

Organizational Behavior Evaluation: Sears Holding Co.

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October, 2007

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Contemporary organizations conduct business in complex environments. Bennis (2007) differentiated leaders from managers for their ability to lead throughout complexity. Tichy and Devanna (1990) also used the concept of complexity to support their idea of transformational leadership. Overholt (2003) applies the concept of complexity to address the need of flexible designs of organizations that responded to the changes in the business environment.

Sears Holding, one of the most important broad line retailers in America, operates in a complex environment, doing business through 2300 full line and 1,100 specialty retail stores and 370 full-line and specialty stores in Canada. With a total of 315,000 employees, Sears Holding is the parent company of Kmart and Sears Roebuck and Co, merged in March 2005 in an operation of \$621 million by which Sears purchased up to 54 K-mart stores.

The increasing competition and consolidation of retailers, joined to the internal transformations that Sears Holdings is undertaking to blend the cultures of their two merged entities, are the framework of the discussion of this document. This research will evaluate the organizational behavior, design and structure of Sears Holdings to identify the elements present in their corporate culture and their relationship with customers and employees; understand the components of their business strategy and the relationship between their current organizational design and their corporate strategy.

To this end, this research will use the scholarly works of Overholt (2003) to map the organizational design archetype; Lukasova (2004) to map factors of organizational behavior and corporate culture; and Cox and Blake (1991) to interpret the interest in diversity and heritage. The works of Kirn, Rucci, Huselid and Becker (1999) as an insider source of the strategy for managing people at Sears in the late 90s will contribute to the comparison with the current culture, behavior and design.

These works will be complemented with strategic analysis and profiles of Sears Holding performance (Marketline, 2007) and the information made public at Sears Holdings website and SEC filings (2007).

### Sears Holding Background

Sears Holding's capitalization value of US\$22 billion places it in the 20<sup>th</sup> position of the Nasdaq 100 in 2006, and its record revenues of more than US\$53 billion are generated by the its three business segments: Sears domestic that provides 55% of the revenue of 2007, Kmart with 35.2% and Sears Canada with 9.8% of the total revenues. Substantial increases in revenues (\$53,012 million) and net profits (\$1,500 million) show positive results of the strategy that followed the merger in 2005.

#### *Sears, Roebuck and Co.*

Sears is recognized as a multi-line retailer with affiliates in United States and Canada with 861 full-line stores, 74 Sears Grand Stores and 1095 specialty stores including 47 outlet stores, and 111 hardware stores (Marketline, 2007). Their myriad of products include: home appliances, merchandise, consumer electronic, tools, fitness and garden equipment, hardware, automotive services, tires and batteries, apparel, footwear, accessories, home products, health and beauty, pantry and toys. Their private brands include Kenmore, Craftman, DieHard (Marketline, 2007).

Having started as a catalogue-order business abandoned in 1992, they expanded to online retailing, and the traditional physical in-mall locations that were progressively changed to off-mall locations, dedicated to automotive, tools and home repairs considered the "hard side of Sears" (Kirn et al, 1999, p. 330). More than 10,000 technicians are part of a network of services in 50 states.

### *Kmart Corporation*

Kmart corporation, founded in 1899 in Detroit had been one of the largest discount retailers in the United States. The operations of Kmart expanded to a total of 1,840 locations in 49 states and Puerto Rico, the U.S. Virgin Islands and Guam, and online presence (Marketline, 2007). Kmart started with liquidity problems in 2002 because of declining sales, vulnerable relations with suppliers, increased competition, general economic recessionary conditions and volatility in the capital markets. After 14 months in Chapter 11 reorganization, Kmart was again strong financially (SEC, 2007).

Kmart structure included discount stores and super centers, usually located as stand-alone units that sell both general merchandise and branded products and services such as *Martha Stewart Everyday*®, *Jaclyn Smith*® and *Joe Boxer*®. Kmart stores also operated in-store pharmacies and groceries sections in their super center locations (Marketline, 2007).

Kmart was interested in a new plan to increase revenues through productivity and customer service as a condition to improve quality (Overholt, 2003; Fokker, 1996), and anchored their plan to attractive *pricing* and enhanced *service culture* (SEC, 2007). Kmart needed a differentiation strategy that would set it apart from *mass retailers*. Kmart was seeking to expand, diversify and increase quality and the merger with Sears seemed the right move.

For Sears, substantially larger than K-mart, and without their financial difficulties, differentiation was also a motive, but in a different industry: multi-line retailers industry ; and for different reasons: Increasing shareholders' value and reinforcing their full-line approach (SEC, 2007). Considering the competitive retail industry in the United States, the merger of these two retailers responded to synergy motives (DiGiorgio, 2003).

### Behavior Evaluation of the Business Organizational Behavior Strategy

The performance of an organization is the result of the interaction of different elements in their internal and external environment. Overholt (2003) proposed that latitude, decision-making and management determine the organizational behavior subsystem. Lukasova (2004) used this similar view and defined organizational culture through cognitive components of assumptions, beliefs and values as factors that influence perceptions, thoughts and feelings, manifesting in the behavior of the organization.

The characterization of the organizational culture proposed by Lukasova (2004) is based on empirical research on 16 dimensions related to firm's effectiveness and perceptions about competition, environment, the employees, the employer, strategy, management of people and cohesion. Using factor analysis, Lukasova (2004) identified five components of behavior for Czech manufacturing firms, which are extrapolated in this work to analyze the organizational behavior factors of Sears Holding.

A detailed description of the characteristics of each factor is presented in Table 1, and the assessment of the organizational behavior of Sears Holding is discussed in this section.

#### *Organizational Behavior-Factor Analysis*

##### *Company's priority*

The vision of Sears Holdings restates the importance of customers' satisfaction and quality (SearsHoldings, 2007):

*Sears Holdings is committed to improving the lives of our customers by providing quality services, products and solutions that earn their trust and build lifetime relationships.*

The profile of customer that Sears had targeted since their foundation, changed in 1999 and became a "middle class American mom, 25-54, homeowner with a household income

between \$25,000 and \$60,000”, reflected in increased market share and profitability (Kirns et al, 1999, p. 329).

Consistent with Lukasova (2004) model, the three values stated by Sears holding in their corporate website: (1) Focus on the customer, (2) build and align teams, (3) know how to make money, continue to stress money as the driver of its vision, mission and values, suggesting a corporate culture focused in results.

CEO Lampert states in their annual report of 2006 that Sears Holding “will not be bound by the dictates of past practices”, implying a forward-looking orientation. However, in another part of his report he stated “We should strive to return Sears and Kmart to the position of prominence that both brands and companies held in American retailing” (Marketline, 2007, p. 17). This denotes Factor 4 and Factor 5.

### *Strategic Leadership*

Almost one decade ago, Sears’ strategy was one of expansion, opening more than 350 stores, five business units, but at the same time refocusing to the retail business, walking away from financing operations, selling their investments in Sears Mexico and limiting their international operations to Sears Canada (Kirns et al, 1999, p. 330).

The current statements of CEO Lampert suggest a different management ideology (Petit, 1961); a strategy of growth and generation of value focused on shareholders and customers, that does not derive from increasing the store base, but from using the facilities they already have to add value to customers and shareholders (Sears Holdings, 2007). The strategy of conservative growth appears more as a retrenchment with a goal of increasing profit by decreasing costs (Marketline, 2007, p. 11). These behavior suggest a classical approach to management ideology based on influencing “men’s minds” to support a profit-seeking goal (Petit, 1961).

Table 1

*Organizational Behavior Factors to Organizational Character Index- A model by Lukasova (2004)*

Factors of Organizational Behavior					
<i>Strategic aspects of perception and behavior</i>	<i>Factor 1 Orientation to survival</i>	<i>Factor 2 Orientation to the company's employees as the source of success</i>	<i>Factor 3 Orientation to results and victory over the competitors (flexibility, willingness to risk)</i>	<i>Factor 4 Orientation to prosperity and stability (sales, customer satisfaction, quality and reliability)</i>	<i>Factor 5 Orientation to tradition and formal procedures (directive management)</i>
<i>1. Company's priority</i>	Overcoming difficulties	Employees and their development	Growth and expansion, competitive, threat to competitors	Prosperity, stability, market stability and customer satisfaction	Its history and tradition
<i>2. Strategic Leadership</i>	Inexistent	Oriented to quality in production and customer and employees' satisfaction.	Oriented to results, combining creativity and quality	Oriented to customer satisfaction, fostering sales, quality of production and reliability.	Directive management, formal procedures. Reducing costs and offering a wide range of products.
<i>3. Managing people</i>	Inexistent philosophy	Providing information, showing trust, giving freedom and independence, and motivation.	Demanding results, giving rewards for success and punishment for failures.	Organizing their work, assigning tasks, setting targets.	Controlling orders and checks.
<i>4. Cohesion</i>	Achieved by orientation to survival	Achieved by good relations and joint collaboration for success, desire to be the best.	Achieved by the shared desire to be the best	Achieved by focusing on quality	Based on history, pride in the brand and logo. Conviction about quality of their products
<i>5. Perception about the company</i>	Vulnerable, passive, inflexible and under pressure. improvised, lack of cooperation of employees, lacking	Open, optimistic, friendly, cooperative and creative.	Aggressive and ambitious, flexible and active. Competitive thinking and feeling.	Prosperous, stable.	Traditional, Formal.

Factors of Organizational Behavior					
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<i>6. Perception of environment</i>	discipline. Chaotic, aggressive, pitiless, unfavorable for business.	Friendly, optimistic	Competitive, dynamic, risk-oriented, creative.	Organized, task-oriented, target-oriented	Aligned to pride, history and tradition. Loyalty and discipline
<i>7. Perception about employees</i>	Enemies, inflexible, not adaptive to the environment, interested in awards.	Company's key asset. Their development ensures attaining firm's goals. Independent and free	Achieve results and assume responsibilities for their results. Motivation is aimed at performance	Expected to be conscientious, reliable and responsible for their performance and results.	Expected to be connected with the company's tradition Expected to be loyal and disciplined in fulfilling orders.
<i>8. Communication</i>	Disorderly	Employees share their ideas and solutions.	Employees are expected to give ideas	Limited to the tasks determined by the business department	Information technologies are implemented.
<i>9. Key department</i>	Not identified	Research and development	Sales	Business and sales	Top management
<i>10. Perception about Competition</i>	Threat, enemy. It is feared	Irrelevant	Victory over competition is the driver of the firm. motivation and a challenge.	Current reality and part of the market	Irrelevant. Oriented inwards.
<i>11. Measures of success</i>	Not stated expressly	Satisfied employees and satisfied customers	Market share	Customer satisfaction, quality of production, indicators of financial stability.	External metrics: audits and certificates obtained and financial stability.

Adapted from: Lukasova, R.(2004). Relationship between organizational character and behavior. *Organizacine Kultura* 19(4), 51-62.

Sears Holdings leadership seems to have mixed messages that suggest listening to the members of the organization as a “unique opportunity to live our transition from good to great” (Marketline, 2007, p. 11) and testing-adapting-executing to ensure sustainability and longevity. Whereas, Lampert self-proclaims as directive manager who relies on the experience of his management team to implement (p. 12). Factor 5: Directive management, formal procedures. Reducing costs and offering a wide range of products.

### *Managing people*

Sears Holding reiterates the importance of six values of the jointly work: teamwork, integrity, accountability, coaching for execution, positive energy, recognition through results (SearsHoldings, 2007). The concept of “people person” is stated in different sections of the 2006 annual report as part of communication, teamwork and interpersonal skills and not elaborated further. There are not statement regarding the benefits of team work, nor indication of the impact of this interactions in decision-making.

Kirn et al (1999) reported a different strategy to manage people in place in the 90s, with employee feedback obtained through focus groups with outstanding participation of 80,000 associates (p. 331). The genuine interest of Sears for employee satisfaction generated an econometric study in 1997 that linked employees’ behavior to customer retention and to profit.

A cornerstone of the culture of Sears a decade ago was represented in the 3”Cs”: (1) Compelling place to work, (2) Compelling place to shop and (3) Compelling place to shop. This triad linked shareholders, customers and employees in a very effective manner, and the results of these periodic surveys were communicated across the organization. None of this appears in the annual report of CEO Lampert in 2006, nor is it stated on the website of the organization, denoting Factor 4: Organizing their work, assigning tasks, setting targets.

### *Cohesion*

The completion of the merger and the profitability goal, is what seems to keep the executive team and the workforce of Sears Holdings cohesive. CEO Lampert states in the annual report “we have faced this challenge [the merger] and now are focused on running the business better each and every day”. The transformation of Kmart locations to Sears format and changes in store names show the relevance of the Sears brand as a cohesive element of the firm (Marketline, 2007, p.11). Similarly, the reputation of “reliability and trust” achieved by Sears in the past is attributed to *great brands*, (Kenmore, Craftsman, Lands’ End, Diehard, Sears and Kmart brands) deemed *symbols of excellence and quality* (Marketline, 2007, p. 18), denoting Factor 5 (pride in the brand and logo. Conviction about quality of their products).

### *Perception of the company*

Sears Holdings is described by Lampert as a *start-up* to exemplify the vulnerability to changes, challenges and opportunities of the merger (Sears Holdings, 2007). The role of top management in the creation of value and the “absolute focus on profitability” was the outstanding point of this annual report.

Sears Holdings considers itself as a learning culture, a concept used by Schein (2003) to explain the stages of firms that undergo important transformations, during their lifecycle. This philosophy of learning culture existed in 1999 as reported by Kirn et al (1999) manifested through the use of *Learning maps* (p. 331) that explained topics of ownership and value creation, performance indicators, trends in the retailing industry, demographic changes and customer base, and capital management. The annual report of 2006 does not show any indication of the use of the learning maps as part of the communication goals of the organization, denoting factor 4: Prosperous, stable.

*Perception of environment*

The difficulty of the integration process Sears-Kmart is still a topic of perceived concern in the 2006 report. The completed integration of functions, workforce, and headquarters was relevant to Lampert to reduce distraction or confusion (Marketline, 2007, p. 10). Factor 4: Organized, task-oriented, target-oriented .

*Perception about employees*

Sears Holdings expectations about employees respond to the core values of the organization; however there is dissonant when mixing qualities of “energy, ability, innovation, entrepreneurial, comfortable with change and dedication” with “commercial focus (...) who know how to make money (...) can-do attitudes and want-to-win attitude” (SearsHolding, 2007).

CEO Lampert’s perception of employees appears at times paternalistic: “While our culture is focused on results, we have a great deal of patience for individuals who have the ability, talent, and desire to succeed- that patience is born out of our commitment to long-term value creation” (Marketline, 2007, p. 10). This denotes factor 5: Expected to be connected with the company’s tradition. Expected to be loyal and disciplined in fulfilling orders.

*Communication*

In 1999 Sears promoted an *employee’s ownership strategy* that was based in communication and information about all the aspects of the business strategy (Kirn et al, 1999). Focus groups, customers’ surveys, employees’ surveys, learning maps, were means to communicate the 3 C’s compelling culture and to inform all the members of the organization about the financial and business results (p. 332). These aspects do not appear in 2006 report, rather the relevance of communications resided in the integration of information systems as

instrumental to profitability by improving customers relationships and experience (Marketline, 2007, p. 10). This reflects factor 5: Information technologies implemented.

#### *Key departments*

There is no indication of the relevance of a particular department of Sears. Given that the strategy is directive, the key guidance comes from top management: Factor 5.

#### *Perception about competition*

The strategy of not opening new stores at the pace of the competition relies in the belief that success is not measured by expansion, nor is it measured by Same Store Sales (SSS). This position seems to justify the retrenchment of Sears Holding, by qualifying the relationship between opening of new stores and SSS figures as artificial (Marketline, 2007, p.13). For Sears Holding the return in store investments in value for the firm can only be measured four years later when the stores are considered *mature*. In the past, Sears' competitive strategy was expansive and based on the "3C model" (Kirn et al, 1999, p. 331). Factor 4: Current reality and part of the market.

#### *Measures of success*

The culture of Sears Holding measures success by profitable growth through increases in the EBITDA (Marketline, 2007, p. 11). Increase in sales or increase in assets (Richard, 2000), or capitalization, or increased investments of excess of cash flow (Stewart, 2001) are not metrics that Sears uses to gauge their growth or their robustness. Lampert claims that investment in new stores are driven by two targets: Improvement in customer experience and associate experience, as conditions to achieve improved profitability (Lukasova, 2004, p. 98). This denotes: factor 4 Customer satisfaction, quality of production, indicators of financial stability and Factor 5: external metrics, audits and certificates obtained and financial stability.

### *Overall Evaluation of Organizational Behavior*

Six strategic aspects of perception and behavior of Sears Holdings are aligned to Factor 5 Orientation to traditional and formal procedures, whereas six are aligned to Factor 4 Orientation to prosperity and stability. Given these outcomes, Sears Holdings appears to behave as a traditional organization, whose directive lines are determined by the CEO, with a centralized structure where guidelines, rules and decisions are communicated from top to bottom of the hierarchical levels.

According to Lukasova (2004) the behavior of firms determine their organizational culture in four pairs of tendencies: Extraversion or introversion, sensing or intuition, thinking of feeling, and judging or perceiving. Sears Holdings seems to be oriented to traditions and not to competition (I: *intraverted*), they appear to gather information focusing on the present more than the future (S: *sensing*), they process and judge situations in terms of consistency, competence and efficiency (T: *thinking*), and their means of facing the challenges of the world are through firm decisions, clear definitions and settlement of issues (J: *judging*).

Therefore, Sears Holdings is a ISTJ firm, oriented to traditions and formal procedures. The following section will discuss the current organizational design of Sears Holdings that supports the organizational behavior evaluated in this first section. The final representation of organizational behavior and organizational culture of Sears is shown in Table 2.

#### Evaluation of the overall organizational design approach

Organizational design is the configuration of the structure, processes, and behaviors of an organization (Overholt, 2003, p. 22). Similar definition is provided by Scott (2003, p. 22) who configured internal systems through four components: Social structure, technology, participants and goals. In a more elaborated description, Kaplan and Norton (2001, as cited by Carpenter and

Sanders) mapped out the internal perspective of a firm through: Operation management processes, customer management processes, innovation processes, regulatory and social processes. The organizational behavior of Sears Holding was evaluated in the previous section; the structure and processes will be assessed in this second segment of the document.

*Table 2 Mapping of Sears Organizational Behavior (OB) Factors and Organizational Culture (OC).*

<i>Strategic aspects of perception and behavior</i>	<i>Factor 4 Orientation to prosperity and stability (sales, customer satisfaction, quality and reliability)</i>	<i>Factor 5 Orientation to tradition and formal procedures (directive management)</i>
<i>1. Company's priority</i>	Prosperity, stability, market stability and customer satisfaction (OC: I)	Its history and tradition (OC: I)
<i>2. Strategic Leadership</i>		Directive management, formal procedures. Reducing costs and offering a wide range of products. (OC: J)
<i>3. Managing people</i>	Organizing their work, assigning tasks, setting targets. (OC: I)	
<i>4. Cohesion</i>		Based on history, pride in the brand and logo. Conviction about quality of their products. (OC: I)
<i>5. Perception about the company</i>	Prosperous, stable. (OC: S)	
<i>6. Perception of environment</i>	Organized, task-oriented, target-oriented. (OC: T)	Aligned to pride, history and tradition. Loyalty and discipline. (OC: T)
<i>7. Perception about employees</i>		Expected to be connected with the company's tradition. Loyal and disciplined in fulfilling orders. (OC: J)
<i>8. Communication</i>		Information technologies are implemented. (OC: T)
<i>9. Key department</i>		Top management (OC: J)
<i>10. Perception about Competition</i>	Current reality and part of the market (OC: I)	
<i>11. Measures of success</i>	Customer satisfaction, quality of production, indicators of financial stability. (OC: J)	External metrics: audits and certificates obtained and financial stability. (OC: J)

*Adapted from: Lukasova, R. (2004). I: introverted, S: sensing, T: thinking, and J: judging.*

### *Sears Holdings Organizational Structure*

The organizational structure of a firm determines its attitude towards strategy, change and the environment. Successful firms use different organizational designs that respond to their corporate strategy (Gluck, 1981, p. 14) and to their core competencies (Overholt, 2003, p. 25). Given that the strategy of Sears Holdings is oriented towards stability and prosperity, after the merger, their goals of increased profitability should require a more flexible structure, that is adaptive to change while aligning all the elements of the organization to embrace the new management style, the change strategy and the change process (Overholt, 2003, p. 23).

The organizational design archetypes of Overholt (2003) will be used to identify the level of centralization or decentralization of Sears Holding. Using a people-centered approach that creates, leads and assesses the internal capabilities of the firm, Overholt conceptualized each archetype across seven subsystems of an organization: Genetic core, philosophy, formal organization, information technology work processes, behavior, informal organization and culture (Overholt, 2003, p. 26). See Table 3. An organization may be located in an very centralized design (Archetype 1), moderately centralized/decentralized design (Archetype 5) or highly decentralized design (Archetype 10).

*Table 3*

#### *Organizational subsystems of Organizational Archetypes- Overholt (2003)*

Subsystem	Description
1. Genetic core	Source of decision-making: individual or team-based
2. Philosophy	Degree of use of pre-set or contingent rules in the operation
3. Formal organization	Hierarchical levels, degree of control and reward systems.
4. Information, technology and work processes	Degree of information sharing, decisions about technology, direction of flow of work processes: bottom-up or top bottom

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5. Behavior	Latitude of actions, decision making and management style
6. Informal organization	Network of social relationships with teams, individuals, leaders and impact of grapevine
7. Culture	Norms that guide dress codes, involvement and status of the participants.

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*Source: Thomson, G (2007). Organizational Design Strategy-NSC case.*

This section will address only six of these dimensions, given that *behavior* was fully described in the previous section.

### *Genetic Core*

The genetic core of Sears Holding is given by the former Sears Roebuck, who have a long-term relationship with the American consumer (SearsHoldings, 2007). This return to their original culture is constantly challenged for the need of transformation. The transformation of Kmart locations into Sears stores has been gradual; the changes of brands from Sears Essentials to Sears Grand, show the trend to prioritize the genetic core *Sears* above K-mart. All these transformations are expected to influence the perception of quality and variety that was the motive of the transaction in the first place (Sears Holdings, 2007). As evaluated in the organizational behavior section, Sears is a firm oriented to traditions and formality, where the pride of the brand and their products drive their actions (Marketline, 2007, p. 17).

Archetype 1: highly centralized.

### *Philosophy*

Sears and Kmart have also reconciled and merged a number of policies, compliance rules, and other preset guidelines. Among them, their buying policies and code of vendor conduct have merged to simplify the policies and enforce higher levels of compliance from vendors and factories. This is a critical element for Sears Holdings, given the problems of product recalls suffered during 2006 (Marketline, 2007, p.19).

In the case of Sears Holdings, the transformations that resulted from the merger required the selection of an organizational design that reconciled the structures of Kmart and Sears Roebuck allowing top management to realign and rebalance (Overholt, 2003).

Archetype 5: Moderately centralized, moderately autonomous.

*Formal organization*

The consolidation of management teams and the selection of key positions in the new organization (DiGiorgio, 2002) was one of the most difficult tasks for Sears Holdings. The efforts of Lampert to maintain the morale of shareholders were clear in the annual report where he encouraged to continue with the post-merger activities and strive for concrete outcomes. The boards of shareholders of both Kmart and Sears had an important role in the determination of levels. Special stress was made in the improvement of customer relationship and customer experience. According to Overholt (2003), the formality of the organization is reflected in hierarchical levels, degree of control and reward systems.

Sears has many levels of hierarchy, each one of the highly accountable for their actions. In the past (Kirn et al, 1999) Sears had designed four levels of employees but did not define them properly. At this time, Sears Holdings has the following bodies of hierarchy. Four Board committees control: Audit, Compensation, Finance and Nominating and Corporate Governance (SearsHoldings, 2007).

Sears Holdings defines their functions in terms of support centers, and distributes them geographically as support, design, e-commerce and development centers in Illinois, Texas, Georgia, Michigan, and New York. Their functions include more than 40 different areas, from administrative support, to business development, finances and accounting, maintenance, public relations, training, transportation, statistics, analytics (SearsHoldings, 2007). Most units at Sears

Holdings have the following structure: General Managers, Operation Managers and Supervisors, and a layer of first line managers.

Because of this orientation inward, Sears has opted for maintaining a minimum of international participation, through Sears Canada, and through Sears International Marketing that manages wholesale exports of Sears brand names (Kenmore appliances, Craftsman tools and Diehard batteries) and also individual retail orders through the Retail Export Program conducted from Miami. Other operations are conducted through licensed stores in the Caribbean, South America, and the Pacific Islands, and Mexico.

### *Rewards and Motivation*

Lampert (Marketline, 2007) addresses compensation of employees and top management and explains that the pay-for-performance approach to compensate managers is an option that Holdings has used with care, especially because of the linkage with stock options and its volatility. According to Lampert the use of employee's stock options seems a good idea when the stock is up but he acknowledges that this is an artificial way of perceiving gains for short term fluctuations that do not pertain to the company itself. This position is consistent with the views about theory of the firm expressed by Jensen and Meckling (1976).

Lampert urged managers to be accountable, responsible and aligned with the goals and missions of Holdings, ensuring that a consistent compensation package is put in place for this purpose (Sears Holdings, 2007). This statement makes it evident that Sears leadership believes that monetary compensation is critical to motivation (Mitchell & Scott, 1985).

Sears Holdings prides itself of being a "responsible steward of its pension plan" (Marketline, 2007, p. 17) and provides this benefit to their employees despite the competitive disadvantage that it generates for Sears. The annual report argued that tax regulations have

increased premiums to socially responsible firms like them to benefit others that do not offer benefit plans of their magnitude. Organizational Archetype I: Highly centralized

*Information Technology and Work Processes (Job Design)*

*Information and Technology*

Sears has established a system that requires less frequent audits to vendors but has designed an effective internal system to manage compliance, apply remediation and continuous improvement in their supply chain (SearsHoldings, 2007).

Sears Holdings Logistics, is in charge of the distribution, transportation and logistics supports businesses. There are 42 distribution centers in the U.S., 11 direct delivery centers supporting the home delivery division, 18 replenishment centers that serve both Sears and Kmart to support hard lines businesses. The specialty products (apparel) are supported by four regional specialty centers. The transportation system that Sears Holdings has in place moves more than 96,000 ocean containers, with 1 million truckloads of products delivering 40 million small packages to stores with optimization of supply chain.

*Job design.*

Lampert stated that having the right people in place was the condition for a winning culture (Marketline, 2007, p. 10) supported by an executive team with capabilities and commitment to pursue the corporate strategy. This suggests an approach to job design that is people-centered (Overholt, 2003) that is based in attracting, developing and retaining highly capable individuals. To this purpose, the managerial positions in the organization are labeled as *coach* instead of managers.

Sears Holdings also states the interest in people who are commercially focused, know how to make money and be part of a learning culture (SearsHoldings, 2007). The attitude

towards employees was discussed in the behavioral section, but is brought to discussion here given the inconsistency of the statements and the lack of information regarding how the organization does what they say they know (Pfeffer & Moore, 1980).

Store managers at Sears Holdings are given autonomy in decision-making so they can respond to the community demands. Their qualifications for this position include either experience in retail management or college education. Sears Holdings offers the opportunity of training and personal coaching in : store operations, sales promotions, merchandising, marketing and community relations (SearsHoldings, 2007), however this information does not appear relevant in CEO Lampert's report, it is rather reported in the strategies cited in the 1999 study by Kirn et al.

At the store management level, Sears Holding establishes three levels: Support Coach/Assistant Store Coach, store coach and district coach (SearsHoldings, 2007). Each position is clearly explained in the corporate website and tasks such as: Merchandising displays, unit and pricing accuracy, management and development of associates, at the support coach level; customer service, financial and human resources management, at the store coach level. The store coach level is expected to exercise leadership, management and communication.

The Job Design strategy at Sears Holding is supported by four management development programs: Management trainee, support coach in training, store coach in training, District coach in training. The latter is trained at the level of Regional Vice president and are aligned to the levels established in the retailing business.

Kmart Pharmacy is one of the synergist results of the merger. This unit contains positions of staff pharmacists, pharmacy coach, floating pharmacist and pharmacy district coach. The pharmacy coaches have access to financial information of their contributions to the business.

This interest in providing this type of information was also reported by Kirn et al (1999) as part of the strategy that Sears used to communicate with their employees. The automotive unit has also different levels: Customer service advisor (sales), automotive service technician I (entry level) and three levels of service technician dealing with more advanced topics in auto mechanics and repairs.

All these units seem to be clearly defined and are still exclusive to either Sears or Kmart. The access to the corporate website, directs to the Sears Holding website for retailing and automotive careers, whereas, it directs to Kmart site for pharmacy careers. The only unified area for both organizations is logistics and business strategy. Archetype 5: Moderately centralized, moderately autonomous

#### *Behavior*

Using Lukasova's (2004) factor analysis, the previous section evaluated Sears Holdings as a traditional organization, with an inward orientation. Directive lines are communicated from top to bottom, and decision-making is made at the top of the organization chart. All conflicts are resolved at that level. All rules and procedures are laid out and centralized (See Organizational Behavior section). Archetype I: Highly Centralized.

#### *Informal Organization*

Given the highly centralized archetype of Sears Holding, it was not found any indication of the connection of the members of the organization in informal constructs. The characteristic of this type of organizations is that leaders are a small group and the grapevine works as better communicators than the formal organization. Archetype I: Highly centralized.

#### *Corporate Culture*

The merger of Sears and Kmart could be categorized as *absorption* from the point of view of cultural change (Aluko & Amidu, 2005). Absorptions are characterized by a high degree of culture change in the acquired firms and low from the acquire (Marks and Mirvis, 1998). There is a fuzzy line between these two concepts, given that both Kmart and Sears created Sears Holding, but they continued operating as individual brands. In fact, the Board of directors of both firms refer to it as *business combination* (SEC, 2007).

In terms of the cultural impact, Lampert (Sears Holdings, 2007) acknowledged that the “goal is to see Sears Holdings become a great company whose greatness is sustainable for generations to come” based on a culture of openness to change and adaptation. Considering that both Kmart and Sears were founded in the 19<sup>th</sup> century, this statement seems proper to describe the similarities between these two firms, and the orientation *inward* suggested by Lukasova (2004) model evaluated in the previous section about organizational behavior.

The focus on the customer is present in every statement used by Sears in recruitment, diversity, their presentation as an organization, and across the different sections of their corporate website. Power is another factor that appears in these statements (SearsHoldings, 2007) but when they are reconciled with the annual report of CEO Lampert, the idea of power and energy is missing.

### *Heritage*

Sears believes in the importance of heritage and legacy, but their definition is very traditional, and is based in their own definition of their role in the retail industry as a service organization. The annual report reflects the stress that Lampert sets on the construction of a culture that is focused on profitability but at the same time, interested in bringing Sears and

Kmart to their traditional position of “prominence” in American retailing (Sears Holding, Marketline, 2007, p. 17).

Sears is proud of the relationship with the American consumer as a foundation to grow and identify their reputation of *reliability* and *trust*. These two qualifications are determine the alignment to history, tradition, and loyalty that Sears Holding shows in their corporate culture.

### *Diversity*

One of the most disappointing elements of the organizational design of Sears Holding resides in their statement of diversity. Theoretically, organizational diversity implies by gender, race, sexual preferences, education, experience and opinions (Allen and Montgomery, 2001). The level of diversity will depend on the innovation level in the organization, “founding rates, diversity of new entrants, the merger rate, and disbanding rate (...) environmental change and adaptive capacities of the organization” (Carroll and Hannan, 2000, p. 158).

The statement of diversity of Sears Holdings is not part of the annual report of CEO Lampert in 2006 and is not clearly elaborated in the corporate website. Diversity is addressed in Sears Holding in terms of three principles: “(1) Diversity is a business imperative, (2) Everyone is accountable for embracing our culture, (3) Diversity is demonstrated [by attitudes and relationships with others].” (SearsHoldings, 2007).

In a disappointing elaboration of the elements of diversity, Sears Holding states that diversity is demonstrated by the attitudes and actions of seniors leaders, interactions with customers and vendors, their practices of attracting, hiring and retaining the best talent, their promotion and reward of associates who deliver superior results and the embracing attitude towards “diverse people, ideas and experience” (SearsHoldings, 2007).

Corporate demography is not shown in any section of Sears Holdings corporate website, or even mentioned in Sears Holdings annual report. There are no records of the percentage of diversity in gender, race, disabilities or any other distinct characteristic of the workforce. The section that addresses diversity with more interest is Supplier's Diversity.

Supplier's Diversity recognizes the importance of minority, women, veteran and service-disabled as suppliers and contractors for the business units of Sears Holdings. Delivering the right products and services at competitive prices, and the connection with the communities is held as the rationale for this interest in diverse suppliers.

Sears Holdings does not show any indication of training programs to promote diversity, orientations programs to discuss business practices in a diverse environment, or any other expression that the promotion of managerial positions among diverse groups is their priority.

A different approach is provided by Kmart. Their statements about diversity in the Kmart website are fairly different from Sears Holdings. Kmart makes clear statements about the highly diverse workforce, with 32% of multicultural minorities, including store managers (Kmart, 2007). The rationale behind these statistics says it upfront: "It reflects the communities it serves" (Kmart, 2007).

Kmart recognizes that they serve multicultural shoppers and restates their commitment to cover urban areas of the U.S. through their presence in 283 of 331 metropolitan areas of the country, multicultural by default. The relevance of this multiculturalism is reflected in the comparison that Kmart does about their customer base and that of the metropolis they serve, and the "\$1.2 trillion in purchasing power" that Kmart assesses as their potential. This comparison is shown in Table 4.

*Table 4**Comparison of Multicultural Customer Base at Kmart and Multicultural Demography*

Ethnic groups	Kmart	United States
Hispanics	15.2%	13%
African Americans	15.4%	12.9%
Asia and Pacific Islanders	4.8%	4.5%

Source: 2000 Census. Kmart website. Retrieved October 15, 2007

This table shows that Kmart is consistent with that structure and has already outnumbered this composition with a diverse customer base. Kmart shows their pride of becoming the “store of the neighborhood” for these consumers (Kmart, 2007). As Sears, Kmart also has programs of diversity suppliers and carries multicultural merchandise.

Multicultural merchandising is the way Kmart responds to the demographics of its customer base. The strategy of Kmart is to categorize stores in terms of the demographics and supply it with specific products for the profile of the neighborhood. This strategy does not permeate to the Sears Holding philosophy, this is not even mentioned in their statements, yet is the core value of Kmart. Allen and Montgomery (2001) reported about Kmart strategy in a study about changes in practices of retailers in the United States, confirming the interest of Kmart in diversity.

The process used by Kmart to respond to diverse customer base is explained in the corporate website and includes five actions: (1) compilation of demographics, (2) identification of variances, (3) determination of demographic or geographically targeted assortments of merchandise, (4) include geographic and demographic characteristics in review, performance measurement and opportunities of business, and (5) Community outreach of store managers to provide localized brands.

### *Symbols of the Corporate Culture*

Sears Holdings responding to the corporate culture of external indicators (Factor 5) uses recognitions by Fortune Magazine, the National Association of Female Executives, Latina Style Magazine, Hispanic magazine, Working Mother Magazine, Diversity Inc, and others to support their statement of diversity. One important external indicator noted in their website is the Human Rights Campaign Foundation, that awarded them as the Best Place to work for GLBT groups, and 100% corporate equity index score. However, none of these indexes are explained or elaborated on their website. Archetype I: highly centralized.

Assessment of the short and long term effectiveness of the design strategy

The evaluation of the organizational design strategy of Sears Holding using Overholt (2003) archetypes, shows the following landscape, baseline of a gap analysis.

*Table 5*

#### *Mapping of Organizational Archetypes for Sears Holding-*

Subsystem	Current Archetype	Recommended Archetype
1. Genetic core	1 Highly centralized	5 Moderately centralized
2. Philosophy	1 Highly centralized	5 Moderately centralized
3. Formal organization	1 Highly centralized	5 Moderately centralized
4. Information, technology and work processes	5 Moderately centralized	5 Moderately centralized
5. Behavior	1 Highly centralized	5 Moderately centralized
6. Informal organization	1 Highly centralized	5 Moderately centralized
7. Culture	1 Highly centralized	5 Moderately centralized

*Source: Thomson, G (2007). Organizational Design Strategy-NSC case.*

Six out of the seven subsystems of organizational design are highly centralized, with information managed exclusively at the top level. Some attempts to permeate this information to the lower levels has been done with the integration of information technology systems and the

conversion of stores from Kmart to Sears, to assimilate the philosophy of the traditional “prominent” firm. The firm will benefit from transitioning towards a moderately centralized, moderately autonomous design. Especially when the cultures of Kmart and Sears are different, and require different reference signals (Vancouver, 1996).

To measure the efficiency of the organization as a living system signals of job satisfaction and compensation are recommended indicators. These indicators are not available by Sears or Kmart in their corporate websites. A persistence of a centralized archetype will have an impact on retention, quality, engagement, motivation and employee morale.

The transition to a moderate centralized and moderate autonomous design will require additional resources aimed at following up retention indexes, job satisfaction (Vancouver, 1996), customer satisfaction, and internal commitment to an espoused goal (March & Simon, as cited by Vancouver, 1996). Given that the culture of the organization puts profitability in the front end, and the tradition of their brands as a keystone of success, monitoring reference signals of commitment will help reveal needs for reorganization. (March & Simon, as cited by Vancouver, 1996).

The focus on customer satisfaction as a generator of profitability is anchored to an optimal customer experience that does not end with the sale of a product but continues until the customer accrues value (Marketline, 2007). This philosophy appeared to generate incremental results in operating income, a better expense management in all the three properties of Sears Holdings and improved Earnings per Share. The foundation of this growth should be linked to a change of culture, more innovation, and more customer service. CEO Lampert urged the stockholders in his annual report of 2007 to listen to the customers in a more efficient way that they had before in order to achieve those goals (Marketline, 2007, p. 12).

A more efficient organizational design that aligns strategy to the market, and to the internal competencies of the organization, creating an enhanced congruence, with supervisors and employees that communicate permanently; with best practices on diversity that could be shared between Kmart and Sears.

The centralized organizational design that Sears Holding holds is one of the major restrictions for effectiveness. Sears Holdings will have to work on modifying their perception that Kmart stores are a “dead weight” to Sears Holdings and integrate them completely to their formal organization, using their best practices in diversity, their real focus in urban America, their neighborhoods and the connection of their managers with customers and incorporate it to their design.

#### Assessment of Impact of Anticipated Changes in the Economic Environment

The highly competitive retail industry imposes pressures but also opportunities for Sears Holding. Analysts report that the market conditions in retail and services industry are characterized by changes in consumers' preference, volatility of the markets, international trade restrictions, public debt restrictions and seasonality (Marketline, 2007).

The strong presence of Sears in the market, its balanced brand mix and the broad product offerings, are three factors that have helped face the pressures (Marketline, 2007, p. 18). Sears Holding was the third major retailer in the United States after Wal-Mart and Kroger, with 1388 Kmart stores and 2,403 Sears stores, 74 Sears Essentials/Grand stores and 1,095 specialty stores (Marketline, 2007, p. 19).

The mix of private and outside brands provides customers with more options for their customers, and solidifying their position as a broad line retailer. At the other hand, the decline in Same Store Sales (SSS), product recalls and low returns are internal factors that reveal

difficulties in their promotion strategy. Similarly, the competition with other firms for low prices will affect the strategy of profitability unless the firm devise an alternative way to use their broad line to be obtain better suppliers' conditions, through an enhanced communication between the two business units.

On the negative side the generalized slowdown of the economy, the rising prices of gas and the downward growth of the Gross Domestic Product, are elements that could hinder the results of Sears holdings. The consumption of apparel and appliances shows significant decrease when there is a recessive process. The concentration of Sears in the domestic market is the major element of concern. An added threat has to do with the intense competition of other major retailers, either broad-line as Sears Holdings, or focused in specific products. Given the wide span of activities and the more than 2,300 full-line, 1,100 specialty stores in America, and 370 in Canada, Sears covers 14 different product segments, and 8 service segments, in a consolidated structure. The competition with Wal-Mart and Costco in low prices and reduced profit margins is the most critical aspect of this threat.

The recurrence of product recalls will have a negative impact on Sears holding. In 2006 the firm had to recall acetaminophen products and in 2007 they had to recall GE built-in dishwashers of the Hotpoint brand, Eterna brand and Sears Kenmore due to overheating and fire cases, for a total of 191 cases (Marketline, 2007, p. 20). Sears holding has responded to these incidents, by improving and unifying the audit systems of their suppliers to ensure high quality and reduce the occurrence of these mishaps.

Given the significant value of Sears Holdings retailing locations, the increase in rental rates reported for the past three years in the U.S. economy, impose an added pressure to

operating costs and to the profit margin. A total of 2032 Sears Holdings stores are leased, with potential effects by the expected increase of 5% in rental rates in 20 central business district

Positive exogenous factors such a growth in brand names are opportunities for Sears Holdings. Economic analyses show that the United States will show an increase in sales of private brands from \$108 billion in 2005 to \$137 billion by 2011, accounting for one out of five items sold in retail. This growth in private label sales represent 20% of the sales in supermarkets and other merchandisers. Sears Holdings has a consistent number of label brands (Kenmore, Craftsman and Diehard) while Kmart works with its own line of Nature's classics (Marketline, 2007, p. 21). The strategy of selling Sears brand names at Kmart locations will help increase the growth rate in this segment.

Another exogenous positive factor is the forecasted growth in healthcare spending. The 1100 in-store pharmacies managed by Kmart and its online pharmacy provide a valuable combination of business model for Sears Holdings. With expectations of \$4 trillion in spending by 2015 (Marketline, 2007, p. 21) the perspectives of increased revenues and profitability are highly optimistic. Support of the pharmacy line at Kmart will be the key to make use of this opportunity.

Sears Holding conducted appropriate research to determine the possible risks of the merger of Kmart and Sears in the context of the complex retail market. In fact, given the complexity of the market, the merger gave both organizations the opportunity to enhance their performance. In a report filed with the SEC prior to the completion of the merger, both boards of directors identified risks in the process.

Some of the projected synergies were achieved, especially in the geographical expansion, the real estate strategy, the combination of brands, the financial position, the increased revenue

and the support from controlling stockholders. The strength of the management team, is not clear from the statements of CEO Lampert or from the review of the information on the corporate websites (Thomson, 2007: 3)

There is no indication of cannibalization of sales between the two firms, especially because there is a perception of a different type of customer in each location. Sears targets the typical American housewife whereas Kmart targets the multicultural urban population of the United States. There is enough differentiation of products and services, in fact there is a clear differentiation about the sources of products and services.

The consolidation of operations has been done with success according to Lampert, however, the retention of key personnel is one of the factors that will require more attention from Sears Holdings. There are not statistics about the level of attrition, but reading between lines from the report, it seems that the level of retention is low (Marketline, 2007).

There is no indication of conflicts at the directors or board members level. This secrecy of the differences between them, appears to be aligned with the centralization of information that characterizes Sears Holdings Organizational behavior and design.

#### Indicators of Successes and Failures in the organization

Success and failure of an organization may be assessed from both financial and organizational perspectives. This section addresses the results for selected indicators of the activities of Sears Holdings in 2006.

##### *Profitability and Shareholders' Value*

In the short term, the conservative strategy used by Sears Holding increased profitability at the end of 2005, by refocusing on profit and not sales and reducing the expense structure (Sears Holdings, 2007). The re-direction from the focus on sales to profits, reduced the inventory costs,

marketing expenses and labor costs formerly allocated to sales as an ultimate purpose (Marketline, 2007).

### *Sales Revenues*

The assessment for fiscal year 2006 showed a stable organization with sales at the same level of most of their important competitors. However it also seems clear that the strategy for expansion did not include a propagation of stores in the proportions of their competitors, which imposed a strong restriction to the generation of revenue, which would have to originate from sales that yield additional profits (Market Line, 2007).

### *Cash Flows*

The 2006 annual report by CEO Lampert showed that the cash balance of Sears domestic was \$3.3 billion, under the projections for the year, explained by additional federal and state tax payments and a decrease in January sales (Marketline, 2007). The free cash flow of the fiscal year was \$816 million that was allocated to share repurchases, capital expenditures, pension contribution and acquisition of new interests in Sears Canada. The ability to generate cash flow is one of the enhanced characteristics of Sears Holdings, which ultimately increases long-term shareholder value (Berkovitch & Narayanan, 1993). The figures for 2006 showed \$1.69 billion of after-tax cash flow in 2006.

### *Synergies*

The most notable synergies were reflected in incremental operating income and cost reduction (Chanmugan et al, 2005; Berkovitch & Narayanan, 2003). The incremental operating income was derived from operating profit synergies resulting from converting off-mall Kmart stores to Sears stores, and cross-selling Sears and Kmart products in each other's stores. The cost reduction derived from scale synergies in purchasing costs, given the enhanced volume of

purchases. Other costs reductions resulted from consolidation synergies, that reduced the cost of corporate services such as: transportation logistics, integration of networks, consolidated services (SEC, 2007). Table 6 shows a summary of the expected results of the merger.

*Table 6 Summary of Expected Synergies at Sears Holding*

Identified Synergy	Metric
1. Enhanced position in retail market	Annual revenue: \$55 billion Broader retail presence: 3800 full-line and specialty retail store Presence in Canada and U.S. Increase from 4th largest retailer to 3rd. largest retailer
2. Winning Real Estate Strategy	Expansion of points of distribution: Urban and high-density suburban locations Name recognition Diverse Customer base Growth in stand-alone, off-mall stores (given Kmart real estate addition) Capitalizations of proceeds
3. Differentiation of stores through wealth combination of proprietary brands	Differentiated products Craftsman, Kenmore, Lands' End, DieHard, Covington and Apostrophe (Sears) Martha Stewart Everyday, Joe Boxer, Jaclyn Smith , Sesame Street, Route 66, Thalia Sodi (Kmart)
4. Strengthened Financial Position	Increased earnings Increased cash flow resulting from combined retail sales Better negotiation terms with vendors
5. Increased revenue	Incremental operating income in 2007: \$500 million \$200 million, operating profit synergies \$200 reduction of purchasing costs \$100 reduction of other costs
6. Stronger management team	Capable managers Positive and winning culture Disciplined investment strategy Operational excellence Governance and Board composition Senior Management teams
7. Support from controlling stockholders	

Source: Thomson, G. (2007). Sears-Kmart Merger Evaluation. Adapted from SEC (2007)

Using an adaptation of the model of end-state goals of DiGiorgio (2002) to evaluate the results of Sears Holding (Thomson, 2007) the outcome of reveals some end-state goals not yet achieved.

Table 8

*End-state goals of a successful M&A*

End-state Goal	Achieved
1. Talent retained	No
2. Speed to market new products	Yes
3. Measures of customer retained, lost or gained	Not available
4. Synergy capture	Partially
5. Employee satisfaction	Not available
6. Identification of service and product problems	Yes

DiGiorgio, R. (2002). Making mergers and acquisitions work: What we know and don't know – Part I

## Organizational Behavior Theories manifested in the Organization

The first section of this document presents a methodology of assessment of the organizational behavior typology of Sears Holdings. This model proposed by Lukasova (2004) is based on Schein (1993) organizational culture and leadership theory, as well as Hofstede (1991) psychological view of the organizational culture. Sears Holdings behaves as a firm with orientation to prosperity and stability and pride in the tradition and formal procedures (Lukasova, 2004). Their corporate culture is introverted, sensitive, thinking-related and judging (Lukasova, 2004) which is explained for their recent merger and the assimilation of cultures that is still taking place.

From the perspective of their structure, the design archetype model (Overholt, 2003) revealed that Sears Holdings has a highly centralized tendency, where decision making is based and held at the top levels, and communication is provided at their discretion. This structure corresponds to a bureaucratic theory of organization, where there is a dependence on structural arrangements such as specialization, division of labor, hierarchical command, routinization of job duties (Burns & Stalker, as cited by Morand, 1995). This mechanization creates impersonality in the relationships, which reduces any possibility of frictions but also makes the

interactions with the customer very difficult. Bureaucratic organization require of formality in behaviors to function properly.

The system of motivation and rewards seems to be rooted in Locke and Latham (1967) Goal setting theory. By defining a goal or an objective, individuals should receive signals of the magnitude of contribution they have to make (Mitchell & Scott, 1985), e.g. meet sales goals, know how to make money, and be commercial-oriented. These statements appear in every section of the corporate website. However, the theory also recognizes the differences between personal goals (subjective and internal: status, advancement) and group goals (objective and external: cooperation) and Sears Holdings, seems to not give indications that these differences are taken into account. This is clear, when CEO Lampert talks about patience to understand the pace of associates who do not understand the goal of the firm (Marketline, 2007, p. 10).

The job design strategy seems to follow the contemporary theory of Conti (2002), who addresses job design from a customer service perspective. Child (as cited by Conti, 2002, p. 2) argued that “job design focuses on the work itself- that is on the tasks and activities that individuals complete in the organization on a daily basis”. As explained in the job design section of the organizational design evaluation, all the activities that the associates of Sears have to conduct are clearly stated.

The theory that depicts the attitude toward diversity is the typology of Cox and Blake (2001). According to this, Sears Holdings is a Monolithic organization where the statement about diversity is rhetoric and is not clearly manifested. The analysis of the diversity approach of Sears Holding is contained in the organizational archetype section and reveals that only Kmart has a concrete and clear strategy to use diversity as an anchor to increase sales and profitability.

One of the theories that appears as a clear attempt of CEO Lampert to validate his leadership is the level 5 leadership theory of Collins (2001). However, this was not optimally implemented, as it is required to have an integration of team work, corporate culture, humility and open communication with all levels of the organization to achieve it. The leadership style of CEO Lampert (2007) is focused in the achievement of financial indicators and positioning in the retail market, however, very little is said about the steps to transform Sears Holding from good to great (Collins, 2001).

#### Omitted Theories of Organizational Behavior that Could Contribute to Optimization of Outcomes

This document defines the complexity of the retail industry as the context of operation of Sears Holdings. Consistent with this premise, Sears Holding could have benefited from addressing the merger and the integration of Kmart and Sears, with the view of Complexity Theory of Leadership to optimize their outcomes.

The complexity leadership theory proposes an *adaptive leadership style* (Allport, as cited by Liechtenstein et al, 2006) modified by two factors : a) Collective identity and b) tension (p. 4). The participant of complex organizations create their own identity as the result of the rising event, in this case, as a result of the new structures, new strategies and different cultures. Each member would recognize their role as followers who do not respond to a leader, but acknowledge there is one, somewhere. CEO Lampert seems to be that leader who gives directions and sets guidelines that are expected to be followed, however, adapting the leadership style of Lampert to a more open communication with all the levels of the organization, could yield positive impacts.

The interactions between Sears and Kmart workforces, management teams and cultures, generate natural tensions in the form of pressures and challenges to the personal knowledge base of the individuals (Liechtenstein et al, 2006) but at the same time, they are expected to realign “their schema in order to accommodate and thus mitigate disagreement” Kauffman (as cited by Liechtenstein et al, 2006). The mitigation may take the shape of new information, new ideas that foster changes. If change occurs, adaptive leadership occurs (p. 5). According to Liechtenstein et al this is the best way to delegate responsibility of decision-making in the lower levels of the organization, fostering communication, and breaking with the hierarchy and bureaucracy.

Lawrence and Lorsch (1967) analyzed complex organizations to study their internal and external relationships and the ability to cope with the demanding environment. *Differentiation* and *integration* are the key elements in the theory. Sears Holdings is faced with these two different cultures that need to be integrated to accomplish the organizational tasks. To do this, Sears Holdings will need to assign *integrating roles* for each individual, with a level of power to make decisions (Malnight, 2001, p. 1208). Integration is the “task of top management” (Lawrence and Lorsch, 1967, p. 11) and CEO Lampert would be responsible for this process. The cost of a partial integration is reflected in the assessment presented in table 8.

The archetypes of organizational design of Overholt (2003) and the Factor Analysis of Organizational Behavior by Lukasova (2004) are two theoretical and empirical frameworks that Sears Holdings could use. By identifying the internal competencies and align their business strategy to those competencies and to the market, and redesigning the current centralized and isolated structure, they will be able to face the threats of the environment, listed in the assessment of impacts section.

As to Job design strategy, Sears Holding could use Lawler (1971) theory, that proposed four dimensions of job design with motivators that satisfy higher-order needs (Maslow theory): a) Autonomy, b) Task identity, c) Variety, and (d) Feedback. At this time, the rewards system is linked to the achievement of the goals of the organization, and not th personal goals of the members of the organization.

Another theory that Sears Holdings could use is an adaptation of the Geoeconomic theory of Schlevogt (2001), that studies the influence of geographic differences in economic development and management (Tsui et al, 2004, p. 137). Kmart has a current strategy to replenish inventory in their stores that respond to the profile of their customers. Sears could use this strategy and identify the territorial domain of their stores, and adapt their inventory to this purpose.

One of the most important theories that is omitted by Sears Holdings, is the cultural diversity theory (Cox and Blake, 1991; Lewin, 1933). Lewin (1933) studied diversity and proposed three stages in organizational change “freezing, moving and refreezing”. Sears Holdings has statement of diversity but has not moved towards a culture of diversity yet.

Only Kmart has given steps in the past to address this characteristics and is enjoying the increase in revenues for targeting demographic and geographic groups to their advantage. Diversity in leadership has the advantage of increasing the motivation of talented minority employees who easily identify with their leaders (Allen & Montgomery, 2001, p. 149) and Sears Holdings does not show indication of particular programs for these minority groups. Cultural diversity is a complement to the motivational theory addressed above.

If Sears Holdings wants to embrace diversity they should conduct a top down analysis to gain awareness of the structure of their workforce and design a diverse culture where

perpetuation ensures that “the organization does not revert back to its original state” (Allen & Montgomery, 2001, p. 153).

#### Recommendations for a Future Business of this Nature

The evaluation of Sears Holdings shows that despite the financial success suggested by some indicators, there are organizational behavior and design areas that are also part of the outcomes of success. An effective strategic plan includes a definition of a vision and mission, goals and objectives, a strategy and implementation levers and strategic leadership (Hambrick & Fredrickson, 2005) but they also need to address issues of corporate culture and flexibility.

When a change takes place, managers may respond by formulating a new strategy that is congruent with the conditions in the environment (Nadler and Tushman, as cited by Drazin and Howard, 1984) or redesigning the entire structure to match the environment. First-order change, and second-order change, respectively (p. 41). Before doing this, it is necessary a complete assessment of the internal components of the firm, the behavior, culture and structure, aided by conceptual frameworks or learning maps, like the ones used in Sears a decade ago (Kirn et al, 1999).

Processes, technology, goals, information flow, and leadership style are the most common target of change; whereas, people, behavior, culture, are equally important and sometimes disregarded. World class organizations align their business strategy to their internal competencies, to their organizational design and to an optimal system of rewards, compensations, job design and diversity-oriented initiatives and use them to face the pressures of the changing environment.

#### Conclusions

Some organizations in the retail industry have successful stories that derive from their traditional relationship with their customers and the quality and reliability of their services. Sears

Holdings Inc. is one of the most important broad-line retailers in the United States and Canada, whose consistent performance has been based on the perception of customers as their loyal partners. After the merger between Kmart and Sears Roebuck the holding has experienced an added element of pressure in the achievement of profitability and in keeping with the aggressive competition.

This document has presented a thorough evaluation of the organizational behavior of Sears Holdings using content analysis of the 2006 Annual report, the corporate website and an scholarly work elaborated for the former director of Human Resources of Sears in 1999. The organizational behavior evaluation covers 11 strategic indicators proposed by Lukasova (2004); and the organizational design assessment was based on seven dimensions of the archetype model of Overholt (2003). This assessment showed that Sears Holdings keeps an orientation to tradition and seemed disconnected from their people and focused on profitability, making money and being commercial.

The identification of anticipated challenges in the external and internal environment indicated that despite the profitable results of 2006, Sears Holdings could face impacts on its operational costs and its future profits given the competition in prices and profit margins with other major retailers in the country. These challenges require using the synergy of the merger, by learning Kmart from orientation to diversity and geographic targets, and by re-addressing some of the strategies that made it successful in the 90s.

A transition to a more flexible organization that aligns business strategy to their new organizational design and to the internal competencies of their added workforce, could increase the potential of growth of Sears Holdings without separating it from their rich tradition.

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## Appendix A

*Adjusted EBITDA for Performance Valuation*

Adjusted EBITDA	Quarters Ended		Fiscal Year Ended	
	February	January	February	January
	2007	2006	2007	2006
				Proforma
Operating income per statement of income	1,399	1,500	2,523	2,073
Plus depreciation and amortization	299	282	1,142	1,108
Less gain on sale of assets/businesses	(50)	(331)	(82)	(357)
Before excluded items	1,648	1,481	3,583	2,824
Vice chairman separation expense			8	
Visa/MasterCard settlement			(36)	
Merger transaction costs				34
Sears Roebuck	74		74	
Restructuring charges	1	7	28	111
<b>Adjusted EBITDA as defined</b>	<b>1,723</b>	<b>1,488</b>	<b>3,657</b>	<b>2,969</b>
% to revenues	10.6%	9.3%	6.9%	5.5%

*Source: Sears Holdings Reports Fourth Quarter and Full Year 2006*