Case for Analysis

A Centralized Structure Transforms Home Depot

In the 2000s, intense competition forced Home Depot, the home improvement supply chain, to change its organizational structure to better motivate and coordinate employees and improve its performance. The company's founders, Bernie Marcus and Arthur Blank, opened their first store in Atlanta, Georgia, in 1979, and their mission was to create a home improvement "superstore" that could offer customers a range and variety of products at low prices that no other home improvement store could match. They wanted to motivate their managers to act in an entrepreneurial way, so they decentralized control to individual store managers, who were given considerable freedom to order and stock products that suited the needs of local and regional customers.[43]

The founders' decentralized approach to operating the store chain worked well until Home Depot's huge profits attracted new competitors, such as Lowe's, into the home improvement market. Lowe's managers had watched Home Depot's rapid growth and were convinced they could do better. They decided that Lowe's organization structure should be designed to standardize the way its stores operated. Store managers had no authority to stock the goods they wanted; indeed, they decided to stock a standardized range of products in all their stores to reduce costs, and they created a formal system of rules for both managers and associates to follow that were designed to encourage and reward high-quality customer service. The new rules and norms in its organizational structure worked well, and Lowe's quickly caught up with Home Depot.

Home Depot's founders decided it was time for a change, and they searched for a new CEO to turn around their company's performance. Bob Nardelli, a former GE top manager, was their choice. He had a reputation for finding ways to lower costs and overhead while giving customers what they want.[44] From his military background, he understood the advantages of a centralized chain of command and uniform, standardized operating procedures to get the job done quickly and efficiently. Beginning in 2002, Nardelli worked to develop a military-style structure for Home Depot.[45] Over time, he recentralized authority and removed store managers' ability to choose what products to stock for their individual stores. His goal was to streamline and centralize Home Depot's purchasing activities at its Atlanta headquarters and thus reduce costs.

At the same time, to be responsive to customers, he increased the number of new, innovative products Home Depot stocks and created a sophisticated organization-wide IT system that provides store-by-store performance comparisons; top management has real-time information on how its stores are performing, and each store manager knows how his or her store's performance compares with all the other stores in the chain. To motivate managers and employees, Nardelli created a bonus system based on the performance of each store. If employees achieve their goals, they can earn substantial amounts of money. Within 18 months, his new organizational structure paid off, Home Depot's costs fell, and its sales increased as customers responded to the new products its stores were now stocking and the new way employees responded to customer needs.[46] ■

QUESTIONS FOR DISCUSSION

1. In what ways can (a) decentralizing and (b) centralizing authority help an organization like Home Depot to improve its performance?
2. What kinds of factors change the decision to centralize or decentralize authority over time in a competitive environment such as the home building supply industry?

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