The Process of Change to Implement a
Functional Management Structure at Home Depot

Steve Conroy

Project Submitted In Partial Fulfilment Of
The Requirements For The Degree Of
Master Of Business Administration

The University of Northern British Columbia
April 2008
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ABSTRACT

The during the 2000-2006 period in which CEO Robert Nardelli was leading The Home Depot, change was imposed on the employees of the organization and was met with resistance from all levels of the organization. This top down approach of mandating change was unsuccessful in this organization and can be used as a model of what not to do in a culturally rich organization when looking to promote organizational change.

This project examines modern notions of change from both the cultural and process perspectives. It is designed to explore how these models can be implemented in a retail setting at The Home Depot as it supports a functional management restructuring which has been proposed by leaders of the organization. The goal of this study is to determine strategies which can be utilized at the store level and provide leaders with an understanding of what enables successful change.

The background information and models for this study are gained from recent publications, periodicals and journals on the subject and uses sixteen pertinent articles on the subject of change and cultural re-engineering. Recommendations are directed to Home Depot senior management seeking means and methods to ensure that the culture in the Home Depot support network can facilitate functional restructuring initiatives.
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ACKNOWLEDGEMENT/DEDICATION

I would like to thank Dr. Steven Cronshaw, my supervisor, who provided me with project subject matter insight and assisted me in narrowing my focus, identifying my direction in his edits and assistance in refining this project.

I would also like to thank my fiancé Jenn for her tireless support and understanding during the two year MBA program. Lastly, to my classmates and professors: thank you for the memories, the laughs and the discussion that made the past two years an interactive and open environment which enabled collaboration and learning both within and beyond the classroom.
Chapter 1

INTRODUCTION

Home Depot is contemplating a change in their traditional structure of management and staffing of their stores. Traditionally supervisors have had to be generalists within their departments handling everything from hiring to stocking, from associate coaching to customer service. This is a taxing position for the supervisors to be in and has caused a lot of unplanned turnover.

A discovery proposition has been issued by Shawn Hewitt the Senior Vice President of Operations for Western Canada on the viability of changing from an environment of retail generalists to a functionally driven structure as shown below:

Figure 1: Proposed Functional Chart
The proposed functional team in each store would be comprised of 4 main units (plus a Human Resources (SHRM – Store Human Resources department) :

**Customer Service**
This unit would be dedicated to increasing sales, engaging customers and providing outstanding customer service including driving credit and promotions.

**Process**
The Process unit would be responsible for all the freight movement functions of the business including receiving, shipping and the return to vendor processes for damaged and defective stock.

**Fulfillment**
This unit would be responsible for ensuring product is on the shelves available for customers including freight pack down and ordering processes.

**Services**
The Services unit would be responsible for the functions such as overseeing the front end operations of the store including the management of the cashiers, returns desk, computer room, vault associates and management of the expediting processes of the store.

Implementing a fundamental change such as the proposed functional program within a company that has conducted business in the same manner since its inception in 1978 and has grown to an organization of 35,000 employees in Canada is a daunting task. In order to promote a change of this magnitude and successfully redirect the function and the culture of the organization to support such an initiative, a structure for change needs to be
developed that maximizes the benefits of change from an initiative while mitigating the effects of change on the Culture of the organization.

The goal of this paper is to look at how to best facilitate the proposed changes within Home Depot’s retail environment. The strategies outlined in this paper should enable the change agents (staff and leaders at the store level) to facilitate a seamless transition to the new functional format through the manipulation, amalgamation and modification of modern change models to meet the needs of the Home Depot’s retail environment.

1.1 Study Objectives / Importance of Study

Greater competition and increased customer service demand in the marketplace is the primary motivation for change at the Home Depot. The ‘Dominate or Die’ philosophy prevails in the retail home improvement sector and ever strengthening competition in the Canadian market place has forced The Home Depot to review its strategies of customer service. Home Depot has built its reputation through creating lasting relationships with customers by repeatedly providing excellent service to them. Over the years, a significant portion of the customer base has evolved to one which places high value on a consultative selling process, rather than a self shopping experience. Consultative selling is the process by which associate employees interact with the customer on a one on one basis. They are not there as commissioned sales persons but rather as consultants to the customer, ensuring that they have the correct products to suit their needs and enabling them to make an informed decision about the products that they are interested in purchasing.
As the business transforms from a ‘stack it high and watch it fly’ model to a consultative selling environment, the organization must ensure its associates are positioned to support this need and that they are ready to raise the bar to a higher level of customer service.

Major competitors such as Lowes have adapted a more female friendly environment and have focused their attention on the cleanliness of stores, bright, well-lit environments and creation of a culture of service among their employees. Home Depot has seen a loss of market share to competing retailers such as Lowes who have embraced the evolution of the customer and their changing demands in the home improvement sector.

Home Depot has been slow to transform its model. From 2000-2006 Robert Nardelli an executive from GE was named CEO of the Home Depot. Nardelli implemented a lot of changes onto the organization some of which included the Service Performance Initiative (SPI) which moved stocking and freight to an overnight position adding improved production performance and a streamlined process of freight handing in the stores. To fund this initiative, associates hours were removed from the sales floor. In the Nardelli years, rather than investing in its culture of service, Home Depot focused on cutting costs and removing aprons from the sales floor in favour of cost reduction initiative such as SPI which resulted in profit gain. These changes came at the cost of customer service.

It was the philosophy of the CEO Nardelli that productivity could be increased to compensate the reduction of sales floor hours. This move transformed the culture of the Home Depot away from a preference for customer service and allowed for the
competition to capitalize on the change in culture and apparent debenture from a tradition of customer service, ultimately eroding market share and allowing competitors such as Lowes to gain consumer’s perception of their better customer service experience. The change during the Nardelli era was mandated from the CEO and any opposition to this corporate directive typically resulted in the opponents to the CEO’s directive being removed from their positions.

Frank Blake was appointed in late 2006 to replace Nardelli as CEO of The Home Depot and together with his senior officers he is working on the creation and testing of organizational strategies to recover from the changes implemented during the Nardelli era. One of the recommendations recently proposed by the Canadian division is to place “aprons” (associates plainly visible by their orange Home Depot Apron) back on the floor and separating the tasking and sales functions previously carried out by all associates (as shown in Appendix A). This is meant to be an hours (payroll) neutral solution to the aforementioned customer service challenges.

By separating accountability into areas such as customer service, services, process and fulfillment, VP Shawn Hewitt proposes that Home Depot leaders will be able to create specialized groups to cover the assigned areas of responsibility. These groups will develop to become specialized in their functional areas hone their skills to increase productivity in their area of specialization. Each group will have clearly defined priorities which will help solidify Home Depot as a leader in Merchandising, Operational, and Service excellence.
Home Depot is now being directed to depart from the traditional top-down way of doing business and as the competition evolves, Home Depot will continually be required to reinvent itself so that it can stay ahead of its retail competitors.

As Home Depot continues to grow and meet the challenges of the future it will continually be asked to depart from the traditional top-down way of doing business. Lawrence and Lorsch (1969) refer to the need to create organizational goals as well as individual purpose within the organization. They define the organization as “the coordination of different activities of individual contributors to carry out planned transactions with the environment.” The functional change proposed in this paper address the question of how functional restructuring can be done efficiently, effectively and with a full appreciation of the need to involve Home depot employees (from all levels of the organization) in the restructuring process. Only in this way can The Home Depot plan and implement a successful change initiative at all locations throughout the enterprise.

In the upcoming sections, I report an investigation of some of the current philosophies and models of change and how they should be incorporated into the functional restructuring.
Chapter 2

A REVIEW AND SYNTHESIS OF THE RELEVANT LITERATURE RELEVANT TO THE FUNCTIONAL RESTRUCTURING OF THE HOME DEPOT

2.1 Methodology

In this section, some of the current philosophies and models of change and how they should be incorporated into the functional restructuring will be discussed. This is an archival review of organizational change literature, coupled with internal first hand knowledge of The Home Depot organization. The literature review includes articles on the effects of change on the organization, strategies of change implementation, re-engineering, and leadership implications of implementing a functional team within an organization.

This study looked at a multitude of models and philosophies on change. To easily comprehend the models that were used in the creation of this paper a chart was formulated to compare the studies on the topic of change and narrow down the focus of the paper to relevant literature. Studies were looked at with regard to their relevance to process change, cultural change and the retail setting of Home Depot.
Lawrence and Lorsch (1969) refer to the need to create organizational goals as well as individual purpose within the organization. They define the organization as “the coordination of different activities of individual contributors to carry out planned transactions with the environment.” This paper will illustrate that from 2000 to 2006 Home Depot’s managers implemented changes but failed to get the goals accepted at the store level and, as a result, failed to compete and failed to offset lost sales with cost savings.
2.2 Managing the Change

The literature reviewed makes reference to change being a multiple step process that takes a lot of time and steps to unfold successfully. There are indications within that same literature that without a sustainable process, the change process can result in (a) failure or (b) slow implementation. Failure or slow implementation of the change process can result in the loss of faith by employees in management and the process it has initiated.

The ultimate result of the functional initiative introduced by Home Depot is to increase customer service through specialization of roles. Its goal is to ultimately increase sales and increase Home Depot's market share in the retail home improvement segment by differentiating the levels of service within the organization. There is a risk, if the change is not managed properly; the results needed and imposed by the process can clash with the culture resulting in unfortunate outcomes for the overall business. Ultimately, if employees resist the change, productivity is likely to decline. If employees are unhappy with or fearful of the change, valued personnel may leave causing turnover and ultimately customers will be impacted and sales will decline.

It is imperative that leaders of the change monitor and understand the effects of the changes they are imposing on the corporation and the means by which negative effects of this change can be minimized. Change in the organization is stressful to the persons affected and properly managing the change will minimize the negative impacts on the
associates. It will be vital to start by providing Store Managers (SM), Assistant Managers (ASM) and Department Supervisors (DS) with the knowledge and skills needed to effectively influence and manage the change taking place in the stores in order to get “buy-in” from all of the associates for benefits of the new leadership structure and process.

Change management requires thoughtful planning, sensitive implementation and, most importantly, consultation with, and involvement of, the people affected by the changes. In contrast, previous organizational changes at The Home Depot have been top-down directives with minimal input from the rank-and-file associates. In order to properly facilitate change in the organization, all members of the organization have to become believers in the changes being implemented as well as understand why they are being made. Only then will they feel involved in the process of change and accept the results of that change. Educating and training managers on how to manage change is imperative in order for the company to succeed with this endeavor. According to Chapman (2008) “Selling change to people is not a sustainable strategy for success... change needs to be understood and managed in a way that people can cope effectively with it. Change can be unsettling, so the manager logically needs to be a settling influence.”

Many of the managers at the Home Depot are not familiar with change management principles since they have historically been executors of corporate policies. In this case, the store managers have to be the leaders of change within their store. It is up to the managers to roll out the change strategy, ensure that they convey the rationale of the
strategy and ensure that the associates understand the reason for the change and embrace
the change within the store. It is imperative that the managers understand the rationale for
the change and how the change will affect the associates. Furthermore, the managers
must assist the associates in understanding the reason for the change and anticipate the
ways in which they might react to the change. Managers must be able to adapt the
manner in which the change is communicated to the reactions of their various associates.

2.3 Communication and Change

Change needs to be communicated properly in order for it to be understood. In
McGregor’s Theory XY of managing people (Appendix B) it is assumed that the theory
X ‘authoritarian management’ style will not provide the same results as a theory Y
‘participative management’ style (McGregor, 1960). At Home Depot we wish to develop
our managers in the Theory Y style, teaching and encouraging a management style that
encourages their subordinates (i.e. the associates) to be part of the solution. McGregor
argues that this style produces better performance results and allows people to grow and
develop at a faster pace within the organization. If we choose to follow the theory Y style
of management we need to encourage leadership rather than management.

Understanding the differences between leadership and management is a fundamental
component of creating the participative environment that is needed for the success of the
proposed functional organization. At present, the management style is often transactional,
in that the manager tells the subordinate what to do, and the subordinate does this
because they have been promised a reward (at minimum their salary) for doing so.
Leaders do not have subordinates - at least not when they are leading. Many
organizational leaders do have subordinates, but only because they are also managers. However, when they want to lead, they have to give up formal authoritarian control because to lead is to have followers and ideally following is a voluntary activity.

2.4 Process Change versus Culture Change

It is important for the purposes of this paper to discuss the differences between Process and Culture Change. Davenport & Short (1990) define a business process as "a set of logically related tasks performed to achieve a defined business outcome." A process is "a structured, measured set of activities designed to produce a specified output for a particular customer or market. It implies a strong emphasis on how work is done within an organization." In their view, processes have two important characteristics:

(i) They have customers (internal or external),
(ii) They cross organizational boundaries.

The functional implementation at the Home Depot is the proposed change which is based on the aforementioned definition of a process change. However, this process change will, by its nature, impose significant cultural changes on the organization.

According to Waterhouse (2004) "Culture change differs from other types of organizational change. The shared beliefs, values, and behaviors of organizational members become the target of the change process rather than solely focusing on the structures and systems within which people work. What is sought is an alignment between human resource capabilities, systems and organizational structure so as to better achieve strategic organizational objectives." This imperative speaks exactly to the requirements imposed by Home Depot’s functional restructuring plan.
The importance of managing culture change as an integral component of process change is apparent. Imposing strategies for the process often does not include an analysis of the effect of the change on the employees. It is important for the culture of the organization to understand what changes are required from a culture perspective and be very intentional about building a culture that supports the new goals, strategies and practices that are inherent with the process change. As demonstrated by Judson (1991) micro changes are necessary as complementary change to macro changes within the organization and increase the probability of success exponentially. Judson’s premise is that change must occur at two levels:

(1) macro change - involving large segments of the organization, its strategies, structure, processes, systems and technology; and

(2) micro changes in the behaviours of the people involved in the change.

He states that macro changes cannot be successful without corresponding changes at the micro level. This principle is crucial to the successful implementation of the functional restructuring plan.

Judson looks at how macro changes can be successfully achieved at the micro level. He believes there is a fundamental conflict between any organization’s need for change and individuals’ need for security. He argues that this need to be looked at prior to the implementation of change, and leaders must resolve this conflict before imposing change on the organization. Judson writes that resolution of these conflicts depends on training and being able to enable managers with the following three managerial skills:
1 - Identification and analysis of problems demanding solutions and determination of the objectives of any required changes

2 - Formulation of strategies and tactics to achieve these objectives

3 - Development and implementation of processes to gain acceptance and support for corporate objectives and alleviate the micro concerns of people affected by and involved in the change.

These considerations need to be elevated to a conscious level so that the company can choose how it needed to modify its practices to enable the changes in the culture of its employees. The positive reinforcement of behaviours associated with the new culture must be communicated through every vehicle available (including morning rallies, instore communication media and at management meetings) and reinforced at every opportunity.

The old ways of thinking about what they are doing have to change at all levels of the organization and all levels must be committed to the organizational change efforts. As people at every level of the organization participate in meetings and activities, a conscious effort must be made to change the terminology by which people describe their experiences at work there has to be a total commitment to the new way of doing business in order to change the culture of the organization.

The leaders of the change initiative need to be clear about what changes are required and intentional about building the culture that supports the new mission, goals, strategies and
practices. Utilizing cross functional teams to assess the current norms in action and beliefs, determining in which areas changes are needed, and designing an implementation plan will assist in incorporating change into the culture.

2.5 Process Change in the Functional Restructuring

Many models of process change have been developed to aid in the implementation of functional systems within the organization. Burke and Litwin (1992) modeled the impacts of change from a process perspective. In their content model of organizational performance and change, they predict individual and organizational performance as it relates to organizational conditions (causes) and the resulting effects. In their model (Appendix C) Burke and Litwin identify transformational and transactional dynamics inherent in successful change efforts. Transformational factors deal with areas that require new employee behaviours and how the external and internal environment pressures change in areas such as leadership, culture, and mission and strategy.

The model also addresses transactional factors such as psychological and organizational variables that control the motivation and performance in a work unit. These variables include management practices, structure, systems (policies and procedures), task requirements and individual skills/abilities. The Burke and Litwin model is designed to distinguish between transformational and transactional factors where these resource long-versus short-term change. They believe that it is necessary for managers to understand which factors need attention and when to attend to them. While this model affects both
cultural and process change, it is important to understand how the processes affect the people and therefore the culture of the organization. If process change is overlooked in the functional restructuring initiative, the organization’s culture can become dysfunctional and antithetical to the type of change that is desired. This has shown in the Nardelli era at Home Depot when change was imposed and persons opposing the changes were removed from the organization, resulting in a repressive, fearful and reactionary culture in the organization.

Sastry (1997) developed a model for analyzing the dynamics of organizational change. The model focuses on four organizational variables:

1 - Strategic orientation (i.e. the business a firm is in and how it competes);

2 - Inertia (i.e., resistance to environmental reassessment and to change in social and structural relationships);

3 - Perceived performance by top managers (i.e. consistency of activities and organizational efficiency)

4 - Pressure for change (i.e., environmental changes that render an original strategic orientation ineffective).

Sastry suggests organizations may fail in attempting to introduce change if they adopt a strategic orientation that does not match the requirements of its external environment.

Sastry’s sentiment is similar to that expressed in the book “The Transformational Imperative” in which Vollman (1996) speaks of “enterprise transformation” in which he implies change in the overall company and in all of its business units starts with a shared
overall objective. He proposes that change fails not because of the *tools* of change but due to the *process* of change. In this paper, the tool of change at The Home Depot is a functional restructuring and Vollman states that there are four essential features of such transformation:

1 - Integration of the strategic intent of the transformation down to the detailed processes and other infrastructure requirements

2 - Consistency in all activities leading to the same goal and the requirement that all employees have a clear sense of priorities

3 - Feasibility from the point of view of resources and corporate performance

4 - Desirability, in that the proposed changes match both enterprise and individual objectives

He goes on to say that without integration and consistency in every facet of the enterprise, transformation will fail. In turn, it is organization transformation that Home Depot seeks through functional restructuring. Vollman creates a basis for thinking about transformation and states that true transformation requires fundamental change in all of the eight facets of transformation: strategic intent; competencies; processes; resources; outputs; strategic response; challenges; and learning capacity. Vollman looks at competition as a change motivator, he views the fundamental choice for today's business as "Dominate or Die" - transformation must be integrated, consistent, feasible and desirable if it is going to work. In this Vollman's ideas address Home Depot's situation exactly and provide a potential means of process change.
Vollman’s model of the transformation imperative consists of an eight-by-six matrix detailing considerations potentially at play in a change effort. The rows of the matrix constitute eight facets:

(a) Strategic intent (what are the issues)
(b) Competencies (linking current competencies to a desired transformation)
(c) Processes (establishing metrics for assessing efficiency and effectiveness)
(d) Resources (systematically deploying human resources)
(e) Outputs (identifying customer expectations)
(f) Strategic responses (planning action programs)
(g) Challenges (anticipating obstacles)
(h) Learning capacity (identify required knowledge, skills and abilities)

It is on Vollman’s transformation model that Home Depot would be best advised to outline the process changes needed for the functional restructuring efforts. Vollman asserts that to dominate in today’s market “requires companies to grasp present-day cultural and technological reality and let go of yesterdays. No amount of fine tuning will allow them to do this. To be successful... the enterprise requires deep, broad, fundamental change in operational paradigms, practices and outputs... enterprise transformation.”

Organizational change of the type outlined here will require 35,000 Canadian Home Depot associates to accept change as the norm for their business. It will also require commitment from the entire senior leadership team to a strategy that reinvents the culture of the organization.
Chapman (2008) asserts that a traditional style of imposing change on the employees of the business will not work in today’s business. Chapman writes that a more traditional method of organizational transformation which would consist of management imposing their change of direction on their direct subordinates will not work because that methodology assumes that people’s personal aims and wishes and needs are completely aligned with those of the organization. The traditional imposition of change assumes that people want and can assimilate into their lives the change that the organization deems appropriate for them. Home Depot CEO Nardelli would probably agree with this assumption. Chapman argues that an organization wishing to make fundamental changes needs to first think about aligning the aims of the business with the needs of their employees. This sentiment echoes Lawrence and Lorsch’s (1969) prescription to align individual purpose with organizational goals. Informing the employees of the benefits and challenges of change and encouraging their participation in this change before it happens will assist in enabling a smooth transition through the implementation of change and make them want to be a part of the larger opportunity afforded by this change.

The first step in the transformational process according to Vollman is to integrate the strategic intent of the transformation with the detailed processes and other infrastructure requirements needed to achieve it. In order to implement this stage of the transformation Galpin (1996) (Appendix D) and Kotter (1995) (Appendix E) both recommend the formation of strategic groups that will comprise a guiding coalition or steering committee. Galpin recommends that this committee be in charge of creating the outline of change from the intent down to the processes as outlined by Vollman. Galpin’s theory
supplements Vollman’s model for transformation and provides us the detail that is necessary for the development of an implementation plan.

The appointment of a steering committee starts the process of bringing the strategic idea (the intent) to action at the store level. The steering committee at Home Depot should consist of persons from cross-functional areas including senior management, district managers, store managers, assistant store managers, associates and store support centre persons. This will ensure that all aspects of the business are represented and that any implications of change are not overlooked. This cross functional team will determine how to best convert the strategy into an executable plan.

Galpin further recommends the formation of improvement teams to implement the plans created by the steering committee and then provide the steering committee with feedback and communication of opportunities and challenges that have been opened up by the strategy.

Home Depot has decentralized store teams, each consisting of independent associate groups; it is conceivable that these groups could be reconfigured into store-level change implementation teams. These teams would be the champions of change within each of the stores. When building these change implementation teams at the store level, change champions can be introduced to these teams. These teams would be the change agents within their stores and would be the ones that could communicate to their peers the need for change and the rationale for the transformation. These improvement teams would be responsible for their store’s roll-out of the functional team structure and assist managers within that store in leading the transformation.
Galpin also recommends the creation of a group of leaders taken from each of the store level improvement teams to ensure that the teams do not become insular in their efforts. This will also ensure that inter-store communication takes place to communicate larger challenges and opportunities back to the steering committee so that action can be taken globally on any local issues that may affect the roll-out of the transformation. Galpin’s wheel outlines some of the tactical actions that the strategic implementation within the store teams will have to take. Some of these are:

1 - Establishing the need to change – establish what the strategic gains are for the organization and ensure that the benefits are established for the benefit of employees as well as the organization.

2 - Developing and disseminating a vision of a planned change – speaking to the teams within the store about the planned change and getting their input as to how they feel the store would be best directed to roll out the change and how they think they might be able to aid in the process.

3 - Diagnosing and analyzing the current situation – this would best be done in cross-functional in-store focus groups. These groups would enable the store associates to determine what the issues are within the current organizational structure and to become positive agents of change within the store.

4 - Generating recommendations – with their knowledge of the players within the store and the internal workings of the store, the cross-functional in-store focus groups may be able to aid in the rollout process and generate ideas as well as recommendations above and beyond the steering committee and the improvement store teams.
5 - Detailing the recommendations – the opportunities generated in the recommendation stages should be recorded and communicated to the integration team so that they can collaborate with each of the improvement teams and filter those recommendations back up to the steering committees.

6 - Pilot testing the recommendations – ideas that are generated via the recommendation stage and approved by both the integration and steering committees should be looked at as potential solutions or improvements on the initial rollout process. In order to determine whether these are executable, pilot stores may be selected to make a limited application of these solutions to assess their efficacy.

7 - Preparing the recommendations for rollout – once pilots have been conducted and proven successful they should be put into a step by step process so that they can be successfully rolled out in other stores and integrated into the rollout communication to all stores.

8 - Rolling out the recommendations – implementing the detailed change needed and the methods at the store level.

9 - Measuring, reinforcing, and refining the change – monitoring it for associate acceptance, reporting on the success of the rollout back to the integration group and ensuring that the rollout continues to be successful and recording indicators of improvement in a matrix that measures success of the change initiative.

Similarly, in Kotter’s article “Why Transformation Efforts Fail” (1995) there are eight recommended steps for change agents to follow in implementing fundamental changes in
an organization. His eight step process for enabling change and ensuring successful re-engineering of the organization echo Galpin’s model and provides an outline for successful change in the organization.

### 2.6 Cultural Change

Some of the more recent models of change theories have been applied to re-engineering of the organization. Talwar (1993) states that organizations are recognizing the need to re-engineer their companies in order to deliver continued improvements in performance. He argues that the need to re-engineer the firm is being driven by an increasingly competitive environment. This argument is very applicable to The Home Depot. Talwar looks at two main approaches to re-engineering. Process re-engineering which offers the opportunity to rethink and streamline individual processes and business re-engineering which redesigns the entire business in line with a competence based competitive strategy.

Talwar goes on to look at these two re-engineering options as contributors to shareholder and customer value. He then uses these two matrixes to determine which of the processes would provide the maximum value for the shareholders. To determine this, he proposes that we ask fundamental questions about “what we do, how we do it, whether it is necessary and how it can be improved.” Talwar believes that in order to successfully apply re-engineering, organizations must apply the change fundamentals and obtain the participation and commitment from the chief executive downwards. It is this level of commitment that enables the persons responsible for the change to understand the longer term goals of the organization and to overcome objections to the change.
Often, Talwar states, there are fears, uncertainties and doubts from organization members in response to organizational change. This would certainly be true at The Home Depot. To address these problems and successfully implement change in the organization, senior leaders in the organization must commit to the change, maintain employee motivation, and overcome the objections to change.

Similarly to Talwar’s proposed implementation of business re-engineering, Pasmore and Fagans (1992) identify and explore issues associated with the uses of participation and organizational development in organizational change. Their paper provides a historical perspective on worker participation in organizational change. They write about the role of participation in individual development, delineate the knowledge required for participation to be successful, and explore how to prepare individuals to participate in change efforts.

Armenakis, Harris, and Field’s model (1999) as outlined in Bernerth’s (2004) article provides the best model for Home Depot’s proposed cultural transformation in conjunction with the functional team process transformation. Bernerth’s article outlines that, due to the multitude of change failures, employees are starting to believe that many of the changes which have previously been imposed are stop-gap, quick-fix solutions which have previously been implemented without proper preparation and commitment from senior managers. Bernerth writes that there is a growing cynicism among employees that current changes are nothing more than the “program of the month.” He recognizes that due to the multitude of change failures, employees are starting to believe
that many of the imposed changes are simply quick-fix solutions implemented without proper preparation and commitment from senior managers to succeed.

The model developed by Armenakis, Harris, and Field suggests that there are five key message components that organizational leaders must communicate to ensure effective change implementation. He contends that organizational leaders have a choice to make: Either take proactive steps prior to the implementation of the change effort to enhance the likelihood of success, or take reactive steps to the change after resistance begins to take shape.

Bernerth references the Armenakis et al. five-message component model of readiness which attempts to address the most important cognitive aspects of change by describing worker self-efficacy, principal support, discrepancy, appropriateness, and personal valence. He writes that failure to properly address readiness prior to the adoption phase can cause problems even without a change in the technical or operational aspects of the job. He states that change can create feelings of uneasiness and tension, and as the change begins to take shape, organizational members may feel a sense of uncertainty and confusion.

In Bernerth’s terms, change readiness is defined as a state of mind reflecting a willingness or receptiveness to changing the way one thinks. He contends that readiness can be achieved through a proactive effort by change agents to prepare organizational members for upcoming changes and that resistance management typically views as negative reaction to a change effort. Bernerth makes reference to Lewin’s works
described the change process as unfreezing, moving, and refreezing. In Lewin’s terms, resistance is a failure to effectively unfreeze the organization before attempting to implement change. Bernerth reasons that change agents need to realize that organizational change is a multilevel process in which organizations try to modify the collective cognitions and behaviors of a group of employees. Communication of the change becomes the primary mechanism for creating readiness for change among organizational members.

The Armenakis et al. five-message component model of change readiness will now be described in more detail as it has been found to be a model around which The Home Depot can model cultural change.

**Figure 3: Armenakis, Harris, And Field’s Five-Message Component Model of Readiness**

<table>
<thead>
<tr>
<th>Message</th>
<th>Definition</th>
<th>Question It Looks to Answer</th>
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<tr>
<td>Self-efficacy</td>
<td>Confidence in individual and group’s ability to make the change succeed</td>
<td>Can we do this? Will this work?</td>
</tr>
<tr>
<td>Principal support</td>
<td>Key organizational leaders support this particular change</td>
<td>Is management walking the talk? Do organizational leaders believe in this change?</td>
</tr>
<tr>
<td>Discrepancy</td>
<td>A gap between the current state and an ideal state</td>
<td>Why change?</td>
</tr>
<tr>
<td>Appropriateness</td>
<td>The correct reaction to fix the gap identified by discrepancy</td>
<td>Why this change?</td>
</tr>
<tr>
<td>Personal valence</td>
<td>Clarifies the intrinsic and extrinsic benefits of the change</td>
<td>What’s in it for me?</td>
</tr>
</tbody>
</table>
Self-efficacy. Self-efficacy is defined as an individual’s judgment of his or her ability to perform certain tasks. Change agents need to assure employees that they have the ability to succeed in the change process. Many change efforts present employees with situations and environments that are new and unfamiliar. Building efficacy in employees should help reduce this fear and build a mindset of success. If employees are lacking the confidence desired by management, change agents can formulate realistic objectives and strategies for communicating how organizational members can improve chances of success. Building self-efficacy of change success may be the first step in creating a sense of organizational readiness.

Principal Support. Principal support is a key change concept according Bernerth. This is the concept that individuals do not stand alone while functioning within the context of an organization. Principal support indicates that formal and informal organizational leaders are committed to the successful implementation and institutionalization of the change. Individuals are going to look to their coworkers and organizational leadership to see if support for the change exists. If managers and other respected coworkers are not behind the change effort, theories suggest that change will elicit greater resentment and resistance.

Discrepancy and Appropriateness. The discrepancy message component is an attempt by organizational leaders to show a specific need for change. In particular, change agents need to demonstrate a gap between the way things are and the way things could be. Organizational members cannot share in the vision for a better organizational life if they
do not see any troubles with the current method of operation. Even if people do not completely agree with the change effort, they will be more willing to accept it if they trust those who show an understanding of the need to change. Organizational leaders need to clearly demonstrate the change is the appropriate reaction to fill the gap identified by the discrepancy. Discrepancy and appropriateness are intuitively important parts of creating readiness for change. Show employees something is wrong, and show them how the change will fix the situation.

*Personal Valence.* The personal capacity of one employee to react with or affect another employee must be addressed. Organizational members can believe the organization needs to make a change, they can believe they can implement the change, they can believe there is support for the change, and they can even believe this is the right change for the organization. But if they do not see the personal benefit to them as an individual, they simply will not "buy in" to the change effort. By clarifying personal valence to organizational members, change agents are able to answer the question ‘What’s in it for me?’ To get organizational members to buy in to the change effort, employees need to see how this change will benefit them.

Resistance to implementing change is one of the most important aspects of organizational development and implementation of a change model; Bernerth concedes that many organizational leaders lack a clear understanding of the steps and process of cultural change necessary to succeed. He states that change effort consists of more than the actual physical changes to the job or operations; it is the emotional aspects of the change that
generate most of the human distress and most of the elation if the change is successful. Resistance in the form of cynicism, skepticism, restricted production, and even turnover are all overt signs that employees were not ready to change.

The Nardelli era was an example within Home Depot’s recent history of a change initiative that was imposed on the organization without taking into account the implications on the organization’s culture. It proves Bernerth’s theory that leaders have a choice to make: Either take proactive steps prior to the implementation of the change effort to enhance the likelihood of success, or take reactive steps to the change after resistance begins to take shape. Under Nardelli, resistance from the associates and reluctance of managers at all levels to impede the forward movement of the organization for years. Further to Bernerth’s theory, those same imposed changes have, as predicted, fostered a perception among the employees that many of the imposed changes were simply quick-fix solutions implemented without the proper preparation and commitment from senior managers.

I will now describe the means by which The Home Depot can apply the five-message model of change readiness to the functional restructuring initiative. Self-Efficacy answers the question “Can we do this?” At Home Depot, managers need to proactively assure their associates that they are the right team to go forward with the change. The majority of the functions of the new organization will be familiar to the associates but there will be new requirements, metrics and demands of the positions that associates will not be comfortable with. Change agents need to assure employees that they have the ability to
succeed in the change process. This will require support from the training and human resource departments within the stores. Training modules will need to be formatted and applied to teach the new skills required and a clear communication of each of the designation’s key performance indicators will assist in the associate’s understanding of the desired performance and job actions. If employees lack the confidence required by management, change agents can formulate realistic objectives and strategies for communicating how organizational members can improve chances of success. Having a structured performance management process included in the implementation strategy will be necessary for continuous positive reinforcement and corrective guidelines to direct the team in building self-efficacy.

Principal Support looks to answer the question “Do organizational leaders believe in this change?” Bernerth concludes that it is imperative that individuals do not stand alone while functioning within the context of an organization and that if managers and other respected coworkers are not behind the change effort, change will elicit greater resentment and resistance from the associates. This being said, at Home Depot an acute awareness of how the leaders’ actions are perceived and the effects that these actions have on the associates needs to be communicated back to the leaders within the organization. Referring back to the process change game plan, it is necessary for the steering committees and the store level improvement teams to understand that their actions will be scrutinized by the associates in the store and their attitude will influence the very change they are trying to influence. Communication of the effects of the principal’s perceived support of the initiative will assist the change agents in
understanding how both their actions and their words influence the direction of cultural change.

At Home Depot, the Discrepancy and Appropriateness message can be communicated to the associates in conjunction with the annual Employee of Choice survey results and the monthly town hall sessions that occur in each store. The associates have indicated their feelings for what the challenges are and the areas for which they would like change applied. Using the survey feedback to enforce the need for change will assist in creating support for the change notion. If management can show associates how the change will alleviate concerns identified in the surveys the appropriateness of the message will be reinforced. Focusing on the benefits of the new model versus the features of the model will also assist in creating positive appropriateness of the functional direction.

Focus on the benefits of organizational change will also assist in answering the “what’s in it for me?” question posed by the Personal Valence component of the model. According to the Armenakis et al. (1999) five-message component model, this final step in enforcing the need for cultural change looks to communicate the personal benefits for the associates as individuals. Some of the benefits may be a less variable work week for Fulfillment associates, or being able to spend all of their time providing customer service. The features of these benefits need to be outlined to the associates so that they can make an informed decision about whether or not to “buy in” to the change effort. As outlined by Bernerth clarifying the personal value to organizational members allows the change
agents to answer the question ‘What’s in it for me?’ while at the same time explaining the organizational benefits of the change.

2.7 Monitoring Success

In order to determine the success of this strategy it will be imperative to determine key performance indicators that will allow the organization to measure the success of the change initiative. Key performance indicators (KPI’s) are financial and non-financial metrics that can be used to help an organization define and measure progress toward its goals. Typically in the retail environment, KPI’s consist of sales, gross margin, return on investment, inventory turnover and operating profit. The change infrastructure will require the creation of its own KPI group by which change success can be measured. In an attempt to more easily manage the KPI’s, it would be advisable not to exceed five KPI’s for measuring the success of the program. Rather than creating new methods of reporting and measuring the success of the initiative, existing matrix and performance indicators should be utilized.

Sales should remain a leading KPI for this initiative. The creation of a specific sales function within the organization will need to be measured on an increase of both top line sales as well as sales per hour metrics of the associates who are dedicated to the sales function. This KPI will also be affected by the average sales ticket of the customers reflecting downturns in the economy or increases in market competition or cannibalization.
Recruitment / Retention – there is a need to increase the likelihood of potential job candidates choosing Home Depot as an employer of choice and attracting employees to work for the company. Unfortunately, this is difficult to measure. Therefore, measuring the retention and satisfaction of current employees will be a more significant KPI for the change initiative. Measuring employee satisfaction is now done on an annual basis at Home Depot through an all-employee satisfaction survey. This is a third party survey by which associates at all levels of the organization rate their satisfaction with their job, the likelihood that they will remain with the company, their satisfaction with the work that they do and other satisfaction metrics. A year-over-year increase in the satisfaction levels of associates in same store environments would be an indicator of success for the initiative. A downward turn in this survey in a single store may indicate an opportunity which can be pinpointed and rectification of the issue implemented.

Customer Satisfaction – customers are invited to take part in a survey of their experiences at the Home Depot. Increases in key metrics on this survey would be indicators of success of the change initiative. Some of the key areas being surveyed include whether the customer was able to find and buy everything that they were looking for while shopping at The Home Depot. This portion of the survey asks customers questions about the in-stock and shoppability of product that they were looking for. This would measure how well the fulfillment and process teams are working within the new organizational structure. The better they perform ordering freight and ensuring that it is packed down is also measured in the survey. Availability of associates is a measure of the customer’s perception of the availability of an associate on the sales floor to assist them. The survey
asks questions pertaining to their perception of how many "aprons" they saw on the floor and whether those associates they engaged were helpful and knowledgeable. This measures all the sales and operational areas such as cashiers and service desk associates. (An example of the Voice of the Customer Survey reporting is included in Appendix F)

Inventory Turns / Instock – further to measuring the effectiveness of the freight and fulfillment teams this indicator will act as a measure of how well managed the freight and inventory in the stores is with regard to stagnant stock and products available for the customer.

Operating Profit – the overall organizational objective of this initiative is to create profitable return to the shareholders of the organization. As such it would not be prudent to omit operating profit as a KPI for this initiative. Store controllable operating profit which includes payroll, benefits, workers compensation, gross margin, and top line sales needs to remain neutral or increase in order for the change initiative to be considered a success.

Chapter 3

CONCLUSIONS

3.1 Coping with Change

When organizational change is initiated, there is a fear that an individual's skills may become obsolete. The more dramatic a change, potentially the less effective established skills are likely to become, this increases individuals' uncertainty and fear. As changes
begin to mount, coping and adapting are likely to become more difficult for those affected. Different individuals have varying ability to learn new roles, and it is expected that stress will increase in the face of change or as new skills and behaviours are required in order to implement change.

Callan (1993) looks at ways in which managers cope with organizational change. He concludes that there is value for change agents, including individuals and organizations, to empower and coach employees to be active problem-solvers during periods of change. He goes on to state that it is important for communication of accurate and timely information about changes to ensure that employees have time to implement the use of coping strategies such as logical analysis; problem-solving; information-seeking; effective regulation (process by which individuals exert control over their experiences); and minimal emotional discharge. Callan asserts that the coping strategies used would be influenced by the personality of the person, the amount of information available about the change, and perceptions of levels of disruption and uncertainty that the change will evoke. Callan asserts that the style of leadership required during times of change is very much about confronting and solving problems that are perceived by employees typically caused by new structures, goals and policies of the organization.

The Home Depot change model of the Nardelli era can stand as an example of the negative effects of poor change management and should be looked at as an opportunity to convince leaders of organizations to reflect on this example when initiating change in their organization.
The models that are suggested in this paper are models that may work in multiple organizations but it needs to be understood that there is not one correct model for change in the organization. Change models needs to be amended and manipulated to accommodate for the individual culture of the organization. There is no right model for change the previous studies profess change management models – but - these are guidelines which need to be amended to suit the needs of the business – one size does not fit all.

Leaders need to understand that change needs to be looked at from 2 perspectives – business/process change focused on the result goals of the change and the cultural impacts of the change on their people. They need to create a model for change that can be trained and understood; coached and implemented creating a sustainable process so that the change does not result in failure or slow implementation and in fact lead to a failed change as the agents and the associates lose faith in each other.

It is my recommendation to leaders looking to change their environments to simplicity the models, focus on Y communication and look to enable positive feedback designed to react to the issues, alleviate the concerns and improve the process whenever possible. In an attempt to simplify the processes for The Home Depot Functional Structure, it is proposed that the company look at a model such as Figure 3:
Proposed steps to successful Procedural Change implementation such as the functional initiative at The Home Depot:

Steps to successful Process Change implementation:

1) Clarify the business situation – what is the result the company is looking for – what is the motivation for the change – develop executive commitment to the change

2) Communicate the vision and goals – steering committees developing the framework form a cross functional perspective

3) Building commitment – implementation teams created to build bottom up support for the initiative – internal change agents

4) Ensure involvement – bottom up commitment from the teams to work shoulder to shoulder with the associates while being change champions for the initiative
5) Overcome challenges – communicate the issues back to the leaders of the implementation teams and collaboratively work out solutions to the issues that arise from the implementation

6) Sustain momentum – audit success through KPI’s, continuously improve the model and revamp areas of opportunity

Figure 5: Proposed Model for Cultural Change at Home Depot

1. Principle Support
2. Communicate Vision and Goals
3. Appropriateness
4. Personal Valence
5. Self-efficacy
6. Sustain Momentum
Using the same figure 3 model, a cultural change process can be initiated at Home Depot.

Proposed steps to successful Cultural Change implementation at The Home Depot:

1) Clarify the business situation – what is the result the company is looking for – what is the motivation for the change? Answer the question of Principal Support - Is Management Committed to the Change?

2) Communicate the vision and goals

3) Building commitment – Does the culture understand the Appropriateness - Why This Change?

4) Ensure involvement – communicate the Personal valence - What’s in it for me?

5) Overcome challenges – answer the question for the associates of Self-efficacy - Can we do this? Will it work?

6) Sustain momentum – audit success through Key Performance Indicators to continuously improve the model and revamp areas of opportunity
References (Bibliography)


Lawrence & Lorsch. “Developing Organizations: Diagnosis and Action” 1969


# Appendices

## Appendix A – Internal Rationale for Change

<table>
<thead>
<tr>
<th>Traditional</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Experience</strong></td>
<td></td>
</tr>
<tr>
<td>• Competing priorities prevent development of true sales associates. (tasking, reports etc)</td>
<td>• Dedicated sales associates&lt;br&gt;• Dedicated Fulfillment Team ensuring stock is on the shelf when the customer needs it&lt;br&gt;• Creates accountability, promotes development</td>
</tr>
<tr>
<td><strong>Coaching</strong></td>
<td></td>
</tr>
<tr>
<td>• Knowledge and skills vary widely based on DS and department</td>
<td>• DS spends one on one time coaching associates behaviour to specific Key Performance Indicators (KPI)&lt;br&gt;• Creates consistency on customer service expectations, driving promotional activity, and messaging</td>
</tr>
<tr>
<td><strong>Specialization</strong></td>
<td></td>
</tr>
<tr>
<td>• Conflicting priorities between tasking and serving customers&lt;br&gt;• Lack of project knowledge, and lack of clarity about selling the complete project&lt;br&gt;• Ambiguous reporting structure and communication lines</td>
<td>• Creates SMEs in Customer Service, Process &amp; Fulfillment, and Services&lt;br&gt;• Enhances our ability to attract and retain great associates for specific roles</td>
</tr>
<tr>
<td><strong>Department Supervisors</strong></td>
<td></td>
</tr>
<tr>
<td>• Part of floor coverage with competing priorities (tasking, machine operator etc)&lt;br&gt;• Inconsistent coaching / development to the DS &amp; of the DS&lt;br&gt;• Often promoted based on operational savvy, not leadership abilities</td>
<td>• Not part of floor coverage&lt;br&gt;• Allows for defined performance management criteria, and increased accountabilities on reaching Key Performance Indicators&lt;br&gt;• Increased understanding of business through managing the ‘zone’</td>
</tr>
<tr>
<td><strong>Voice of the Customer (VOC)</strong></td>
<td></td>
</tr>
<tr>
<td>• No accountability for Associate Availability, Find and Buy, Line Ups at Cash etc</td>
<td>• Ownership of each KPI by functional area&lt;br&gt;• Goal setting to achieve results on VOC&lt;br&gt;• Enhances importance and visibility of those KPIs</td>
</tr>
</tbody>
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Appendix B – A Diagrammatic Summary of McGregor’s X-Y Theory
Theory X - authoritarian, repressive style. Tight control, no development. Produces limited, depressed culture.

Theory Y - liberating and developmental. Control, achievement and continuous improvement achieved by enabling, empowering and giving responsibility.
Appendix C- Burke and Litwin's Content Model of Organizational Performance
Appendix D – A Diagrammatic Galpin’s Wheel of Change

1. Establish the need to change
2. Develop and disseminate a vision of the change
3. Diagnose/analyze the current situation
4. Generate recommendations
5. Detail recommendations
6. Pilot test recommendations
7. Prepare recommendations for rollout
8. Rollout changes
9. Measure, reinforce, and refine changes

Ongoing

1–2 months

4–6 months

4–6 Months

1–2 Months

4–6 Months
Appendix E - Kotter's Eight Step Process to Transforming the Organization

Eight Steps to Transforming Your Organization

1. Establishing a Sense of Urgency
   Examining market and competitive realities
   Identifying and discussing crises, potential crises, or major opportunities

2. Forming a Powerful Guiding Coalition
   Assembling a group with enough power to lead the change effort
   Encouraging the group to work together as a team

3. Creating a Vision
   Creating a vision to help direct the change effort
   Developing strategies for achieving that vision

4. Communicating the Vision
   Using every vehicle possible to communicate the new vision and strategies
   Teaching new behaviors by the example of the guiding coalition

5. Empowering Others to Act on the Vision
   Getting rid of obstacles to change
   Changing systems or structures that seriously undermine the vision
   Encouraging risk taking and nontraditional ideas, activities, and actions

6. Planning for and Creating Short-Term Wins
   Planning for visible performance improvements
   Creating those improvements
   Recognizing and rewarding employees involved in the improvements

7. Consolidating Improvements and Producing Still More Change
   Using increased credibility to change systems, structures, and policies that don't fit the vision
   Hiring, promoting, and developing employees who can implement the vision
   Reinventing the process with new projects, themes, and change agents

8. Institutionalizing New Approaches
   Articulating the connections between the new behaviors and corporate success
   Developing the means to ensure leadership development and succession
# Appendix F – Voice of The Customer Performance Reporting

## VOC Performance Snapshot

**Time Period:** January 2008  
**Store:** 7005  
**Customer Type:** Consumer  
**Last Updated:** Feb 3, 2008

### VOC Performance Snapshot

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### % Found and Bought Everything

**% Found and Bought Everything**

- **2006**
- **2007**

![Graph showing % Found and Bought Everything](image-url)

**Month**

February, March, April, May, June, July, August, September, October, November, December, January

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