Home Depot Implements Stakeholder Orientation

INTRODUCTION

When Bernie Marcus and Arthur Blank opened the first Home Depot store in Atlanta in 1979, they forever changed the hardware and home-improvement retailing industry. Marcus and Blank envisioned huge warehouse-style stores stocked with an extensive selection of products offered at the lowest prices. Do-it-yourselfers and building contractors can browse among 40,000 different products for the home and yard, from kitchen and bathroom fixtures to carpeting, lumber, paint, tools, and plant and landscaping items. If a product is not provided in one of the stores, Home Depot offers 250,000 products that can be special ordered. Some Home Depot stores are open twenty-four hours a day, but customers can also order products online. Additionally, the company offers free home-improvement clinics to teach customers how to tackle everyday projects like tiling a bathroom. For those customers who prefer not to “do it yourself,” most stores offer installation services. Knowledgeable employees, recognizable by their orange aprons, are on hand to help customers find items or to demonstrate the proper use of a particular tool.

Currently, Home Depot employs more than 371,000 people and operates over 2,200 Home Depot stores in the United States, Mexico, Puerto Rico, China, the Virgin Islands, Guam, and Canada. It operates four subsidiaries: Home Depot International Inc., Home Depot USA, Inc., HD Development of Maryland, Inc., and Interline Brands. The company is the largest home-improvement retailer in the world, with over $78 billion in revenues. Home Depot continues to do things on a grand scale, including putting its corporate muscle behind a tightly focused social responsibility agenda.

MANAGING CUSTOMER RELATIONSHIPS

In 2006 John Costello was the Chief Marketing Officer, or “Chief Customer Officer,” as he refers to the position. Costello consolidated marketing and merchandising functions to help consumers achieve their goals in home-improvement projects more effectively and efficiently. According to Costello, “Above all else, a brand is a promise. It says here’s what you can expect if you do business with us. Our mission is to empower our customers to achieve the home or condo of their dreams.” When Costello arrived in 2002, Home Depot’s reputation was faltering. His plan called for overhauling the Home Depot website as well as integrating mass marketing and direct marketing with in-store experience. The new philosophy was expressed by the new Home Depot mantra: “You can do it. We can help.” Teams of people from merchandising, marketing, visual merchandising, and operations attempted to provide the best shopping experience. The idea was simple. Home Depot believed customers should be able to read and understand how one ceiling fan is different from another, and associates (employees) should be able to offer installation and design advice.

In an effort to expand market share, Home Depot developed a new marketing strategy. The company’s approach was to emphasize the store’s everyday low prices, high product value, and quality energy-saving products. At the same time, the company cut back on special offers like...
discounts and promotions, in order to combat volatile market conditions and remain competitive within the home improvement segment.

Despite Home Depot’s proactive approach to customer issues, the company has had its share of challenges along the way. In the past, the company was forced to deal with negative publicity associated with customer-satisfaction measures published by outside sources. Over the past few years, Home Depot’s customer satisfaction scores have significantly improved. However, the University of Michigan’s annual American Customer Satisfaction Index in 2014 showed that Home Depot has consistently placed behind competitor Lowe’s when it comes to customer satisfaction. The company is down 3.8 percent from the previous year, whereas Lowe’s is down 1.2 percent.

Former managers at Home Depot blamed the company's service issues on a culture that operated under principles reminiscent of the military. Under CEO Robert Nardelli, some employees feared being terminated unless they followed directions to a tee. After months of decline in customer satisfaction and other areas, Nardelli was fired and Frank Blake became the newly appointed CEO. The Harris Poll Reputation Quotient study has ranked Home Depot for several years, and the company has proven inconsistent with its standing. At one time a number of customers said they appreciated Home Depot’s quality services. In 2015 it was given a score of 75.38. It still trails behind Lowe’s, but a score of 75.38 is considered to be a high score that indicates a strong reputation (scores from 75-79 are ranked as "very good" according to the survey).

The increase of customer satisfaction was due to several efforts on the part of Frank Blake. The company’s Twitter feed was inundated with comments from unsatisfied customers about the customer service they encountered in the stores. Blake quickly admitted to the customer service problems the company faced, apologized for the inconvenience it caused the customers, and encouraged them to continue to leave their feedback so they could make improvements. Each one of the complaints was addressed; some angry followers were appeased by phone calls from store managers and personal emails responding to their specific issues. The responsiveness of Blake and former Senior Manager of Social Media, Sarah Molinari, not only transformed angry protesters into enthusiastic fans but also resulted in a strategic advantage for the company in terms of how it deals with customer feedback.

Inside the stores, self-checkout lanes were installed so customers do not have to spend time waiting in line. However, at peak hours, waiting in line cannot be avoided. In instances such as these, Home Depot associates can scan items in customers’ baskets while they are in line and hand them a card that holds all their purchases. When the customer reaches the cashier, they simply scan the card and pay the total they owe. Home Depot was also the first to partner with PayPal, making it easier for customers who do not want to carry their wallet or cash with them to be able to pay more conveniently. Many of the Home Depot associates are given devices called “First Phone,” which is a phone/walkie-talkie/scanner. This device allows associates to help customers quickly by calling or paging fellow associates who can answer customers’ questions and have immediate access to the price of an item by scanning it right where they stand.

Another way Home Depot practices good customer service and simultaneously acts in a socially responsible manner is through its program designed to teach children basic carpentry skills. Home Depot provides a free program called the Kids Workshop available at all its stores. During the workshops, children learn to create objects used around their homes or neighborhoods.
Projects include toolboxes, mail organizers, and window birdhouses and bughouses. Home Depot also offers free workshops especially designed for women and for new homeowners.

**ENVIRONMENTAL INITIATIVES**

Cofounders Marcus and Blank nurtured a corporate culture that emphasizes social responsibility, especially with regard to the company’s impact on the natural environment. Home Depot began its environmental program on the twentieth anniversary of Earth Day in 1990 by adopting a set of Environmental Principles. These principles have since been adopted by the National Retail Hardware Association and Home Center Institute, which represents more than 46,000 retail hardware stores and home centers.

Guided by these principles, Home Depot initiated a number of programs to minimize the firm’s—and its customers’—impact on the environment. The retailer began using store and office supplies, advertising, signs, and shopping bags made with recycled content. It also established a process for evaluating the environmental claims made by suppliers. The following year the firm launched a program to recycle wallboard shipping packaging, which became the industry’s first “reverse distribution” program. In addition, it was the first retailer in the world to combine a drive-through recycling center with one of its Georgia stores. One year later Home Depot became the first home improvement retailer to offer wood products from tropical and temperate forests certified as “well-managed” by the Scientific Certification System’s Forest Conservation Program. The company also began to replace its hardwood wooden shipping pallets with reusable “slip sheets” to minimize waste and energy usage and decrease pressure on hardwood resources.

In 1999 Home Depot joined the Certified Forests Products Council, a nonprofit organization that promotes responsible forest product buying practices and the sale of wood from Certified Well-Managed Forests. Yet the company continued to sell products made from wood harvested from old growth forests. Protesters led by the Rainforest Action Network, an environmental group, picketed Home Depot and other home center stores for years in an effort to stop the destruction of old growth forests, of which less than 20 percent still survive. Later that year, during Home Depot’s twentieth anniversary celebration, Arthur Blank announced Home Depot would stop selling products made from wood harvested in environmentally sensitive areas.

To be certified by the Forest Stewardship Council (FSC), a supplier’s wood products must be tracked from the forest, through manufacturing and distribution, to the customer. Harvesting, manufacturing, and distribution practices must ensure a balance of social, economic, and environmental factors. Blank challenged competitors to follow Home Depot’s lead, and within two years several met that challenge, including Lowe’s, the number-two home-improvement retailer; Wickes, a lumber company; and Andersen Corporation, a window manufacturer. By 2003 Home Depot reported it had reduced its purchases of Indonesian lauan, a tropical rainforest hardwood used in door components, by 70 percent, and continued to increase its purchases of certified sustainable wood products. In an effort to reduce its carbon footprint, Home Depot aimed to decrease not only store operations but also simultaneously reduce transportation emissions emitted by the company. To do this Home Depot installed dual-flush low-flow toilets in stores that reduce water usage by 40 percent. In other efforts, the company switched to high efficiency T5 fluorescent lighting, which lowered overall wattage and created more energy-efficient lighting in stores. The company then provided new irrigation systems that reduced water usage by 35 percent and only irrigates where and when it is necessary. Also,
Home Depot installed LED exterior signs that replaced the fluorescent lighting that was previously in place.

To further its efforts of sustainability, Home Depot installed solar panels on 62 of its retail stores, making it the largest retailer to host solar programs. The company partnered with solar energy provider SolarCity to inform in-store customers about the benefits of installing solar panels. As part of the partnership, SolarCity consultants can be found in Home Depot stores nationwide. In 2015 Home Depot awarded SolarCity the Home Depot Environmental Partner of the Year Award. For its efforts in social responsibility and sustainability, the company was honored with the ranking of one of the top 25 Socially Responsible Dividend Stocks in 2012, meaning it was recognized as being a socially responsible investment. Being a responsible investment is determined not only through its environmental initiatives, but also through its social impact. The company also offers a variety of sustainable products through the brand Energy Star, which allows its customers to take part in creating a better tomorrow.

These efforts yielded many rewards in addition to improved relations with environmental stakeholders. Home Depot’s environmental programs earned the company an A on the Council on Economic Priorities Corporate Report Card, a Vision of America Award from Keep America Beautiful, and a President’s Council for Sustainable Development Award. The company has also been recognized by the U.S. Environmental Protection Agency with its Energy Star Award for Excellence.

**EMPLOYEE AND SUPPLIER RELATIONS**

Home Depot encourages employees to become involved in the community through volunteer and civic activities. It strives to apply social responsibility to its employment practices, with the goal of assembling a diverse workforce that reflects the population of the markets it serves. However, in 1997 the company settled a class-action lawsuit brought by female employees who alleged they were paid less than male employees, awarded fewer pay raises, and promoted less often. The $87.5 million settlement represented one of the largest settlements in a gender discrimination lawsuit in U.S. history at the time. In announcing the settlement, the company emphasized it was not admitting to wrongdoing and defended its record, saying it provides equal opportunities for all and has a reputation of supporting women in professional positions.

Since the lawsuit, Home Depot worked to show it appreciates workforce diversity and seeks to give all associates an equal chance to be employed and advance. In 2005 Home Depot formed partnerships with the ASPIRA Association, Inc., the Hispanic Association of Colleges and Universities, and the National Council of La Raza to recruit Hispanic candidates for part-time and full-time positions. Home Depot is a member of the American Association of Retired Persons’ (AARP) Featured Retirement Program that helps connect employees 50 years or older with companies that value their experience. Home Depot also has a strong diversity supplier program. As a member of the Women’s Business Enterprise National Council and the National Minority Supplier Development Council, Home Depot came into contact and did business with a diverse range of suppliers, including many minority- and women-owned businesses. In 2005 the company became a founding member of The Resource Institute, whose mission is to help small minority- and women-owned businesses by providing them with resources and training. Home Depot’s supplier diversity program won it numerous recognitions. It ranked as the number one home-improvement retailer for diversity in
DiversityBusiness.com’s Top 50 Organizations for Diversity and was rated as among the 2015 Corporations of Year by Women’s Enterprise USA.

**NEW TECHNOLOGY INITIATIVES**

Home Depot is turning to technology to improve customer service and become more efficient. Compared to its rivals, Home Depot lagged behind technologically. For instance, employees were using computers powered by motorboard batteries and stocking shelves the same way they had done for the past 15 years. Unlike its rival Lowe’s, Home Depot did not allow customers to order products online and pick them up at the stores. As more consumers choose to complete their transactions on the Web, this represented a weakness for Home Depot. In 2010 Home Depot’s online sales constituted only 1.5 percent of overall sales. Although rapid expansion increased its reach, Home Depot was not adapting as quickly to the fast-paced world of technology.

After recognizing its limitations in this field, Home Depot embarked on several technology initiatives. These initiatives are intended to improve both its customer service and Home Depot’s daily operations. One small victory Home Depot achieved is beating Lowe’s in unleashing a mobile app that enables consumers to order Home Depot products. Its app is also more extensive than Lowe’s with features such as voice guided product locating services.

Additionally, Home Depot invested $64 million to create First Phone, a device that replaces the old computers on associates’ carts. It has since come out with newer customized models that it is distributing among stores. The device allows associates to communicate with other associates, print labels, process credit and debit card transactions, and manage inventory, among other functions. The newer also have improved battery life, a mag-strip pay-car reader, and the ability to check out customers from outside the store in Home Depot's garden areas. According to CEO Frank Blake, the purpose of First Phone is to help associates spend less time on routine tasks and more on customer service.

Home Depot also redesigned its website to improve navigation and communication channels. The company provided upgrades such as live chat and developed a buy online pickup option. Home Depot managed to reduce response time to customer emails from 24 hours to one hour or less. In 2013 it introduced its "Home Depot Delivers” option involving same-day shipping for products ordered online.

In 2011 a special component of the Home Depot website launched for “Pro” (Professional and Contractor Services). This website is intended to decrease the time it takes for professionals and contractors to get in and out of the store, allow them to order online and pick up their goods within a couple of hours, and enable delivery for certain products when ordered in bulk. Home Depot recognizes professionals should spend less time in the store and more on the job. After this website was implemented, the speed to get in and out of the store increased by 27 percent from the previous year. Three percent of the customers identified as Pros make up 30 percent of Home Depot’s annual revenue, making this an important market for the retailer.

Additionally, Home Depot is improving its logistics. Whereas the company had suppliers send trucks of merchandise directly to the stores, where associates would then unload them, Home Depot created distribution centers to make operations run more smoothly. This change also enables its associates to devote more time to customer service.
These are just a few of the steps Home Depot has taken to adopt a more proactive stance toward technological innovation. By concentrating on innovations that increase customer service, the retailer is attempting to advance its stakeholder orientation into all aspects of its operations. Home Depot’s technology enabled it to earn $3.7 billion in web sales versus $1.4 billion for Lowe’s.

A STRATEGIC COMMITMENT TO SOCIAL RESPONSIBILITY

In addition to its environmental initiatives, Home Depot focuses corporate social responsibility efforts on affordable housing and disaster relief. For instance, Home Depot believes it has a philanthropic responsibility to improve the communities where it operates. The company partners with Habitat for Humanity to build houses for disadvantaged individuals. In 2002 the company initiated the Home Depot Foundation, which provides additional resources to assist nonprofits in the United States and Canada. The Foundation awards grants to eligible nonprofits and partners with innovative nonprofits across the country working to increase awareness and successfully demonstrate the connection between housing, the urban forest, and the overall health and economic success of their communities. More recently, the company has been focused on meeting the housing needs of veterans. Since 2011 the foundation has donated $105 million to meet these housing needs. Many of its employees across the nation are Team Depot volunteers who dedicate their time toward working to build and improve the homes of veterans and their families. Home Depot also developed the Homer Fund to provide financial assistance to employees and their families.

Additionally, Home Depot addresses the growing needs for relief from disasters such as hurricanes, tornadoes, and earthquakes. Not only is the company one of the first entities on scene to rebuild communities in times of disaster, Home Depot also makes an annual donation of $500,000 to the American Red Cross Annual Disaster Giving Program (ADGP) that enables the organization to respond quickly in times of need. After the 9/11 terrorist attacks, the company set up three command centers with more than 200 associates to coordinate relief supplies such as dust masks, gloves, batteries, and tools to victims and rescue workers. After the 2010 Haitian earthquake, Home Depot Mexico donated $30,000 to Habitat for Humanity to assist in Haiti’s recovery efforts in addition to launching a fundraising program for its Mexican associates. Home Depot pledged to double the resources its Mexican associates raised to aid in the relief effort.

More recently Home Depot has responded to the needs of many individuals after tornadoes and floods in Alabama, Arkansas, Mississippi, and Florida greatly impacted their lives. The Home Depot Foundation donated more than $80,000 in financial support for the victims of the tragedies. This support was provided to 20 affected communities across the region. The company also used its Homer Fund to help employees who were affected by the disasters.

Home Depot strives to secure a socially responsible reputation with stakeholders. Although it received low scores in the past on customer surveys and the American Customer Satisfaction Index, the company is consistently working hard to bring those scores back up. It responded to concerns about its environmental impact by creating new standards and principles to govern its relationship with its suppliers. Home Depot's philanthropic endeavors and its promotion of its products' low prices and high value continue to make it a popular shopping destination.
Knowing stakeholders, especially customers, feel good about a company that actively commits resources to environmental and social issues, Home Depot executives committed to social responsibility as a strategic component of the company’s business operations. The company should remain committed to its focused strategy of philanthropy, volunteerism, and environmental initiatives. Customers’ concerns over social responsibility and green products have not abated, and Home Depot’s sales of green products are strong. Its commitment to social responsibility extends throughout the company, fueled by top-level support from its cofounders and reinforced by a corporate culture that places great value on playing a responsible role within the communities it serves.

**CONCLUSION**

Over the past 35 years, Home Depot has changed the do-it-yourself home improvement retail environment. Home Depot has even encouraged other retailers to use warehouse-style stores stocked with lower-priced products. The company started with a clear understanding of its various stakeholders and has developed a strong commitment to customers, communities, suppliers, employees, and the environment. As with most large organizations, Home Depot has made some mistakes but seems to be able to recover quickly and respond to ethical issues. The company has become a leader in sustainability, especially in sourcing its products. From the beginning Home Depot has had a strong commitment to communities and has always been ready to respond to disasters such as hurricanes, tornadoes, and floods. Its support of Habitat for Humanity is an ongoing commitment to help those who are less fortunate have their own homes. Encouraging its employees to build houses for Habitat for Humanity has been beneficial in developing strong community relationships.

Home Depot continues to pursue innovation and change to relate to its stakeholders. For instance, it is engaged in a strategic overhaul of its supply chain. The company recognizes that supply chain members need to adhere to strong ethical and sustainability practices to meet consumer standards. The company continues to upgrade and strengthen its competitive position and has earned a strong financial rating because of its effectiveness in implementing strategies targeted toward stakeholders. While Home Depot’s economic future depends on recovery in the housing market, the company maintains a solid track record of earnings per share growth. Today the company has 2,200 stores in the United States, Mexico, and Canada. It remains the world’s largest home-improvement retailer and is poised for substantial future growth. It was also ranked as one of the world’s most valuable brands. In 2015 *Forbes* magazine numbered the Home Depot brand at #37 with $149.2 billion in market capitalization.

Research has found that the world’s most ethical companies are more profitable than the general stock market index over the long term. Home Depot is a good example of a company that has developed strong relationships with stakeholders and has tried to create an ethical corporate culture. The company recognizes that success is not limited to focusing on only one stakeholder, but that it must take a holistic approach to understand how other stakeholders, including suppliers and employees, can help the firm build trust with communities.

**QUESTIONS**

1. On the basis of Home Depot’s response to environmental issues, describe the attributes of this stakeholder. Assess the company’s strategy and performance with environmental and employee stakeholders.
2. As a publicly traded corporation, how can Home Depot justify budgeting so much money for philanthropy? What areas other than the environment, disaster relief, and affordable housing might be appropriate for strategic philanthropy by Home Depot?

3. How is Home Depot working toward reducing its weaknesses to increase its stakeholder orientation?

Sources


