of HR—talent recruiting, education, performance management, career development, and the like. The intensive review not only gives the two executives a close-up picture of the company's talent but also helps them learn which HR initiatives are actually working in the field. This can lead to endeavors with dual HR and strategic purposes: A successful effort to, say, hire senior citizens and former military personnel as sales associates and managers—they are seen as ideal employees—is linked with marketing efforts targeted at those groups.

Donovan's belief in the importance of process as a way to embed analysis and rigor into the organization was evident in something he did as soon as he came. He worked with his staff to map what he refers to as "toll gates"—the sequence of tasks that must be successfully completed for every HR process. The staff evaluated how well the HR organization was performing each step and identified those that might be improved. The group then designed 300 initiatives aimed at rectifying shortcomings and agreed to carry out all 300 within three years. (For a look at how Home Depot mapped one of the processes, see the exhibit "Assessing and Improving the HR Function.")

Programs: to build support for culture change. A year and a half after Nardelli took over as CEO, he and Donovan knew that there still was significant opposition within the organization to the changes they were making. The resistance was bolstered by the beating Home Depot was taking in the media and the market—the share price fell from a peak of nearly $70 during the boom years of the late 1990s to just above $20 at the beginning of 2003—not to mention the company's failure to increase same-store sales. But something else was at work, says Carol Tomé, the company's chief financial officer. "People never had time to grieve for the company Home Depot once was," she says. "The company hadn't been prepared for the change. And though we did a pretty good job explaining to people the *what* of the change, we didn't do a very good job of explaining the *why.*"

So over the course of several months in late 2002 and early 2003, Donovan set up a series of five-day learning forums for district and store managers—nearly 1,800 people in all. "Large-scale organizational change is not a spectator sport, and it's easy to be a cynic when you're in the stands," Donovan says. "It's tough to be a cynic when you're on the playing field." Accordingly, the program included competitive simulation and role-playing exercises. In one such exercise, Donovan asked people to view the company from Nardelli's perspective: "You've just arrived. You want to preserve the proud past of the wonderful company that has been passed on to you. But you also see incredible opportunities in the future, including the possibility of doubling the size of the market by providing products and services for industrial and commercial customers. To step into that future, you know you have to deal with some issues." Then Donovan posed the challenge: "If you're Bob, what do you do? The only rule is…you can't fire the HR guy."

Working in small groups, people put their ideas up on the wall: centralize the buying offices, manage inventory better, offer better training for managers. "And then," Donovan recalls, "five minutes or so into the exercise, someone would inevitably grab the microphone and say, 'Hey, this is what Bob and his team are trying to do.' "

Getting—and sustaining—employee commitment to the new culture has continued in an array of ongoing leadership-training programs, including the Future Leaders Program, the Store Leadership Program, and the Merchandising Leadership Program. And it has filtered into a variety of business operations. For instance, Liebert, in a previous position as senior vice president for operations, sought to institute a bar code system to replace the manual box count used to keep track of incoming goods at stores. He knew the system wouldn't work unless the people on the loading dock could see its merits and were behind it; an earlier attempt to implement the procedure had failed. So Liebert included individuals in night-receiving jobs on the development team and himself worked alongside the night crew several times to learn from people he calls the "subject matter experts."

The resulting system was shaped by input from those directly responsible for using it, and as a result excitement about and support for it spread. As Liebert says of the passionate Home Depot worker: "The orange blood kind of starts boiling, and people say, 'Bring it on.'" What's more, in the new, more business-savvy Home Depot environment, workers could understand and appreciate the business benefits of scanned receiving: more efficient movement of incoming freight and better cost management.

Structure: to create a framework for the radically new culture. When Nardelli became CEO, Home Depot's purchasing operation comprised nine divisional purchasing offices, many of which had different pricing agreements with the same supplier. This meant that the retailer was acting as if it were nine $5 billion companies rather than a single $45 billion company, thus squandering the chance to drive down costs and boost gross margins.

The rationale for centralizing purchasing was clear, but it would be a difficult transition to make without seriously disrupting operations. Furthermore, since decentralization had been, ironically, a central element of the old Home Depot's cohesive culture, the change would have a significant cultural impact. So Nardelli gave the job of overseeing the transition to Donovan, on his first day at the company. The creation of the new organization—defining the new roles, establishing new purchasing processes, staffing the new positions—was to be accomplished in 90 days. As Donovan says, "That's when I learned Bob doesn't operate on a calendar but on a stopwatch."

The initiative culminated in "Super Saturday," during which some 60 top executives—presidents and vice presidents from the nine regional divisions—got together in a room at Atlanta headquarters. The first three hours were spent getting them to agree on the details of the new purchasing function. There wasn't a lot of time for disagreement because the new organization would be unveiled to employees, suppliers, and the media on Monday.

Then the group moved to a large room. On the back wall were the names of more than 100 people working in the existing purchasing organization. On the front wall was an organization chart of the new Atlanta-based merchandising operation. On the side wall was the new field structure. Everyone had résumés of the candidates. Their relative strengths were debated, and a handful of candidates was selected for each of the 20 or so top positions in the new function. When one individual was chosen by consensus for a particular position, the executive who knew that person best went to the phone and made the job offer. If accepted, a dot was placed by that person's name. If not, an offer went to the next person on the list of candidates for the job. (Those not selected for one of the top jobs took lower positions in the new centralized function.) Three and a half hours later, by dinnertime on Saturday, an entirely new organization, with new roles and responsibilities, had been created and staffed. Compensation packages, preapproved by the board, were sent overnight to the newly promoted executives. They started a week later.

The restructuring was a bold and risky business move, the equivalent of a heart transplant for a big retail company, and it had to be done without missing a beat. It was also a bold cultural move, signaling a huge transition toward a more centralized company. The way it was done—so quickly and collectively, with people jointly debating each candidate's merits so that everyone understood the reasons why one individual was chosen over another—planted the seeds of communality, candor, and decisiveness in the new culture. As Donovan says, "At the end of the day, everyone cheered and applauded. It was exhilarating having accomplished together what we did in a single day."

Speed and Sustainability

One of the lessons of Super Saturday is that, as Donovan says, "In the game of change, velocity is your friend." Talk all you want about trying to match the speed of change to an organization's ability to absorb it. Most companies don't have the luxury of moving at their own rate because external factors dictate the tempo. Donovan likes to recall a comment that was frequently made at some early open meetings for employees—that the company needed to pace the changes being proposed—and Nardelli's quick response: "Good point. Give me five minutes. I'm going to go call

Lowe's and ask them to slow down for us."

But forcing a change too quickly can backfire. Nardelli recounts his initial attempt to improve inventory turnover. "Thou shalt improve inventory turns," he decreed. But the store managers didn't have the customer data and analytic tools they needed to do that—so they simply cut back on ordering. This certainly reduced the amount of merchandise idling on the shelf. In fact, the shelves were empty.

Nardelli's response was swift, decisive, and bold. "You put the brake on your plan," he says. "You place $500 million in orders to reload the shelves, and then you step back and look at where your assumptions were wrong." To reduce inventory turns in a way that worked, store managers were given and taught how to use the needed forecasting and inventory management tools, well known in the industrial sector from which Nardelli came. In describing the desired pace of change, Nardelli uses an image from NASCAR auto racing: Brake into the sharpest turns while never letting up on the throttle.

Assuming the rate of change is more or less right, how do you make change stick? How do you sustain it, integrate it into the organization, embed it in the culture? How do you keep it from being one more initiative that flares up and flames out? Home Depot's experience suggests a number of answers.

Where possible, get people affected by a change to help define the problem and design the solution. Base your change on hard data that everyone has access to. Institutionalize the change by starting with a single project, then move to consistently apply repeatable processes that sustain it. Build accountability into such processes. Create interlocking dependencies between different parts of the organization so that they have a mutual interest in sustaining the change.

Perhaps most important, don't view transformation—even something as cataclysmic as the centralization of purchasing—as a onetime event or a point to be reached. Rather, view it as a work in progress that will constantly need to be modified. External forces require a company to constantly change, and a successful culture has a methodology that allows it to do that.

Take SOAR planning. Over the years, some unintended consequences have emerged, including what CFO Tomé has dubbed "batch processing for capital." "People were holding back until the annual SOAR meeting before seeking funding for good ideas," she says. "But we're trying to run a business *today.* If someone has a great idea today, we should hear about it today." This particular problem was fixed by providing a mechanism for interim approvals of capital requests. To prevent similar kinds of problems, a half day is now set aside at the end of the SOAR session to evaluate how the process can be refined—a huge factor in making it adaptable and sustainable.

The Tide Turns

The inventory turn initiative wasn't the only effort that had to be retooled. Some were scrapped entirely. For example, Nardelli tried to shift the staff mix on the sales floor from 30% part-time to 50% part-time, not only to cut costs but also to gain the flexibility to adjust coverage during busy times of the day. The move was a disaster. Customers complained about bad service. Employees complained that part-timers weren't committed to Home Depot. More fundamentally, the move was seen as an affront to a crucial pillar of Home Depot's traditional culture, in which people thought of the company as a place where they could build a career. Nardelli abandoned the change, and his willingness to correct a mistake enhanced his standing among employees.

But the Home Depot culture today—with its focus on process, hard data, and accountability—is different from what it was five years ago. And there are concrete signs of its acceptance by employees. Not surprisingly, in the new culture, some of those signs take the form of data. Employee surveys, administered by Donovan's department and completed by more than 80% of Home Depot's 300,000-plus workers, showed a rise in a composite measure of various aspects of job satisfaction from one point below the average score for all industries in 2002 to eight points above it in 2004. Relative to the retailing sector in particular, the score represented a rise from five points above the average to 14. The composite measure includes engagement in the business, enjoyment of the employee's existing role, support for the leadership, and confidence in the company's future.

Perhaps the most vivid evidence of people's acceptance of the new culture, though, is anecdotal. In January 2003, Home Depot held the last of the store manager learning forums in Atlanta. The benefits of the business changes generally hadn't yet flowed through to the financial results, and the company was taking a drubbing in the media and the markets. Despite this, or perhaps because of it, the managers were pumped up as the five-day session came to a close. When Nardelli arrived to address them on the last day, the group—which would barely have acknowledged the CEO's presence a year before—rose up in a body and cheered. Manager after manager went to the microphone to say how difficult the changes had been to accept, especially in the face of external criticism, but how they now supported what the company was trying to do. In the words of one: "We've got your back, Bob."

It didn't stop there. Home Depot's senior management team was going to meet with 200 analysts the next day. Some of the store managers decided to, in effect, storm the meeting and tell the analysts how positive they were about the company's future. Taylor, at the time the president of the southern division, recalls getting a call from someone at the forum alerting him to the plan. "We can't let them do that!" Taylor told Nardelli. Yes, it was a nice show of support. But it could be disruptive, and it might look orchestrated. After some discussion, Nardelli weighed in: "Let's let them do it. The only rule is that I don't want anyone telling them what to do."

The next morning, just as the analysts' meeting began, 240 clapping store managers came in from the back of the auditorium and up onto the stage, taking over the gathering. "It scared the hell out of the analysts," as Donovan recalls it. Two managers, including a woman with 20 years' experience, read statements about their support for the changes. There was a hushed silence, and then the store managers broke into a roar.

The managers' burst of energy was a clear sign that the culture had begun to change. The road to this point had been undeniably rocky, and, not surprisingly, there have been bumps since then. Every change effort has persistent skeptics, both inside and outside a company. But in the ensuing months, the leadership team could increasingly sense that people were interacting with one another and making critical decisions in significantly different ways. Crucially, that behavior was becoming a routine part of everyone's daily work. With these cultural changes embedded in the organization, improved business results were sure to follow.

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Further Reading

Home Depot's Blueprint for Culture Change is also part of the *Harvard Business Review* OnPoint collection **CEOs on Leading Change,** Product no. 4117, which includes these additional articles:

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