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INTELLECTUAL CAPITAL EXCHANGE

Sears Case Study

Organizing the IT Human Resources Function



Summary

This case study describes the structure and strategy of the IT HR group at Sears, Roebuck and Co., a company recognized for its leading IT organization. This case study might be used to: provide an example of how to organize the ITHR group to increase its strategic focus; initiate discussions about potential approaches to recruiting, employee attitude surveys and performance appraisals; and, benchmark how your company has assigned responsibilities for IT human resources activities.

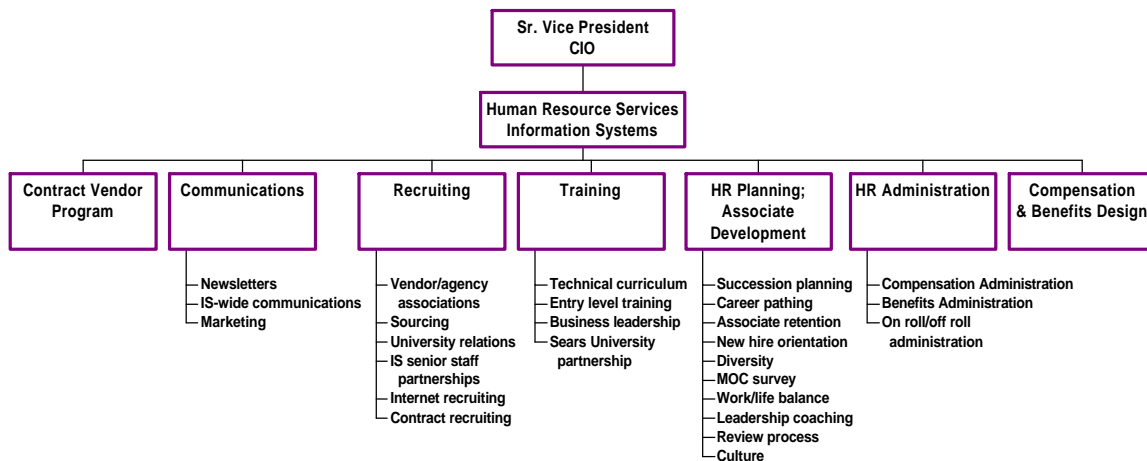
SNAPSHOT

Sears, Roebuck and Co. has been recognized by CIO magazine as a leading company in its use of information technology and by ComputerWorld as one of the top IS shops to work for. Sears has a staff group dedicated to IS HR activities and its IS strategic planning process formally addresses human resource issues. This case describes how the IS human resource management function is organized and managed, and highlights effective practices in the areas of compensation, recruiting, use of employee attitude surveys and performance reviews.

OUTLINE OF THE CASE STUDY

- ❖ **Organization Chart**—the human resource services organization in IS
- ❖ **Background**—context information about Sears, its IS organization and human resource function
- ❖ **Overview of the IS HR Organization**—description of the IS HR group, its responsibilities and its relationship with corporate HR and IS executives
- ❖ **Compensation Practices**—overview of key compensation policies
- ❖ **Recruiting Activities**—how Sears approaches recruiting, especially entry-level hiring
- ❖ **Employee Attitude Survey**—how IS leverages the company-wide “My Opinion Counts” survey
- ❖ **Performance Appraisal Process**—key aspects of the performance review process

Exhibit 1
Sears IS HR Organization Chart





BACKGROUND

Sears, Roebuck and Co., headquartered near Chicago in Hoffman Estates, Illinois, is a well-known retailing giant with 1997 revenues of \$41 billion, approximately 300,000 employees (called “associates”) and more than 2700 retail units. Since 1992, the company has undergone a major transformation, divesting itself of Dean Witter, Coldwell Banker, and other non-retail businesses, and dramatically improving its financial results.

In the course of redefining the company, senior management developed a rigorous model of the business that showed the links from management behavior through employee attitudes to customer satisfaction and financial performance. This “employee-customer-profit” model and its associated “total performance indicator” measures are now an integral part of the company’s management system, and are changing Sears’ culture. To paraphrase the vision statement, everyone can now see how making Sears a compelling place to work affects making Sears a compelling place to shop and hence, a compelling company in which to invest. By aiming to be a compelling place to work—and by linking leadership behaviors and employee attitudes to improved business performance—Sears has shifted the role and focus of the human resources function.

Thus, Sears is addressing the challenges of IS staffing in the context of a positive and corporate-wide emphasis on human resource management issues.

IS Organization

Sears has a centralized IS function, led by a Senior Vice President/CIO who reports to the CEO. There are over 1500 IS employees and approximately 250 contractors. The majority of these individuals (1250 or so) are located at headquarters. Groups of about 100 employees are in Austin and Boise, with the rest in a few other locations.

There are seven IS vice presidents who report to the CIO and lead systems development organizations aligned with Sears’ business units (e.g., full-line stores, home stores, auto group, credit). Also reporting to the CIO is a planning and administration group responsible for IS strategic planning and budgeting, and a technology services organization responsible for infrastructure and standards, including technical architecture, telecommunications and distributed technology. (Sears outsourced its data centers and data network in 1994.) Finally, there is an HR management function that reports to the CIO and is responsible for all aspects of IS HR activities.

Human resource issues are an integral part of the IS strategic planning process, including such specifics as overall level of staffing needed, staffing mix, critical skills and strategies to attract and retain associates. In today’s tight IS labor market, Sears considers recruiting and compensation issues to be critical HR-related challenges.

OVERVIEW OF THE IS HR ORGANIZATION

The current structure of the IS HR function has only been in place since November 1997. Prior to this, IS had its own recruiting staff and (top notch) training group, but they were separate from one another and from the HR administrative functions (such as compensation and benefits), that reported to Corporate HR.

As part of the transformation of the human resources function, the major business units at Sears now have HR functions reporting directly to them, with dotted-line relationships to Corporate



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HR. However, initially IS did not have its own HR group because it was viewed as one of the corporate “shared services” organizations that was supported by Corporate HR. The IS HR group was established partly because IS differed in its HR needs, but more importantly, because senior management came to recognize IS’s increasingly essential role in all of Sears’ businesses.

A Senior Director of IS Human Resources now heads a 30-person organization with the following areas: recruiting; training; contractor relationships; communications; compensation and benefits design; HR administration; and HR planning and associate development. The latter area is responsible for such activities as succession planning, career paths, new hire orientation, diversity, review process, leadership coaching and work/life balance. Given the changes in Sears’ strategy and culture, the IS HR group has made issues related to workplace transformation a priority.

The creation of the IS HR group has only strengthened the already positive relationship between the IS department and Corporate HR. The IS HR group and Corporate HR work closely together on many initiatives, and share a common understanding of key issues.

This new structure—of having all IS HR-related activities in one organization that reports to IS—is enabling the Senior director and her team to develop a more strategic focus on staffing issues and to forge close relationships with IS senior management. Based on interviews with two of the IS vice presidents, the new group is becoming very effective in supporting IS’s staffing challenges—and the Senior Director and her team are increasingly viewed as thought leaders. One of the IS VPs commented that creating the new group has given IS the structure and the talent necessary to have meaningful dialogue about key human resource policies.

Moving through 1998 and into 1999, the HR IS team will be focused on several strategic initiatives:

- ❖ A comprehensive compensation/benefits strategy will be created to continue recruiting/retention support.
- ❖ IS Career Pathing will be defined so a “technical” associate can gain the same pay and position opportunities as management IS associates.
- ❖ Tied closely to Career Pathing will be a new Career Banding Compensation program.
- ❖ Finally, a life/work balance initiative will be implemented in several IS areas.

COMPENSATION PRACTICES

The IS HR Senior Director has established a Compensation Council, comprised of IS managers, to increase their understanding and involvement regarding compensation questions such as how to stay competitive and be innovative. Company-wide, Sears has a compensation structure that puts a portion of almost every salaried employee’s pay at risk. This is not typical in many firms for lower level employees, and Sears has found that some IS candidates are not comfortable with this pay structure.

For mid- to upper-level associates, the “at-risk” compensation was implemented by holding base salaries constant and subsequently adding incentives. For example, a project manager’s salary is now typically comprised of 80 percent base and 20 percent incentive. The structure works well



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when the company has good years and good payouts. Fortunately the first two years that this salary structure was in place Sears' financial performance was strong; the past year was not as strong. In general, IS has been increasing salaries by adding a small amount to the base, but for the most part by increasing the incentives—but this year IS is adding primarily to base.

Additionally, a recently completed IS salary study shows that Sears' IS salaries somewhat lag behind the market rates. In response, the Compensation Council is in the process of setting new market target salaries.

RECRUITING ACTIVITIES

Historically at Sears, there were one or two people in IS dedicated to recruiting, but the focus of the activity was very tactical. The creation of the IS HR group has helped recruiting gain a more strategic focus and a closer partnership with IS senior management.

The new head of IS recruiting described the three components of his responsibilities: (1) partnering with IS management to understand their staffing needs and the financial implications of the recruiting goals; (2) determining how to recruit and executing effectively; and (3) keeping Sears educated about the market trends for IS labor. Today, most openings exist as a result of expansion and because IS is trying to reduce the number of contractors it uses. At about 11 percent, turnover is viewed as fairly low.

College Recruiting

Sears actively recruits college graduates into an entry-level training program and has an internship program for college students. The schools focused on include: local colleges and universities; colleges where the retail side of Sears recruits heavily; and schools with significant numbers of minority students and strong technical training programs. There is a two-person college recruiting team in IS HR that works with a number of IS managers who make campus visits. After the on-campus interviews, promising candidates are invited to Sears for a more intense round of interviews.

Sears looks for candidates who are attracted to a large company environment. With business units in retail, financial, automotive services, and telemarketing, Sears offers a wide variety of career opportunities. There are clearly defined requirements for entry-level hires. Candidates must be computer science majors or have taken at least two programming courses. Those who are not computer science majors are given an aptitude test on campus. Candidates take a pre-employment test called the Leadership Skills Inventory that measures various skills that predict success in the Sears environment.

During "recruiting season," the interviewers meet weekly to decide to whom they will make offers. These individuals are hired into a pool, not necessarily specific positions. (Senior IS management determines the target number of entry level staff needed each year. In 1997 it was 60–70; in 1998 the target is 85 for headquarters plus 15 for the Boise group.) The entry-level hires go through a 14-week training program that is run twice a year. The training focuses on structured programming methods and Sears' system development methodology, using a combination of lectures and case studies. At the end of the program, the new hires are assigned to a regular position.



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Sears has also established a training program in partnership with Florida A&M University. (The university wants more of its students to become computer-literate). Sears provides the computing resources and assists with curriculum development for a special program that teaches programming and computing concepts to undergraduates not majoring in computer science. Sears expects the program to increase the pool of diversity candidates qualified for, and interested in, entry-level IS positions—and hopes to attract a share of them.

In addition to college recruiting, Sears hires experienced staff from a variety of sources. Last year, employee referrals accounted for approximately 25 percent of their experienced hires. (Employees receive a \$2000 cash bonus if a person they refer is successfully hired.) Agencies were the source of about 20 percent of the experienced hires, with the next largest source job fairs and print ads.

EMPLOYEE ATTITUDE SURVEY

Sears was a pioneer in the use of employee attitude surveys, although the practice was discontinued in the mid-1980s. In the early 1990s, the survey was rejuvenated. Corporate HR updated the questionnaire, with input from over twenty-five employee focus groups, and embarked on two-year cycles for administering the new “My Opinion Counts” (MOC) survey.

In conjunction with the “employee-customer-profit” model and TPI indicators mentioned previously, data from the MOC surveys were given to the consulting firm that helped develop and validate the models. Because the MOC became a strategic business measure for the model, the decision was made to survey every employee annually, a large undertaking from a logistical point of view. In 1997, close to 300,000 surveys were distributed and approximately 200,000 employees responded.

There are 90 core questions in the MOC and business units can add 25 questions tailored to their area. The Corporate HR manager responsible for the MOC process meets with the HR managers in the business units to determine these additional questions and also to determine what types of reports will be distributed to whom, when the results are in. Corporate HR provides training, including a videotape of instructions, for those who will be administering the survey. Corporate HR also provides supporting materials to go with the reports of the results, including a videotape of a mock feedback session and suggestions for how to respond to questions about specific issues. A very important part of the MOC process is the feedback sessions that managers conduct with their associates after getting the results for their areas.

How IS Uses the MOC Survey

Initially, the IS department looked at how to make the MOC questionnaire very tailored, based on their assumption that IS was different than most of the other business units at Sears. They finally decided, however, to leave the core MOC intact and simply add some specific questions, as the other units do. When the survey was administered in 1997, IS had a 94 percent participation rate. To help the IS department take action based on the MOC data, one of the IS HR managers conducted a training session for IS managers to help them effectively use the MOC results. About 80 or 90, of the 150 IS managers, attended. The HR manager also created a template for IS managers to guide their efforts to present feedback, identify priorities for improvement areas and solicit ideas for action.



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At the quarterly IS review meetings that the CIO conducts with his direct reports, the managers are asked for progress reports on MOC action items. In sum, MOC is becoming not an event, but part of a continuous improvement process in IS.

IS's effective use of the MOC results is facilitated by a Lotus Notes database that contains its MOC data and other information related to people management. The pilot was created as a grassroots effort by one of the IS HR managers and another IS associate, in response to hearing a senior IS manager wish that all his MOC data could be readily accessible in one place. Called the "Our People Add Value" database, it now also contains: policies and guidelines for conducting performance reviews; summaries of the CIO's quarterly meetings; information on various HR-related initiatives, such as the IS Compensation Council and new associate orientation program; and information on the HR issues and priorities for each group within IS.

Although it is still a prototype in some ways, the "Our People Add Value" database is clearly evolving, and suggestions for new content are welcome from anyone. The database is accessible to all IS employees and is used regularly, getting about 70 hits a day. Two IS vice presidents that were interviewed use the database to prepare for monthly management review meetings with their staffs, and for the CIO's quarterly review meetings. One of them is also on a task force examining compensation issues—the team is disseminating information by posting its progress on the database. Both find the database a useful, albeit evolving, tool.

The Corporate HR staff views this database as a leading practice within Sears. IS HR states that they have received tremendous support from Corporate HR in all they have tried to do with the "My Opinion Counts" results.

PERFORMANCE APPRAISAL PROCESS

The IS group has an effective review process that entails giving formal feedback to associates at least twice a year. It is similar to the review process used across the Sears organization. All associates are evaluated on how well they accomplish business results and how well they exhibit the "Sears 12 transformational leadership skills" (which include team skills, problem solving skills, customer service orientation, interpersonal skills, integrity and initiative). All review elements are rated on a scale of 1-to-5.

As part of the "business results" portion of the review process, associates are evaluated on how well they complete/meet their own "individual performance priorities" (IPPs). IPPs are jointly established by the employee and manager, and describe the business results (goals and measures) that the employee is responsible for achieving. This allows flexibility in the review so that each associate is measured on the elements and priorities most appropriate to his or her position.

The Sears 12 Transformational Leadership Skills are expected to be demonstrated by all associates across the organization. Corporate HR has developed behaviorally anchored rating scales to help managers evaluate an individual's performance in each skill as appropriate to his or her level or position.

Input to the review process includes the associate's self-assessment and, as appropriate, feedback from their "customers," peers, etc. For managers, 360-degree reviews are conducted annually, allowing input from supervisors, peers and subordinates. Establishing the IPPs (i.e., the goal



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setting) is viewed as a critically important part of the process. Having these agreed-upon goals makes it easier to evaluate performance and help keeps everyone focused on the right priorities. Setting and tracking personal development objectives is now also an important aspect of performance reviews.

For the past three years, IS has done mid-year reviews of its employees to determine whether everything is on track, and to help identify people who need additional help or development. Mid-year ratings are not officially recorded because IS management wants to focus on progress towards IPPs and development goals, not rating numbers. Initially there was a noticeable lack of enthusiasm for conducting mid-year reviews, but now it has become part of the IS culture; 80 percent of the IS group responded favorably about it on the 1997 MOC survey.

The two IS vice presidents interviewed emphasized the priority the CIO has put on the performance review process. During review time, the CIO publishes a report that tracks by area how many reviews have been conducted and how many are still to be completed. He has set a strong example of what constitutes an effective review and this has filtered down through the organization so that IS managers now know that one of the things they will be evaluated on is how well they conduct reviews.



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