

A DISCUSSION WITH HOME DEPOT EXECUTIVE HAL LAUGHTON, SENIOR VICE PRESIDENT OF MERCHANDISING

- Company: The Home Depot, Inc.
The world's largest home improvement specialty retailer, with more than 2,200 retail stores in the U.S., Puerto Rico, the Virgin Islands, Guam, Canada, and Mexico.
- Respondent: Hal Laughton, Senior Vice President of Merchandising
Profit and loss responsibility for \$23 billion in sales covering tools, hardware, outdoor living, outdoor garden, and cleaning businesses.
- Interviewer: Andrew C. Wicks

BACKGROUND

Background: Andrew C. Wicks (Darden School, University of Virginia) and Jeffrey S. Harrison (Robins School of Business, University of Richmond) asked seven executives from six major companies engaged in a variety of industries to read and then respond to an academic article they had published on measuring performance from a stakeholder perspective. The Harrison and Wicks paper is called "Stakeholder Theory, Value and Firm Performance." It was published in *Business Ethics Quarterly* in January 2013. The authors started the discussions with a list of questions, but then also asked follow-up questions and allowed executives to expand on topics in which they were particularly interested.

What follows is the transcript of one of the interviews in its complete form. Andrew and Jeffrey lightly edited the interviews and eliminated things not pertinent to the study (such as pleasantries) and they also allowed the interviewees to make clarifications prior to publication. The most interesting statements are in bold.

A related paper also included in this repository is called "A practitioner critique of a conceptual paper on measuring value and performance." That paper includes a more detailed examination and evaluation of what they found across all the interviews.

OVERALL REACTIONS

- Wicks: Initial reactions to the paper?
- Laughton: My exposure to stakeholder theory is not robust, but I've had enough exposure over the last 10 or 15 years to know that it's been an off-and-on topic. When I was in consulting at McKenzie, it was certainly something that we talked to companies about and I know some embraced it, such as Wal-Mart during times of crisis or perception dips. I'd say at Home Depot – I guess my take on it would be and I think it's line with the way Home Depot has approached it – is that while there are many elements of the article that are very much core to our culture, **we've never gone through a process of saying, hey, let's really in a very analytical way, let's go though and do a stakeholder theory assessment and a set of actions against those and that sort of thing. It's really more – a lot of the things that are in here make a ton of sense and we do them just as a matter of course every single day. It's more embedded in our culture. We're a 35-year-old business, one CEO removed from our founders, and so much of the culture they created is very much pervasive in the business.**
- Wicks: It is less of an intentional, conscious thing. It's sort of embedded in who you are. Are there things about Home Depot culture that in your mind speak to this desire to think about stakeholders and what they want? Or how they think about value?
- Laughton: **There are two icons, if you will, that we reference almost daily inside the company. They're not just pictures on the wall, but real things that help drive our decision-making. The first is the inverted pyramid. That's where at the top of the pyramid we have our customers and then at the bottom of the pyramid is the CEO. Below customers is our front-line associates and then you have our regional folks and then you have the store support center and then you have the CEO at the very bottom and the intent there is really around servant leadership and the fact that really, at the end of the day, it's all about customers. What it's trying to reinforce is we take care of our associates, our associates take care of our customers, and then everything else will be just fine. We use that vernacular a lot inside the company and talk a lot about the inverted pyramid and we're all in stores all the time. We say take problems away, don't leave them with problems. Help our store associates and we talk a lot about absorbing complexity at the store support center and keeping things simple for our stores to execute. That would be one icon that's very much pervasive inside the company.**

The other is our values wheel. We have eight elements of our values wheel. I'll hit them briefly, but you can find them anywhere online. They are excellent customer service, creating shareholder value, entrepreneurial spirit, taking care of our people, respect for all people, doing the right thing, building strong relationships, and giving back. These mirror the kind of performance measures and stakeholder perspectives that are documented in the paper.

When I first joined Home Depot, having spent a little over five years at McKenzie and having worked with probably 15 to 20 companies, the first day I walked into Home Depot, I walked in our main lobby and there were banners of those values hanging. Candidly, I was a little bit patronizing and I said, oh, look, I'm looking forward to working for Home Depot – how nice it is that they have their values hanging from the ceiling. Little did I know that we actually reference them all the time. They are very much guideposts to how we make decisions inside the company, very much a common set of ways that we talk inside of our stores. Entrepreneurial spirit as an example of the way that we encourage our stores to go and localize their store product, localize their store execution, but also do things like connecting with the local municipalities. Be on the council with the mayor. That's something that's a priority for them. Connect with your city and police and fire organizations, that kind of stuff. Doing the right thing.

We have one of the most unique charitable giving organizations that I'm aware of. It's called the Homer Fund. For every dollar Home Depot associates put in the fund, Home Depot matches it dollar-for-dollar and then associates can apply for help in a time of need. Megan can give you the exact numbers, but when we had Hurricane Sandy go through last year, we had something like 4,000 or 5,000 associates apply for grants within the first few days after the hurricane. The joke inside of Home Depot is we're faster than the insurance companies in terms of getting you payments and getting you money to bridge over. If your home was destroyed, you have to stay in a hotel, to be able to get food, to be able to buy gas and continue to get to work. Those are things that those two icons really very much represent – the essence of Home Depot – and we are reflective of a lot of what's in there. I don't think we have metrics we measure against them or actions that we're taking each year against those values. They just are pervasive through the company.

Wicks: They're beacons out there that people reference?

Laughton: Correct.

STRENGTHS OF THE PAPER

- Wicks: Anything that jumped out that you really liked about the paper? Any specific ideas, passages, sections?
- Laughton: I certainly believe, and I know we at Home Depot believe this – we don't talk openly about it, but **our actions certainly reinforce the belief that if you engage with and build relationships with community stakeholders, suppliers, customers, and do those in an emotional investing-like way, that it will pay dividends for you in sales and profit over the long run. We don't do a kind of a calculated return on investment because we do it each and every day.** Just a simple case example – every single week we do a 30- to 45-minute video that the stores watch called “The Same Page” to make sure everybody has a common set of priorities across the country. We do about 2-minute spot that's around emotional connection and we bubble up from the stores phenomenal customer experiences that our associates have had with a customer. We talk about it and those aren't things you can train. They aren't things you can coach and mentor associates to do. What you do is give them guardrails and guidelines and tell stories about what other associates are doing and that has a tendency to create a virtuous cycle.

A case example: someone that's paralyzed and is in a wheelchair has their water valve going into their home through a water filter break, and their house starts to flood. He calls the fire department. The gentleman happened to be a military vet as well. The fire department came out and turned the water off at their house but obviously didn't fix the valve. It's 9:45 at night. This person is wheelchair bound so they called Home Depot to ask if they have the valve. They said maybe a neighbor could come down and get it in the morning. Maybe a plumber could come out in the afternoon. The Home Depot associate said: “Hey, we've got the valve, let me grab my floor manager real quick”. He came back on the phone and said, “How about I come out to your house with my store manager and we'll bring the valve out, no charge to you on that, and we'll install it tonight”. They went out there and did that, turned the water back on. We have stories like that every single week that we celebrate and are part of the essence of our business. We believe that's around creating an emotional connection with our customer and that's an important thing to do, particularly in the evolving retail landscape where folks can just hop online and buy something every day. We don't do it because there's an ancillary benefit; we just do it because it's part of who we are, but it's the kind of gift that keeps on giving.

WEAKNESSES OF THE PAPER

Wicks: Things that were weaknesses in the paper?

Laughton: **I do think that folks do it with the expectation that there's a payback on the investment and that they really want to measure it and I think that it has a tendency to come off fake to the stakeholders. I think it's very important for a business to execute in a way that's real.**

Wicks: How do stakeholders know that?

Laughton: If you're dealing with suppliers, if you're dealing with customers, if you're dealing with your employees, over time folks can tell if things are authentic and genuine. We talk a lot about how our brand stands for real genuineness and authenticity and I don't know how you put a measure on it, but I think folks can tell.

Wicks: Over time? It's not just a 1-time thing?

Laughton: Right.

ARE FIRMS MOVING IN THE DIRECTION THE PAPER DESCRIBES?

Wicks: More broadly at the business landscape ... do you think that firms in general are moving in the direction this paper describes in terms of thinking about stakeholder value, trying to be innovative, not forgetting the importance of those financial metrics, but suggesting that looking at these more complex ways of talking about value may be really more important as business goes forward.

Laughton: Your perspective on that is probably as good as mine. But I would say that if I were thinking about the suppliers we interact with, our competitors we compete against, **I'd say they're doing it where they have to, probably more so than before.** Now, everybody has to have some sort of environmental report out. They have to have some sort of way they measure, track and monitor their impact on the environment. I think everybody these days are doing some things around their employees that may be as much out of defensive approach, like if you think about Wal-Mart and some of these others, the fast food companies, they're probably defensive on that as they are offensive around worrying about labor unions and wage rates. I know that there's a huge shift. I'd say the companies that have done this sort of thing their whole lives and it's embedded in their culture are continuing to do it and there are probably some people who're doing things on elements of it just because they kind of have to.

IS YOUR FIRM MEASURING PERFORMANCE MORE BROADLY?

Wicks: You've mentioned examples at Home Depot. Talk more specifically about where you're heading in terms of these kinds of notions of value and specifically places where you're trying to measure – broader statements around values and less specific metrics – things you envision Home Depot doing going forward to measure performance?

Laughton: **We have a couple of metrics. We do an employee survey. We measure participation in that as well as the actual raw metrics across a number of questions and then look at that in a longitudinal way over time and then look at variances across different parts of the country, different types of associates, tenure levels, that kind of thing. We also have a voice of customer survey that we do each and every day and look at that longitudinally as well as in various other formats, such as geography, etc. From time-to-time we will do a survey of our suppliers and get feedback and get scores. We don't really have anything that we measure per se that I'm aware of on shareholders, except our returns – ROI, EPS, PE, that kind of stuff.**

Same thing on community. I'm not aware of anything we do that's measureable there, but we certainly have things that we're executing across each one of our communities. Not in a purposeful way to move those metrics. The things we do are just really about doing the right thing across these relationships.

Wicks: It doesn't make any sense to try to measure that. It's just something that you do?

Laughton: I don't know. We're an analytical organization, a very data-oriented organization as it relates to gross margin rates, sales metrics, different inventory level metrics that we have across skews and square footage and geographies and we're very metric oriented. **We have a saying inside the company that you get what you measure.** If you measure BOC for the purpose of just moving VOC, that's voice of customer, you end up having employees filling out surveys, you end up having ways that people can manipulate the system behind VOC. **There are ways people can manipulate the system and so I think we do things to try to ensure that we're just doing the right thing without trying to drive system manipulation.**

HOW WOULD YOU HAVE WRITTEN THE ARTICLE DIFFERENTLY?

Wicks: As you looked at this, beyond the strengths and weaknesses, if you had sat down to try to do this, how would you have written the article differently? Authors miss that you think is important for understanding business?

Laughton: Nothing really jumps out at me. **I think the only thing I would say is that businesses are under pretty extreme pressure right now for profitability and for growth and you've got a lower GDP growth rate. It used to grow 3-4%. It's probably 1½ to 2½ now. Companies are struggling to continue to grow profits at that growth rate, at least through leverage. You've got a lot of pressures to be able to leverage your business on things like wage rates, on potential labor, certainly more putting aside no matter what your political views are, certainly a more socialist-oriented set of government policies that are putting pressure on company profits, whether it tax rates, health care, etc. I think those are real impacts companies are facing right now and I think there's some who may be-- Depending on where they are with their shareholder base, might dictate how they approach these things.**