Herman Miller
Preserving and Leveraging Culture in a Strategic Shift

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“Inspiring designs to help people do great things”
Herman Miller mission statement

Approaching his tenth anniversary as CEO of Herman Miller (NASDAQ: MLHR), Brian Walker found himself in a pensive frame of mind, reflecting on what had been accomplished during his tenure and on the future challenges ahead. It was the end of 2014, two and a half years since Walker had announced a major strategic initiative that he called “Shift.” The strategy would take the furniture company far from its roots in rural West Michigan, expand its product line, and develop more direct connections to consumers.

Walker knew he was steward to a storied company with a distinctive place in corporate history. Through its emphasis on design, Herman Miller had been in the vanguard of the modernist movement in furniture and had become a leader in providing cutting-edge office fixtures. The company also set audacious goals to protect the environment and established a major institute on facility management. Through it all, the company culture honored the evangelical Christian values of West Michigan—in particular, the Reformed Protestant tradition embraced by its first CEOs from the De Pree family—to create a human resource system that celebrated the whole worker.

Still, the furniture industry was subject to the ups and downs of economic cycles. Herman Miller had been hit hard by the recession that began in 2008, requiring layoffs and cutbacks in training that challenged the firm’s values-based, covenantal culture. To fuel growth and expand the firm’s global footprint, Walker and his executives had framed the Shift strategy and embarked on an ambitious series of acquisitions.

The Shift strategy had introduced massive change into a tight-knit, conservative enterprise. A twenty-five year veteran of the firm and its former CFO, Walker believed Shift would require a number of significant adjustments to Herman Miller. Looking ahead, he pondered the challenge of continuing to implement the strategy without tearing the fabric of what had made the company special.
Company Background and History

In 2014, Herman Miller was the third largest furniture maker (by revenue) in the U.S., with annual revenues approaching $2 billion. The company had long been considered a leader in modern design, with innovations from the Eames® chair to the Action Office®. Headquartered in Zeeland, Michigan, the company had manufacturing plants in the United States, the United Kingdom, Italy, and China, as well as sales offices, dealers, licensees, and customers in over 100 countries. The firm was known for its “human centric” values and a “higher ambition” of creating both economic and social value. These values are reflected in a number of policies and practices—including zero environmental footprint, commitment to community service, care of the employee as a “whole person,” same-sex benefits, and time off for volunteer work—that set the standard for a values-based company.

Becoming a Leader in Modern Design

Herman Miller’s history extends back to 1905 with the founding of the Michigan Star Furniture Company in the timber-rich region of West Michigan; an area that had spawned dozens of furniture companies. The company sold middle-class furniture—living room and bedroom sets, ornately decorated, with traditional forms and materials. The company also followed a traditional approach to manufacturing, labor relations, and sales. A former clerk named D.J. De Pree became president in 1919, and then in 1923 convinced his father-in-law, Herman Miller, to buy majority control of the company. After the acquisition, De Pree renamed the company in his honor.

Herman Miller’s transition from one of many traditional firms to a leader in modern design began during the Great Depression. As the company struggled through the difficult times, an east-coast designer named Gilbert Rohde proposed a radical new line of furniture. A new urban age, Rohde argued, required furniture to be spare, simple, unobtrusive, and honest, designed not for show but to serve the needs of particular rooms and the people who occupy them. When Rohde presented his first designs, De Pree balked. “They looked like they had been done in a manual training school,” he told Rohde.

De Pree finally agreed to produce Rohde’s designs. Sales were sluggish at first but picked up as the modernist movement gained popularity. Over the years, Rohde’s design philosophy was wired into Herman Miller’s DNA. Hugh De Pree, D.J.’s son and the company’s longtime president, summarized Rohde’s impact: “Gilbert Rohde elevated our way of thinking from merely selling furniture to selling a way of life.” By cutting unnecessary ornamentation, Rohde aimed to give priority to the furniture’s users and places.

Gilbert Rohde died unexpectedly in 1944. This was a great blow to De Pree and the company; as the design director, Rohde had primary control of product design and marketing. After an extensive search, De Pree appointed George Nelson as the company’s second design director. While Nelson was a prolific designer in his own right, he became even better known for his ability to articulate the design ethic of Herman Miller, develop innovative marketing strategies, and recruit the best design talent of the day. He and De Pree reached out to leaders in the field, including Ray and Charles Eames, Isamu Noguchi and Alexander Girard. Nelson’s efforts soon bore fruit. A lounge chair designed by the Eameses in 1956 captured the national imagination and epitomized Herman Miller’s approach to furniture design—inventive, modern, functional, simple, comfortable, and democratic.
In 1948, George Nelson laid out the ethic that would guide Herman Miller for decades:

1. What you make is important.
2. Design is an integral part of the business.
3. The product must be honest.
4. You decide what you will make.
5. There is a market for good design.

Believing in good design and giving designers free rein to propose new products, Herman Miller continued to work with the industry’s best and the brightest. The company did not hire the designers as employees; most worked far from the corporate headquarters, which placed a premium on trust and commitment. The designers’ independence, said Don Goeman, the company’s vice president of design and development, allowed them to create “at a distance from the kinds of day-to-day internal processes that might inhibit their thinking and [would otherwise] prevent a greater level of creativity from emerging.” The company believed that the autonomy of designers was crucial for fostering innovation.

During the 1960s, Robert Propst extended Herman Miller’s design approach to the workplace. He created unobtrusive storage units that allowed the configuration of flexible, semi-enclosed workspaces, which the company called the Action Office. (In time, knock-offs of the Action Office became the ubiquitous cubicle collections that characterize “Dilbert” offices of the late twentieth century.) With the spread of the Action Office, Herman Miller furniture became a standard with high-end professional workspaces.

Herman Miller spent lavishly on research—on the needs of professionals in different industries, the ergonomics of body movements, and on supporting technologies like electricity and lighting. This information was then communicated to designers who created new furniture solutions.

The Herman Miller design ethos, over the years, could be seen not just in the furniture itself, but also in the production process and relationships with clients and workers. Simplicity and clarity was the goal. Just as furniture needed to be designed for specific purposes—the Eames chair and footrest for relaxation, the Embody® for long stretches of desk work, and so on—the production process needed to eliminate unnecessary materials and movements. And the company’s relations with workers and clients needed to embody simple ethics of focus, commitment, openness to learning, constant improvement, and team work.

Customers

Herman Miller’s path-breaking design work with the Action Office led to an increasing emphasis on selling complete design solutions to large corporations. The sales force worked directly with procurement officers, architects, or designers responsible for configuring workspaces in global companies. In addition to corporations, the firm did significant amounts of business with government, educational institutions, and, increasingly, in the health care sector.

Among retail consumers, Herman Miller was best known for its iconic designs. (See Exhibit 1.) The firm’s primary retail channels included top-line dealers and independent distributorships. Herman Miller conducted some direct sales through an online site and a few retail outlets in New York and Japan. Customers were largely located in North America. In FY14, international sales accounted for just 20.8 percent of Herman Miller’s revenues.

Culture

Herman Miller’s products excited the forward-thinking elites in places like New York and San Francisco, but the company’s corporate culture was rooted in the deeply Christian traditions of West Michigan.
Soon after becoming CEO, Brian Walker sought out a coach to tutor him on faith, traveling regularly to New Haven, Connecticut, to meet with Professor David Miller of the Yale Divinity School. Walker knew he had to speak the language of the people who made the company distinctive—not just the designers and executives, but also the people from the area who ran the factories and everyday operations. He noted:

This area has such a steeped background in its Christian roots, and that wasn't part of my upbringing and vocabulary. So I decided one of the things I was going to do is go learn more about religion and particularly Christianity so that as we were doing things, I could navigate it from an informed position rather than uninformed.

To articulate those values in more secular terms, the company composed a document entitled “Things That Matter,” a précis of the company’s tenets that was featured prominently in internal communications and on its website. (See Exhibit 2.)

Herman Miller preserved its culture through stories and symbols. People at the company—from the CEO’s perch in his open office to the newest factory worker—told stories to connect to the past and reinforce values and practices of the present. “We’re a big storytelling culture,” said Michael Ramirez, the senior vice president for people, places, and administration. “We live on stories … You know, 34 percent of our [workforce] has been here 20 years or longer, so you get these great stories.”

Herman Miller gave a privileged place to storytelling through its “water carriers,” employees with 20 or more years of service who take on responsibility for connecting the company with its past through words and deeds. The term comes from Native American tribes. “Water carriers,” according to Max De Pree, the son of the founder and the then-CEO who introduced the concept in 1987, “transfer the essence of the institution to new people.” A reflecting pool and large Native American sculpture at company headquarters listed names of Herman Miller employees who have become water carriers. Over the years, a total of 3,085 Herman Miller employees have earned the title.

On the factory floors, stories could be found in four-foot-high boards filled with information about the goals, progress, players, and strategies of different work units. In Herman Miller’s headquarters, a 6,388-square-foot open space—which included museum-like displays of the company’s iconic pieces—expressed the company’s history and ideals. One display showed the evolution of the chair with the things that inspired new designs—molded plywood for the Eames chair, a catcher’s mitt for the pillow-like Ergon®, and a model of a human spine and a tennis racket for the ergonomic Aeron®.

One company tale explained how CEO Walker came to embrace Herman Miller’s new mission statement:

For months, the leaders of Herman Miller debated a mission statement. Finally, an ad-hoc working group came up with a simple phrase: “Inspiring designs to help people do great things.” But Walker was unsure. The statement seemed overreaching. Can a furniture company really play such a vital role in people’s lives?

As the debate about the mission continued, Walker happened to be visiting the Wynn Institute for Vision Research at the University of Iowa. Walker’s son suffers from retinitis pigmentosa, an inherited disease that could rob him of his vision. Walker has become an activist, organizing fundraisers and consulting experts to find a cure.

During his visit, Walker met Budd Tucker, a stem cell specialist who directs research on the rare disease. He found Tucker sitting in a Herman Miller Embody® chair. Tucker told Walker that years before, while interning at Harvard Medical School, he had struggled with regular back and neck pain from a skiing accident. Then he contracted meningitis, further hurting his back. Tucker could not sit for more than 20 minutes without feeling pain. Long an aficionado of design, he requested that Harvard purchase him a black Embody chair for work. The pain disappeared. “Now I could sit for hours on end, working on curing
blindness.” When the Iowa Institute recruited him away from Harvard, his only request was an Embody chair.

After hearing the story, Walker immediately called his colleagues in Michigan and told them to adopt the mission statement that he had previously doubted.

Human Resources

Another story that employees told was of how Herman Miller came to adopt its employee practices:

In 1927, a millworker named Herman Rummelt died of a heart attack. D.J. De Pree, the company’s founder, visited his widow, who read some sheets of poetry her husband had written. At the funeral, a couple of days later, the minister read more of the poetry. By time he returned home from the burial, De Pree decided that “the Lord is dealing with me about my attitude toward labor.” He wondered: “Was [Rummelt] a poet who did millwright’s work, or was he a millwright who wrote poetry?” The lesson, De Pree decided, is that “we are all extraordinary.”

After reflecting on the millwright’s life, De Pree overhauled the company’s approach to workers. A worker’s identity went far beyond the work they did. Honoring the “whole worker,” De Pree decided, would foster a more cohesive company culture and spur workers’ efficiency and creativity.

The Scanlon Plan: The most significant policy resulting from the “whole worker” mindset was the so-called Scanlon Plan, which engages workers in joint decision-making and offers “gainsharing” based on company performance improvements. Working with Professor Carl Frost of Michigan State University beginning in 1950, Herman Miller set out to make workers full partners in the company. Herman Miller set up two committees—one for sharing ideas on company operations, the other for sharing the profits with all workers. D.J.’s son Hugh De Pree, who served as CEO for a quarter century in the 1960s through 1980s, described the plan: “It was a change from ‘piece work’ and every man for himself to each person being not only responsible for himself but for every other person in the organization.” In 1983, Herman Miller established a plan making all workers shareholders and eligible to share in company profits. By the end of the century, workers owned 16 percent of all Herman Miller shares.

Community Service: To foster the whole worker, Herman Miller gave all employees 16 paid hours off a year for community service and sponsors service activities, with initiatives ranging from river cleanups to youth-mentoring to home-building, with We Care, Habitat for Humanity, Women to Women, and other organizations. The company regularly exceeded its goal of 15,000 volunteer hours a year. Employees at all levels mentioned the enhanced sense of pride and purpose derived from these activities, which were chronicled in an annual publication, *Spirit: Stories of Community at Herman Miller*, with text and photographs contributed by company volunteers.

Hiring. Workers at Herman Miller, according to a constant refrain at the company, were “self-selecting.” Workers often chose to work at Herman Miller because of its evangelical Christian origins and its ongoing concern for workers. One worker recalled asking to take time off before starting his job in order to do community work in Kenya. “I wouldn’t want you to work here if you didn’t want to take that internship,” Herman Miller’s recruiter told him. “Go learn something, bring us something back and be a better employee when you get here.”

The Herman Miller culture was not for everyone. Located in a small town, dedicated to teamwork, committed to strategies that take the long view, the company did not work well for big egos or galloping ambitions. When people interview for jobs, they did not always know what they’re getting into. Most hires fit in right away; but some do not. Stories of bad hiring decisions circulate throughout the company. Kathy Spinelli, the vice president of talent, remembered firing a manager with an extensive track record as
an entrepreneur. “He was an absolute jerk and they finally said, ‘OK, this is not who we are and he’s got to go.’”

**Upward Mobility**: Workers who started on the factory floor have the opportunity to rise to team leaders and facilitators—and higher. Nancy Houghtaling, a general manager for the consumer experience, recounted her rise up the ranks:

> I started in production years ago on second shift. I went into a lower-level customer-service-type role. Then I moved into a material planning role, supporting the plant and making sure that they have their parts on time. We used to have a plant down in Sanford, North Carolina, and so I went down there. I also spent some time in the U.K. years ago when we put [our Toyota-like production system] into place. And that was still in materials. Then I came back to a plant in Spring Lake, Michigan. That’s when I crossed over from materials into actually manufacturing leadership.

Still, not all employees understood or sought those opportunities. Many workers placed a higher value on their lives outside of work. One employee said he appreciated the company respecting his priorities—“Faith, family, friends, and then maybe furniture, in that order.” But the company provided opportunity for workers that wanted it.

**Long-term employment**: For decades, Herman Miller offered an implicit promise that, in the words of Board Chairman Michael Volkema, “if you came to work and you did a good job, you got lifetime employment.” When certain jobs got phased out, workers could take on other positions. But the realities of market competition could not sustain that deal. The company laid off 6,000 workers in the 2000s. When layoffs became necessary, Volkema said, “we will try, to the best of our ability, to make you more marketable and help you bridge to a new opportunity.”

**Diversity**: Notwithstanding its semi-rural location and heritage of conservative religious values, Herman Miller made diversity a top priority. The company had won numerous media and trade group awards for its policies aimed at women (including working mothers), people of color, the LGBT population, and other underrepresented groups, both among its labor force and its suppliers. In 2013, women represented 39 percent of the workforce (32 percent of managers and executives). Minorities represented approximately 21 percent of the labor force.

One HR policy proved contentious: Herman Miller’s decision to offer health benefits to same-sex partners of workers. To Andy Lock, president of Herman Miller International, the decision represented a high point in the company’s history. The policy, Lock said, sent a powerful signal that Herman Miller is a good place to work for anyone with energy and creativity. In a design-oriented company, such a decision was not only morally important but also critical for business. “And we did it in west Michigan!” he said. “It wasn’t necessarily popular. … But we wanted to make this place feel good to everybody.” Some traditionalists responded with slurs on an in-house website, calling the health care policy immoral. But Walker stood firm. He told detractors:

> My job on this earth is not to decide who the sinners are. There’s only one being who gets to make that call. My job is to love everybody equally and take care of them in the way He would respect. So offering people access to health care is not a decision about who the sinners are. Rather, it is about equal access. In fact, we expanded the policy to include any person that both lives with an employee and the employee is the primary economic provider.

**Turnover and satisfaction**: Herman Miller was regularly honored as one of the best places to work. Anonymous comments and ratings on GlassDoor.com reflected widespread satisfaction. In November 2014, for example, the online employment site found that 98 percent of respondents would recommend the company to a friend and 99 percent approve of the CEO. Respondents praised the work-life balance,
benefits, commitment to innovation, and opportunities to rise in the company. The company reported a turnover rate ranging from two to four percent. According to Spinelli:

People seem to want to be here and want to stay. As we become less West Michigan-focused, we aren’t sure that will hold true. I once had a recruiter tell me that Michigan was one of the hardest states to get people to move to, and then one of the hardest to get people to leave.

The company did get some criticism on GlassDoor.com. Some respondents complained about the company’s tradition-bounded, isolated operations. “Too few women in senior management roles,” said one. “The commission plans are convoluted,” said another. “Processes and people’s roles seem to change often,” said a third. “How promotions or eliminations are decided seems to be a mystery,” said another.

Staffing: As of May 31, 2014, the company employed 6,630 full-time and 162 part-time employees. In addition, the company used temporary labor to meet uneven demand in its manufacturing operations. About 8 percent of Herman Miller employees were covered by collective bargaining agreements, mainly employees of its Nemschoff and Herman Miller Ningbo subsidiaries.

Operations

Like many American companies, Herman Miller had long been fascinated with the logic and practices of the Toyota production process. In the spring of 1996, Hajima Ohba, the head of Toyota’s consultancy for its “lean” manufacturing system, visited the company and began a long-term consulting relationship. Over the years, Ohba and his team took Herman Miller under their wings, teaching them Toyota’s unique approach to manufacturing. Always evolving, never complete, the Herman Miller Production System (HMPS) became the center of every operation at the company.

Herman Miller defined HMPS as “a system that focuses on understanding and meeting our customer’s needs exactly through the engagement and development of our employees.” Workers played an active role on the factory floor. Operations were recorded and tracked on wall-sized boards throughout the factory. Those boards set goals, track progress and problems, and offered places for feedback and suggestions. Team leaders regularly engaged their workers on the speed of operations, safety issues, and the design of machines. Workers may stop floor operations when they discover problems. Facilitators roamed around the floor, looking for ways to make the process more efficient, safe, creative, and less taxing physically and mentally.

The factory’s team leaders referred to their workers as athletes. At the beginning of every shift, factory teams gathered for stretching exercises and sharing objectives and ideas. Facilitators and team leaders looked for ways to reduce unnecessary movements—and lower-level workers were the source of many of these ideas. At Herman Miller, speed was just one consideration. Other considerations included reducing physical strain on workers, improving shop safety, offering greater variety of jobs, and connecting designers and engineers with other workers.

One story captured the payoff from this approach. As the Mirra 2® chair moved from design to production, an employee on the factory floor named (Jean) Pierre Fowler identified flaws that could have disrupted assembly. “He started to [ask] designers, ‘Well listen, do we have to bolt this joint together? Can we actually have this one snap and have one screw underneath…?’” recalled Beau Seaver, vice president of seating operations. “We prevented 86 corrective actions before it ever hit the floor.” Herman Miller people call the process of getting workers to suggest design improvements the “Pierre Cycle.”

With consistent application of these manufacturing principles, Herman Miller had found that the company could actually reduce the automation of the manufacturing process. Workers exercising their judgment either individually or in the context of manufacturing teams boosted productivity. The work
floor became more flexible and capable. When machinery was required, workers actually helped design key elements of the process and helped to standardize processes.

**Sustainability**

In 1956, D.J. De Pree vowed that “Herman Miller will be a good steward of the environment.” Since then, the company had regularly ratcheted up its environmental agenda. But what did that mean? Producing less waste? Using biodegradable materials? Using less water and energy? Recycling wastes? Limiting the footprint of buildings? Designing facilities that did not destroy landscape and habitat? Using up-to-date insulation? Overhauling distribution networks? Creating products—including seating—that use less energy? Or that use simpler construction and thus allow easy disassembly for reuse?

Over the years, in fact, Herman Miller embraced all of these strategies. When Herman Miller realized that the rosewood in its signature Eames lounge chair was an endangered species, it began using other materials. When the toxic fumes of shellacs harmed workers—and users too—the company abandoned them.

In 1994, Herman Miller committed to building a new manufacturing facility embodying green design. Despite exceeding cost targets, the building became an instant success when it opened in 1995. It cut natural gas costs 7 percent, electricity 18 percent, and water and sewer costs 65 percent. The building also inspired workers—whose productivity rose slightly—and offered a destination for visitors who wanted to see the future.

As the new building took form, then-CEO Kermit Campbell considered how to raise the stakes for the company’s environmental mission. At a gathering at the Henry Ford Museum, he announced an audacious goal—Herman Miller would deliver no waste at all to landfills. Somehow, the company would figure out how to cut waste and reuse the scraps from the production process. The company reengineered many products to be disassembled quickly—and then reused in new pieces.

In 2014, Herman Miller continued its sustainability efforts. “Zero is still part of our vocabulary,” said Gabe Wing, director of safety and sustainability. Six Herman Miller factories had achieved the zero goal. The company also designed factories with net zero energy and water usage, taking what they need on-site and recycling the rest. Overall the company reduced energy usage by 50 percent.

Herman Miller also pressed its suppliers to develop green plans. Since “they have been down with us on this road before,” Wing said, they saw it not as an imposition but an opportunity to save money. Sharing ideas yields significant cost savings. One supplier, for example, rigged an aeration system on a cleaning system, reducing heating temperatures from 120 to 90 degrees. “We stole that idea,” said Wing. “We saved from $300,000 to $400,000.” The company’s sustainability efforts were also a source of pride among employees—and part of the firm’s market appeal.

**Organization and Leadership**

From the early part of the 20th century, when the De Pree family purchased the company, leadership and ownership of the company gradually devolved from the family’s exclusive control. Besides the shares granted the workers, the company listed its stock on the NASDAQ in 1970.

A member of the De Pree family served as CEO until Max De Pree handed over the reins of the company to Richard H. Ruch in 1987. De Pree served as board chairman until 1995; since then no De Prees have been employed by the company. Ruch was a 33-year veteran of the company with a long apprenticeship in the company’s executive ranks. In 1992, J. Kermit Campbell, a vice president at Dow Corning, became the first CEO from outside Herman Miller. After Campbell was forced out three years later, Mike Volkema took over. (See Exhibit 3.)
Volkema guided the company during the financial jolt in the early-2000s. After September 11 and the dot-com bubble burst, U.S. sales fell 34 percent, from $2.24 billion to $1.47 billion from 2001 to 2002. Profits of $144.1 million turned into a loss of $56 million one year later. “One night I went to bed a genius and woke up the town idiot,” Volkema quipped. Volkema laid off 38 percent of the company’s workers to respond to plunging demand. When Herman Miller closed a plant in Georgia, Volkema and COO Brian Walker went to meet with workers personally.

Walker became CEO in 2004 after serving as head of North America operations, CFO, and COO. Volkema continued as chairman of the board. Even though the company was public, Herman Miller’s leadership remained careful to maintain a board that reflected the values of the founders. According to Volkema, board candidates were screened extensively for their fit with the company’s core values and its distinctive, socially oriented mission. Board members also underwent regular performance reviews with the chairman, with anonymous input provided by fellow board members.

By his own admission, Walker struggled in the early days of his two top leadership roles. As Volkema’s COO — his “consigliere,” he said — he saw how the company was run at the top. But the CEO and COO “could not hear each other” during one tense period. When Walker shifted his approach, offering Volkema options on key issues, he found his footing.

As the leader of Herman Miller’s North America operations, Walker faced a major crisis with the 2001 economic crash. After learning how to run the company as operations chief, he had to become a leader. “I was scared,” Walker said of the 2001 meltdown. “I [didn’t] know what I’m supposed to do here. There’s 12,000 people. Everybody’s looking at me.” Walker noted:

I became CEO as the industry and economy began to recover in 2004. We had significantly streamlined the business during the three years from 2001 to 2004. The challenge was how were we going to grow in the future. While we expected the industry to rebound, we believed we needed to find a way to grow beyond the industry. … We began to develop a strategy based on focused customer segments. To go make this work, we believed some acquisitions would be necessary to complement what we could create via internal development. This appeared to be working as the business went from the low point of $1.3 billion in 2004 to nearly $2.0 billion in 2008. And then, the financial crisis hit and we again faced an industry that was falling rapidly. As we had already “leaned the organization” we had to pull different levers to navigate this second significant downturn. In addition, we did not think it would be wise to cut our investment in new products and innovation during this period. So, we maintained our investment in R&D and managed our cost structure via short workweeks, voluntary layoffs, eliminating variable compensation and reducing discretionary spending.

By 2011 the company had begun moving toward the “Shift” strategy — perhaps the biggest transformation in the company’s history.

In terms of its workers, Herman Miller practiced “servant leadership.” In this style of leadership, workers were provided a wide range of opportunities to develop themselves fully — not “votes” in the company’s governance. As one executive noted, “Max De Pree [in Leadership as an Art] reminds us that because you have a voice doesn’t mean you have a vote. But everyone does have a voice and that’s clear in every interaction in the culture.”

One of management’s most notable efforts at transparency was a space in the corporate headquarters known as “The Room.” (See Exhibit 4.) The four walls of The Room display pictures and slogans, spreadsheets and tables and charts — and self-assigned grades of 1 to 5 for every team in Herman Miller’s North American operations. Open to all employees, The Room offered a comprehensive portrait of the company’s strategy, operations, and future. Visitors were also welcomed into the room, which contained cards for products under development and a timeline for launches.
To integrate operations, Herman Miller used a matrix structure, with employees generally reporting to multiple managers along functional, product, segment (industry) and/or geographic lines. The matrix was designed to foster co-ordination; in practice, managers said, the structure has proved difficult to navigate, blurring accountability and slowing things down. In a conflict-averse culture - known as “West Michigan Nice” - midlevel employees noted that too many decisions were passed back up the organizational ladder. “We are really good at taking ‘big swing’ risks [such as major acquisitions or launching revolutionary product lines],” said one member of the executive leadership team. “But we’re quite hesitant to take smaller, everyday risks deeper in the organization….This might be due to people deeper in the organization not feeling empowered and therefore afraid to fail.”

The Big Shift

After a healthy period of growth, Herman Miller struggled with two major downturns in the 2000s, in the aftermaths of the September 11 terrorist attacks and the 2008 financial meltdown. Net sales more than doubled from 1995 to 2001, from $1.1 billion to $2.24 billion. Net earnings advanced from $4.3 million to $140 million in the same period. But sales fell 35 percent from 2001 to 2002 and recovered only gradually, passing the $2 billion mark again in 2008. Just as Herman Miller was poised to match its previous high in sales, the 2008 meltdown occurred. (See Exhibits 5 and 6.)

At the time of the Shift Strategy, Herman Miller’s products could be broken down into four categories:

- Workstations, including systems and desk products, represented 40 percent of the business, with 25 product lines.
- Seating accounted for 30 percent of sales, with 17 product lines.
- Filing and Storage, a category that includes pedestals, laterals, towers and storage cases, represented 17 percent of the business, with 20 product lines.
- Other furniture, including accessories and clinical products, represented about 13 percent, with seven product lines.

The company’s top five products were the Aeron® chairs, the Canvas® office system, the Action Office®, Ethospace® office system, and Everywhere™ conference tables.

Industry Context

Herman Miller operated in a fragmented, low-margin industry, sensitive to the boom-bust cycle of the economy and especially subject to trends in globalization and technology. Industry sales peaked at about $13.6 billion in 2000 and have fallen about 25 percent since then.

During the “Great Recession,” the prolonged economic downturn that followed the financial meltdown of 2008, the manufacturing sector suffered a decline more than four times that of the national economy; the furniture sector suffered even higher losses. From December 2007 to June 2013, manufacturing declined 20 percent, compared to an overall decline of 4 percent for the entire U.S. economy. Office furniture suffered close to a 25 percent loss; home furniture suffered even more, with close to a 35 percent decline. (See Exhibit 7.)

The company’s competitive posture depended not just on design, product quality and service, and speed of delivery, as it has for decades, but also on its global and internet capabilities. Transportation and communications technologies, as well as global financial markets and open-trade agreements, made it possible for a large number of producers to meet the needs of customers around the world. Consumers could compare prices and styles online. Firms that produce similar products, then, competed increasingly on the basis of price—which creates a “race to the bottom” Such a race would be disastrous to high-end manufacturers like Herman Miller. “We have a healthy consumer business on the internet, but it is not
price driven,” Walker noted. But there were concerns in the company that price considerations would increasingly play a role in the contract business, as well.

Herman Miller aimed to get 50 percent of its revenue from outside the core North American office furniture business—not just from outside North America, but also in health care, education, and consumer products. Globally, the growing demand in China, in particular, offered new opportunities. Other growth regions included India, the Middle East, and Latin America. Herman Miller was limited in Europe by previous agreements on sales territories.

Steelcase led all sales of office furniture in the U.S. market in 2014, with $3.07 billion in sales, compared to Herman Miller’s ($1.92 billion), HNI International ($2.1 billion), Haworth ($1.41 billion), Kimball ($1.3 billion), Knoll ($863 million), and KI Furniture ($700 million), according to company documents and news reports. These numbers reflected the total sales of these companies; all include non-U.S. sales. The non-U.S. numbers for Haworth, Steelcase and Herman Miller were significant. Kimball and HNI included significant non-furniture business sales.

The whole office furniture industry faced four key challenges - boom-bust cycles that closely followed economic trends, stiff competition both foreign and domestic, slow long-term growth of the underlying market, and unavoidable risk in foreign expansion. While the costs of raw materials had been stable for the past five years, these supplier costs had spiked in the past.

The Third Wave

In 2012, CEO Brian Walker announced an audacious strategy in response to industry trends and dedicated to maintaining Herman Miller as a design and manufacturing leader. The “Shift Strategy,” he said, would be as transformational as two other milestone events in the company’s history – D.J. De Pree’s embrace of modern design in the early 1930s and the move to “systems design” that began with the Action Office in the 1960s.

Shift evolved after a series of meetings, in which the ten members of the executive team distilled their plans into one-page documents. The exercise focused attention on fundamental challenges—and gave everyone on the team a concise overview for everything going on in the company. Soon, the company’s sprawling set of 179 initiatives took form as a set of four new directions for the company.

North America to Global: Geographic Expansion. Herman Miller sought to globalize its manufacturing and sales. The company planned to expand first in Asia, then Europe and the Middle East, and finally in Latin America. Each region posed daunting challenges of understanding new cultures and aligning manufacturing and marketing capacities. As Volkema explained:

The markets here domestically just aren't growing that fast. There's pieces of this business that are shrinking. [Brian] not only has to offset that but then he has to figure out how to create growth opportunity on top of that. So I think he's got a really heightened sensitivity that there's a risk here.

Meeting global demand, said Andy Lock, the president of Herman Miller International, required being close to those markets. Lock noted:

Becoming a lifestyle brand in a place like China or India is not going to look like being a lifestyle brand in North America. Lifestyles are so dramatically different. If you’re in China or Hong Kong, an Eames chair pretty much fills the entire apartment. So, it requires a different approach.

From Products to Solutions: Avoiding Commoditization. To maintain its viability as a high-end provider, Herman Miller sought to tailor specific solutions to the needs of businesses and consumers. To
avoid lowering prices—and margins—the company needed to offer distinctive products, customized for the customer. “We’ll always have great products,” said Curt Pullen, president of Herman Miller North America, “but it’s leading the customer to our solution, not leading with the product” that will make Herman Miller thrive.

The solutions approach forced the company to understand its consumers better. Selling solutions meant less about pushing products than developing long-term working relationships with customers and clients. John Amrhein, vice president of sales excellence, noted:

> The way that our industry is currently selling doesn’t really serve our customers. Customers think that they want things increasingly at a good price and standard specifications. But we actually believe that we’ve got more to offer. At the end of the day, we’re aspiring to create an overall, better experience and solutions. The only way we can help them understand is if we help ourselves better understand what they need from us.

As a high-end producer, Herman Miller depended more than other furniture makers on new business construction in high-growth industries. A relationship with a large firm could lead to a big sale. For example in 2013, the media reported that Herman Miller had signed a deal with ExxonMobil worth millions to furnish a new 385-acre campus outside Houston.

**Office to Everywhere: Expanding Product Lines.** In the next generation, Herman Miller aimed to expand beyond its current reliance on the traditional office market. Shifts in the nature of work—from centralized to dispersed, from hierarchical to team-based, from standardized to flexible, from office-based to on-the-road—required new products. The company also planned to offer products for the home and healthcare industry.

Herman Miller already had a strong base for consumer sales, both from its classic chairs and other furniture and its business market. Pullen said:

> We do 300,000 work stations and hundreds of thousands of chairs a year. Every one of those is an opportunity to build another relationship … for the rest of that person’s life at home or whatever else. I want to get to know who is actually sitting there using it, not stopping at the corporate procurement guys. We’re trying to remind them that we can take care of you at other places too.

**Industry Brand to Industry plus Consumer: Moving from Organizations to Individuals.** Herman Miller was also seeking to expand its connection to consumers for the first time in decades. Company officials noted that the consumer strategy was important not just for additional revenue potential, but also to enhance the company’s brand and design reputation. With major contract deals, users “don’t know it’s Herman Miller,” said Curt Pullen. “They don’t know the thought that’s gone into the design of the space, based on our understanding of the character and culture of the organization, the purpose of that place, the work they do, how they do it.”

Company officials also noted that customers were demanding a wide range of buying opportunities. While some customers preferred online buying, customers seeking to buy complete systems—and to consider new products—preferred coming into stores to inspect the merchandise for themselves.

**Making Shift Work**

To make the Shift Strategy work, Herman Miller needed to expand its capacity in all operations. Without acquisitions, the company believed, expansion could take a decade or more. So in 2012 and 2013, Herman Miller announced the acquisition of POSH, a Hong Kong-based furniture manufacturer;
Maharam, a century-old, family-owned, high-end fabric designer and maker; and Design Within Reach (DWR), a high-end U.S. furniture retailer.

In these and previous acquisitions, Herman Miller added firms that shared its values toward workers, a commitment to the environment, and a culture of creativity and innovation. These acquisitions came after a period of partnerships, in which Herman Miller either purchased products from these companies or developed marketing alliances with the companies’ dealers and retailers. (See Exhibit 8.)

Even with careful targeting, integrating new units into the Zeeland company sometimes proved difficult. Herman Miller struggled to find the “sweet spot” between its strong culture and the acquisition’s longtime ways of doing business. Typically, the company offered the acquisition a period of autonomy before making changes in leadership, HR processes and benefits, data systems, reporting requirements, and interactions with the rest of the company.

While Herman Miller had endeavored to keep acquired companies autonomous, that goal had sometimes proved difficult. Given Herman Miller’s strong culture and belief in participative management, employees often took individual initiative to reach out to the acquired company to help them adapt to Herman Miller’s way of doing things. Herman Miller people referred to this as ‘loving them to death.” Walker appointed executives to live at Posh, Maharam and DWR and manage the flow of influence and input from Herman Miller. “While still not perfect, we have seen marked improvement in our ability to get the most out of acquisitions,” Walker said.


In early 2012, Herman Miller bought POSH Office Systems, a Hong Kong-based designer, manufacturer and distributor of office furniture systems, for $50 million. In 2011, POSH had $50 million in sales and employed 1,200 people. The acquisition dramatically expanded Herman Miller’s presence in Asia. POSH had 20 franchise dealers as well as a manufacturing operation in Dongguan.

In dollars, the POSH acquisition was not large. But the POSH acquisition represented a new way of doing things. “Before, everything was developed here in the U.S. and then migrated overseas,” said Ray Muscat, SVP for manufacturing research and new product operations.

With the purchase, Herman Miller owned two major manufacturing facilities in China. (The first plant, in Ningbo, was established in 2006.) When other major manufacturers offshored their operations, they aimed to cut manufacturing costs. But Herman Miller said their main goal was to locate closer to growing markets.

Differences in manufacturing culture represented a challenge. Herman Miller’s approach to manufacturing differed dramatically from companies in China and other developing countries. Chinese manufacturing, Andy Lock said, followed a hierarchical, deferential approach that dates back centuries. Even when given the opportunity to provide input, many Chinese workers defer to their superiors. Lock noted:

You’re [working with] a very traditional Chinese company. If you look for an engineering drawing, you won’t find one. It was all based on tribal knowledge. So the masters, as they call them in the factory, know how to build a product. That doesn’t mean you can find that written down anywhere. So, you have to slowly but surely, in fact, form an infrastructure that wasn’t there before and then worry about cost … which damages your margins. Do I think it’s worth it? Yes, I do. Because China, you can’t not be there. It’s just that simple.

Chinese manufacturers also had earned a reputation for not providing the same health and safety protections as Western manufacturers. Scandals involving Nike, Apple, and Samsung manufacturers had
drawn attention to long hours, unsanitary working conditions, and mistreatment of workers typical in Chinese factories.

**Maharam (2013)**

In the spring of 2013 after five years of on-and-off discussions, Herman Miller paid $156 million in cash for Maharam, the world’s leading industrial textile designer. Maharam made textiles for commercial, healthcare, and residential interiors. The company had revenues of $105 million in 2012.

Louis Maharam founded the company that bears his name in 1902. In 2014, under the control of its fourth generation, the company employed 250 people. Maharam was a traditional industrial fabric firm until the current generation turned it into a cutting-edge fashion company. Maharam designers included such notables as Hella Jongerius, Tord Boontje, and Paul Smith. The company also owned the classic designs of Verner Panton, Gio Ponti, and Alexander Girard. The company’s textiles belonged to the permanent collections of the Museum of Modern Art in New York, the Art Institute of Chicago, and the Stedelijk Museum in Amsterdam.

Having a fabrics unit had forced Herman Miller to modernize operations in the production process. Herman Miller’s process for acquiring material had not been overhauled in a generation, said Nancy Houghtaling, Herman Miller’s general manager for the customer experience. She noted:

> Our antiquated process for customer’s own material was probably put in place in the 1980s. And nobody’s really reviewed that. Nobody really wanted to own that animal. Now with the acquisition of Maharam it’s kind of like, ‘Oh, we got to do something different there if we want to promote this as an offering.’

Maharam officials said they focus on design in their work. To stay fresh and creative, they continually explored the arts and the patterns found in modern society. Sometimes their design inspirations lead directly to fabrics that can be used commercially; sometimes they don’t. It was hoped that as Maharam blended into Herman Miller’s product development, designers would do more of their creative brainstorming with those products in mind.

**Design Within Reach (2013)**

When Herman Miller acquired DWR, in a deal worth $154 million in cash, CEO Walker noted:

> [The DWR acquisition] probably has the most likelihood to change the culture of Herman Miller longer term… It affects every other aspect of the operation. I mean you go backwards from the sale on the consumer level, and it affects product development. It affects variety of choice. It affects interface. It affects your environmental, … So it really ripples back.

Founded in 1998 by Rob Forbes as an online store, newsletter, and design catalogue, DWR began opening showrooms in 2002. DWR broke the industry’s mold by offering high-end design within days rather than weeks or months. “We played on the desire for immediate gratification,” Forbes said. DWR’s virtual and real displays offered a "nationwide introductory course in modernist design,” Fast Company said, making the company "educators and taste makers."

Over the years, DWR had experienced extreme highs and lows. The company went public in 2004, valued at $211 million on opening day – 70 times total earnings the year before. Management increased the number of physical stores to 63 by 2006, but the expansion was too much, too fast. “We got cocky, silly, fat,” one top official later admitted. DWR also came under legal attack for stealing other companies’ designs. Near bankruptcy, the firm delisted in 2009 and the company was sold to hedge fund Glenhill.
Capital Management for $15 million. Despite poor management, DWR still employed a strong team committed to high-end design, strong customer service, and cutting-edge technology.

John Edelman and John McPhee took over in 2010. “John and John,” as they are known, worked together in retail for two decades—first with Sam and Libby Shoes, then with Edelman Leather. Immediately, they overhauled DWR’s operations and moved headquarters from San Francisco to Stamford, Connecticut. Quickly, they closed 30 stores. They developed a new retail strategy and increased sales from $113 million in 2010 to $218 million in 2013.

Before and after DWR’s tumble, DWR developed a strong relationship with Herman Miller. DWR, in fact, sold more of Herman Miller furniture than any other company’s. Herman Miller brought in John and John not just as managers but as equity partners. DWR was not an “add on” but the central piece of a new consumer business unit. With the deal, Herman Miller got a valuable foothold in the retail home furnishings market. DWR, for its part, got a direct line to Herman Miller and an enhanced capacity to respond to consumer demands and issues right away. Herman Miller hoped to emulate DWR’s speed within the fast-paced retail sector. “That business,” CEO Walker said of DWR, “moves [in] minutes, hours, and days. We move in weeks, months, and years.”

Challenges of the Shift Strategy

Herman Miller’s expansion into China, with the turnover of the POSH manufacturing plant in Hong Kong, illustrated the promise and sensitivity of the new union.

To mark the beginning of its new relationship, Herman Miller officials laid down a red carpet in front of the POSH plant in Dongguan. Huge posters flanked the carpet at the front of the building. Herman Miller announced that it would give each worker severance pay, covering their years of service with the company. Then they invited the workers to rejoin the company by signing the posters. As workers walked up the red carpet, they were greeted by Andy Lock, president of Herman Miller International, who asked each of them individually to join the company. Every single worker did so. Lock said:

> They were symbolically signing up to be with us. We paid off any historic debt due to their length of service, they got their termination pay, and then we said, ‘Now, come join us.’ And every single one of them did.

Soon after taking over, Herman Miller instituted safety rules that exceed industry standards in China. “Everybody else [other companies] isn’t bothering with health and safety,” Lock said. The company also began installing the HMPS into the factory operations. The system, said Ray Muscat, simplified the process of integrating foreign factories into Herman Miller’s production process.

Even if Herman Miller could afford to offer POSH workers better compensation and working conditions than they are accustomed to getting, Lock said, the company’s gestures and policies could get lost in translation. “I have no idea what they thought we were doing,” he said. “We cannot speak to one another but we can smile, we can shake hands, [and] send signals that you intend this to be different.”
Areas of Concern

No matter how well the company plans its Shift strategy, CEO Walker said, “acquisitions are not for the faint at heart.” The challenge exists at two levels—operations and culture. “It’s tricky,” Walker noted. “We’ve still got a lot of integration work to do around acquisitions.” All three acquisitions posed important challenges to Herman Miller. Specifically:

Customer Focus: All of Herman Miller’s acquisitions, said top officials, would thrive by placing customers at the center of all policies and decisions. Every aspect of Herman Miller’s operations—product development, sales, distribution—needed to work backwards from the customer’s experience. The greatest challenge might be at POSH, but, said Ray Muscat, “all of those principles travel very easily.”

Integration of the acquisitions could open new possibilities in serving customers, as Ben Watson, executive creative director, explained:

Maharam is in the middle of a launch of a brand new category in floor covering, area rugs – a lot of great designs, a lot of interesting energy. DWR raises its hand and says, "Actually area rugs is an interesting category to us." How do we get together to say, "Wow, actually those products make a lot of sense to our customers; we don’t need to go find them somewhere else." … So what should that process be? It’s a win for everyone because the Maharam team says, "Hey, we’re going to structure this in a way that it doesn’t fight with our other distribution channels but reinforces and supports it." DWR looks at it and says, "We want to invest our floor space in this range of product because we’re not just buying it as a standard retailer like everybody else on the street, but we’re going to be exclusive. We’re going to be able to generate a complete stacked margin, and thus it’s margin rich, and I’m going to want to invest in it and get my teams going after it." … As they start to do that, they’re already uncovering other places where there could be smart places to bring value to each other.

The trick, Watson noted, was to avoid falling into old patterns. DWR, for example, needed to offer consumer insights that help the design process rather than acting strictly as a retailer. Herman Miller and its new entities needed to think and act deliberately on culture. “Leadership influences every interaction. … We talk about human-centered design, and our culture as being very much human-centered. You put the person first. That attitude becomes clear to new members of the family immediately.”

Herman Miller faced other concerns with traditional customers. The purchase of DWR offered greater customer insights, but it could also create channel conflict. Long-standing dealers and distributors had raised concerns about competing with Herman Miller while also selling their products. To offer a full line of products, DWR had to stock authentic modern designs from other manufacturers. DWR, then, needed to strike a careful balance, both capitalizing on its special role within Herman Miller but also providing customers the best and broadest product line.

Worker Culture: Herman Miller was considering whether its signature worker policies—like stock ownership, same-sex benefits, and paid time off for community service—should be extended to new affiliates like DWR and Maharam. Workers in China likely would be managed and compensated differently than workers in the U.S., England, or even India. Walker warned against extending the company’s labor and diversity commitments too far too soon. “We only have so many resources and we haven’t really completely dealt with diversity in the U.S.,” he said. Herman Miller, he noted, needed to “be careful with diverting efforts to trying to figure out Chinese diversity.”

Meanwhile, the company was working to recover human capital and build stable workforce demographics lost during the recession. Walker said the company has “recruited more new talent in the last five years than [any other time] in my 25 years.” VP for Talent Spinelli was overseeing a broad effort to transform the human resources—everything from recruitment to talent development to career paths. She noted:
It's very hard to sustain a good company. Part of what's critical to sustaining a good company is building good leaders. About ten or fifteen years ago, they cut the company essentially in half. They also eliminated [almost] all of leadership and development. We have better than normal retention, but when you look at our 30 year olds, that's where we're vulnerable and that's [where] the bench strength needs to be, so building our next generation of significant leaders keeps me up [at night] and the other thing that keeps me up is eventually Brian won't want to do this anymore and so where's that next CEO coming from?

Using a 3-by-3 grid, which cross-classifies workers' current performance and longer-term potential (outstanding, satisfactory, less than satisfactory), Spinelli was working to recruit and develop the next generation of company leadership. Her ultimate goal, she said, was to develop leaders who some day rise to the position of CEO.

**Company Brand and Image:** When Ben Watson was appointed executive creative director, he began to develop an across-the-board strategy for the design not just of products, but also the company's presence online, in publications, in stores, and in the workplace. How soon should the Herman Miller brand be brought into new entities? Watson offered an example:

> We're going to want to change the chairs in the Maharam showroom so that they're Herman Miller chairs, with a Maharam fabric on them, of course. Every desk in every Maharam facility is the exact same Italian desk. Some day they will transition to a super-handsome Herman Miller desk, but to make that change on Day One would be the wrong cadence step.

The greater challenge might be increasing brand awareness beyond particular classic pieces like the Eames chair. DWR offered a new avenue to promote the brand, but expanding the company's activities globally, with a bigger catalogue of products, remained a challenge.

**Decision-making Authority:** In the early years in the Herman Miller organization, the new entities were being treated like new "verticals," markets like education, health care, consumer, small business, North America contract, and international, where the critical processes of the company were carried out.

On the one hand, Walker said, the new units needed to “be successful at what they've actually set out to go do.” Herman Miller, then, needed to trust Maharam to design textiles, POSH to manufacture and sell to customers in China and Asia, and DWR to serve the needs of consumers. On the other hand, the company needed to coordinate overall strategy from early design work to point of sale and customer support. Working out the relationships, Walker and others said, would take time.

**Understanding Talent and Signals:** In an industry dominated by family-owned businesses, “assessing the depth of the bench of the talent” in newly acquired companies was critical. In those firms, the family leader established relationships and routines that might not carry over to the new parent company. The challenge was greater at Herman Miller, which gives its units and workers high levels of autonomy, as Walker noted:

> Our culture has never been command-and-control. A lot of smaller companies, when … you pull out the founders, often what you find is the people below were fantastic operating in an environment where there was somebody who set the agenda and kind of put the parameters around it. So knowing the level of talent below the family, is a big deal. And, it is important to be realistic about your ability to either retain (including family), supplement or replace the talent. This is a difficult area to get right. We are getting better each time, making more accurate assessments upfront and, changes sooner when needed.

A trickier problem concerned what kinds of signals and systems people at Herman Miller and its new entities used to manage operations. In the past, the company had attempted to develop common accounting and other systems. Walker noted:
Most people say go in and make all your changes right away. Our learning of these small businesses is to try to change as few things as you can in the first 24 months, including accounting things that force them to look at their numbers in a completely different way than they’re used to.

Standardizing operations only works, Walker said, when both partners understand each other’s routines, signals, operations, and strategies. That took time.

**Incentive Structures:** In most acquisitions, the company’s owners worked for Herman Miller for a transitional period or two or three years. Walker noted:

> We have learned to be careful with how we create these interim structures. Conventional structures like earn-outs that meet short-term goals can result in sub-optimal long-term investments. Or they can confuse lines of authority when the seller is not involved in day-to-day operations, but retains an incentive based on performance. A variety of arrangements can work, but they need to be congruent in terms of duration, risk and authority. In the case of DWR, the leaders agreed to roll their previous investment into a minority stake in the newly created Herman Miller consumer business. There is no set time-line by which they have to sell and they have responsibility for both DWR and Herman Miller’s consumer operations.

**Shifting Forward**

Herman Miller held no illusions that the Shift strategy will come easily. Senior leaders acknowledged that the strategy puts a premium on capabilities that have not historically prevailed at the company. It also required knitting together an increasingly diverse, complex, and far-flung network of subunits, many of which are located far from the Zeeland Mother Ship. “We’re in a wonderful position of moving forward,” said Andy Lock. “It also has some risks. We will undoubtedly make all sorts of mistakes. But as long as you don’t do it too often, Herman Miller has this great ability of letting you fail a little and then try to figure out how to help you to win next time.”

Before Brian Walker became CEO of Herman Miller, he asked the outgoing CEO, Mike Volkema, for advice. Volkema drew three concentric circles on a sheet of paper.

The company’s “true values,” Volkema told him, were represented by the center circle “This culture is so strong and it’s so supported at a grassroots level,” Volkema said, “that if you try to manipulate or change a true value, there will be an uprising.” The two outer circles represented the terms of change in the company. The middle circle represented policies and practices based on enduring values. Such practices, while strong, sometimes required change.
To preserve the company’s core, Volkema told Walker, he needed to make sure that Herman Miller held fast to core values, made cultural change carefully, then devised a strategy to guide the company for about 10 years. “Brian, you can take on a few of those cultural values, but if you start to take on too many, you'll tear the fabric rather than stretch it,” Volkema remembered telling Walker. “It'll be your obligation to stretch it a bit, but you can’t tear it.”

As Herman Miller moved to carry out the Shift Strategy, Brian Walker’s most important job might be to understand what belongs in each of the three circles and how to preserve alignment and congruence among them.

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Endnotes

1 Case writer and editor, Yale School of Management. Case supervision by James Baron, William S. Beinecke Professor of Management, Yale School of Management; interviews conducted jointly by Baron and Euchner. Michael Beer and Russell Eisenstat of the Center for Higher Ambition Leadership, a partner in this work, provided helpful comments. Clark Malcolm of Herman Miller offered extraordinary help in coordinating our site visit and interviews. Jaan Elias, Director of Case Research at the Yale School of Management, also provided important editorial guidance.


Exhibit 1: Iconic Herman Miller Products

The Eames® lounge chair and ottoman (1956), inspired by the English club chair, made with three molded plywood shells and leather. Classic but also casual, the chair fits in a wide range of settings. Soon after its launch on NBC’s Arlene Francis show, the Eames became a classic and now is on display at the Museum of Modern Art.

The Action Office® (AO) system (1964), designed by Robert Propst, created new professional environments, with flexible formats that allowed greater collaboration but also a private environment to concentrate. The A.O. found a middle ground between the isolation of private offices and the barren landscape of desk farms. The A.O. was designed not just to create flexibility, but to allow workers to collaborate when necessary and retreat to work requiring concentration when needed.

The Ergon® chair (1976), with its plump cushions for seats, backs, and armrests, offered a chair that supported the body’s natural shapes and movements.

The Aeron® chair (1994; more), which uses mesh as the main seat and back supports, advanced the ergonomic design and improves the feel by allowing air to aerate rather than collect.
Health care products (beginning in 1971), including chairs and work stations, seek to reduce the stresses for providers, patients, and visitors. By fitting the moves and patterns of people at hospitals and clinics, the furniture frees people to focus on the challenges of recovery and wellness.

The Embody® chair (2008) dramatically improved the ergonomic properties of office chairs. Billed as the first chair that benefits both body and mind, the Embody allows desk workers to sit for hours at a time as they do computer or lab work.

The Living Office® offers furniture and materials to customize workspaces to meet their ten basic activities (chat, converse, co-create, divide and conquer, huddle, show and tell, warm up and cool down, process and respond, contemplate, and create) in ten different settings (haven, hive, jump space, clubhouse, cove, meeting space, landing, workshop, forum, and plaza).
Exhibit 2: Things that Matter

In company documents and materials, Herman Miller details its priorities as a company culture as well as its business strategy. A document called “Things That Matter” lists nine qualities that set the company apart.

Curiosity and Exploration: Two great strengths we take from our heritage of research-based design. We exercise them by taking risks and learning from our mistakes.

Engagement: Each of us actively participates in understanding problems and developing solutions. All of us work together to make a difference.

Relationships: With each other and with our customers, designers, dealers, suppliers, and contractors. Good relationships are the basis of our networks around the world.

Foundations: The people, stories, and experience of our past give us a strong foundation for building our future.

Inclusiveness: We respect all expressions of human talent and potential. We value the unique perspectives, qualities, and contributions of every person in our community.

Design: Our method for solving problems involves asking, looking, thinking, daydreaming, discussing, tinkering, failing, and trying again. It’s messy, but it works.

Performance: Not a choice. We perform at the highest level of our individual and collective capabilities, every day.

A Better World: The opportunity to contribute to a better world makes our work meaningful and rewarding.

Transparency: We let each other see how decisions get made. We take responsibility for the decisions we make.
Exhibit 3: Leadership of Herman Miller

**D.J. De Pree:** Ten years after beginning work as a clerk, D.J. De Pree became the president of Michigan Star Furniture Company, later renamed Herman Miller Furniture to reflect its new ownership. In 1933 Herman Miller debuted the furniture designed by Gilbert Rohde, signaling a new design DNA for the company. The company introduced the Executive Office Group in 1942. In 1946, Herman Miller signed Charles and Ray Eames as furniture designers; ten years later they produced the Eames Lounge Chair, an iconic piece for the company for decades to come. Herman Miller adopted the Scanlon Plan in 1950, inaugurating a new period of worker stakeholding in the company.

**Hugh De Pree:** In 1962, the older son of D.J. De Pree became CEO as D.J. moved into the chairmanship of the Board. Hugh oversaw the introduction of the Action Office, introduced the Eames chaise, expanded retail operations around the globe, entered the health care segment with the Co-Struc line, and opened the Facility Management Institute in Ann Arbor, Michigan. In 1969, when D.J. De Pree stepped down as board chairman, Hugh took over that role as well. In 1970 Herman Miller was listed on the New York Stock Exchange for the first time.

**Max De Pree:** Max De Pree, younger brother of Hugh, became CEO and chairman of the board in 1980. Under Max, Herman Miller introduced a more ambitious environmental mission, opened production facilities in France and England, and began construction of the Design Yard in Holland, Michigan.

**Dick Ruch:** In 1987 Richard Ruch became the first CEO from outside the De Pree family. The company introduced the Newhouse Group furniture, created the Environmental Quality Action Team (EQAT), acquired Meridian, and led the creation of the Tropical Forest Foundation. The company also increased efforts to promote business opportunities for women and minorities.

**Kermit Campbell:** In 1992, Campbell became the first person from outside the company to serve as CEO. Campbell, a former vice president at Dow Corning, oversaw a major effort to increase Herman Miller’s environmental agenda, most notably replacing the use of rosewood, an endangered species, with cherry and walnut, on the Eames chair. Campbell also oversaw the building of the GreenHouse, a major advance on environmental design, which won the Pioneer Award from the U.S. Green Building Council. Herman Miller also introduced the Aeron chair in 1994.

Brian Walker: After previous positions as CFO and COO, Walker became CEO in 2004 and Volkema became chairman of the board. Walker faced two major challenges—overseeing drastic cutbacks in the wake of the furniture industry slump during the Great Recession and charting a new course for the company under the “Shift” strategy.
Exhibit 4: Scenes from Herman Miller Headquarters

Manufacturing Building

“The Room”
## Exhibit 5: Herman Miller Financials

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<td>1,737</td>
<td>99.2</td>
<td>5.7%</td>
<td>14.6%</td>
</tr>
<tr>
<td>2007</td>
<td>1,918</td>
<td>129.1</td>
<td>6.7%</td>
<td>10.5%</td>
</tr>
<tr>
<td>2008</td>
<td>2,012</td>
<td>152.3</td>
<td>7.6%</td>
<td>4.9%</td>
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<tr>
<td>2009</td>
<td>1,630</td>
<td>68.0</td>
<td>4.2%</td>
<td>-19.0%</td>
</tr>
<tr>
<td>2010</td>
<td>1,318</td>
<td>28.3</td>
<td>2.1%</td>
<td>-19.1%</td>
</tr>
<tr>
<td>2011</td>
<td>1,649</td>
<td>70.8</td>
<td>4.3%</td>
<td>25.1%</td>
</tr>
<tr>
<td>2012</td>
<td>1,724</td>
<td>75.2</td>
<td>4.4%</td>
<td>4.5%</td>
</tr>
<tr>
<td>2013</td>
<td>1,774</td>
<td>68.2</td>
<td>3.8%</td>
<td>2.9%</td>
</tr>
<tr>
<td>2014</td>
<td>1,882</td>
<td>-22.1</td>
<td>-1.2%</td>
<td>6.0%</td>
</tr>
</tbody>
</table>
Review of Operations

(In millions, except key ratios and per share data)

<table>
<thead>
<tr>
<th>Operating Results</th>
<th>2014</th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>$1,882.0</td>
<td>$1,774.9</td>
<td>$1,724.1</td>
<td>$1,649.2</td>
<td>$1,318.8</td>
</tr>
<tr>
<td>Gross margin</td>
<td>63.1%</td>
<td>60.5%</td>
<td>59.0%</td>
<td>53.8%</td>
<td>42.8%</td>
</tr>
<tr>
<td>Selling, general, and administrative (g)</td>
<td>59.0%</td>
<td>43.0%</td>
<td>40.3%</td>
<td>369.0%</td>
<td>334.4%</td>
</tr>
<tr>
<td>Design and research</td>
<td>65.9%</td>
<td>59.9%</td>
<td>52.7%</td>
<td>45.8%</td>
<td>40.5%</td>
</tr>
<tr>
<td>Operating earnings (loss)</td>
<td>(26.7)%</td>
<td>114.9%</td>
<td>137.5%</td>
<td>123.3%</td>
<td>53.6%</td>
</tr>
<tr>
<td>Earnings (loss) before income taxes</td>
<td>(43.4)%</td>
<td>97.2%</td>
<td>119.5%</td>
<td>102.5%</td>
<td>34.8%</td>
</tr>
<tr>
<td>Net earnings (loss)</td>
<td>(22.1)%</td>
<td>68.2%</td>
<td>75.2%</td>
<td>70.8%</td>
<td>28.3%</td>
</tr>
<tr>
<td>Cash flow from operating activities</td>
<td>90.1%</td>
<td>136.5%</td>
<td>90.1%</td>
<td>89.0%</td>
<td>98.7%</td>
</tr>
<tr>
<td>Cash flow used in investing activities</td>
<td>(48.2)%</td>
<td>(209.7)%</td>
<td>(58.4)%</td>
<td>(31.4)%</td>
<td>(77.6)%</td>
</tr>
<tr>
<td>Cash flow used in financing activities</td>
<td>(22.4)%</td>
<td>(16.0)%</td>
<td>(1.6)%</td>
<td>(50.2)%</td>
<td>(78.9)%</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>42.4%</td>
<td>37.5%</td>
<td>37.2%</td>
<td>39.1%</td>
<td>42.6%</td>
</tr>
<tr>
<td>Capital expenditures</td>
<td>40.8%</td>
<td>50.2%</td>
<td>28.5%</td>
<td>30.5%</td>
<td>22.3%</td>
</tr>
<tr>
<td>Common stock repurchased plus cash dividends paid</td>
<td>43.0%</td>
<td>22.7%</td>
<td>7.9%</td>
<td>6.0%</td>
<td>5.7%</td>
</tr>
</tbody>
</table>

Key Ratios

<table>
<thead>
<tr>
<th>Sales growth (decline)</th>
<th>6.0%</th>
<th>2.9%</th>
<th>4.5%</th>
<th>25.1%</th>
<th>(19.1)%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross margin (g)</td>
<td>33.5%</td>
<td>34.1%</td>
<td>34.3%</td>
<td>32.6%</td>
<td>32.5%</td>
</tr>
<tr>
<td>Selling, general, and administrative (g)</td>
<td>31.4%</td>
<td>24.3%</td>
<td>23.2%</td>
<td>22.4%</td>
<td>25.4%</td>
</tr>
<tr>
<td>Design and research (g)</td>
<td>3.5%</td>
<td>3.4%</td>
<td>3.1%</td>
<td>2.8%</td>
<td>3.1%</td>
</tr>
<tr>
<td>Operating earnings (g)</td>
<td>(1.4)%</td>
<td>6.5%</td>
<td>8.0%</td>
<td>7.5%</td>
<td>4.1%</td>
</tr>
<tr>
<td>Net earnings growth (decline)</td>
<td>(132.4)%</td>
<td>(9.3)%</td>
<td>6.2%</td>
<td>150.2%</td>
<td>(58.4)%</td>
</tr>
<tr>
<td>After-tax return on net sales (g)</td>
<td>(1.2)%</td>
<td>3.8%</td>
<td>4.4%</td>
<td>4.3%</td>
<td>2.1%</td>
</tr>
<tr>
<td>After-tax return on average assets (g)</td>
<td>(2.3)%</td>
<td>7.6%</td>
<td>9.1%</td>
<td>9.0%</td>
<td>3.7%</td>
</tr>
<tr>
<td>After-tax return on average equity (g)</td>
<td>(6.4)%</td>
<td>24.0%</td>
<td>33.2%</td>
<td>49.7%</td>
<td>64.2%</td>
</tr>
</tbody>
</table>

Share and Per Share Data

<table>
<thead>
<tr>
<th>Earnings (loss) per share-diluted</th>
<th>$ (0.37)</th>
<th>$ 1.16</th>
<th>$ 1.29</th>
<th>$ 1.06</th>
<th>$ 0.43</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash dividends declared per share</td>
<td>0.53%</td>
<td>0.43%</td>
<td>0.09%</td>
<td>0.09%</td>
<td>0.09%</td>
</tr>
<tr>
<td>Book value per share at year end</td>
<td>6.27%</td>
<td>5.44%</td>
<td>4.25%</td>
<td>3.53%</td>
<td>1.41%</td>
</tr>
<tr>
<td>Market price per share at year end</td>
<td>31.27%</td>
<td>28.11%</td>
<td>17.87%</td>
<td>24.56%</td>
<td>19.23%</td>
</tr>
<tr>
<td>Weighted average shares outstanding-diluted</td>
<td>58.0%</td>
<td>58.8%</td>
<td>58.5%</td>
<td>57.7%</td>
<td>57.5%</td>
</tr>
</tbody>
</table>

Financial Condition

<table>
<thead>
<tr>
<th>Total assets</th>
<th>$ 990.9</th>
<th>$ 946.5</th>
<th>$ 839.1</th>
<th>$ 808.0</th>
<th>$ 770.6</th>
</tr>
</thead>
<tbody>
<tr>
<td>Working capital (g)</td>
<td>145.7%</td>
<td>109.3%</td>
<td>201.5%</td>
<td>205.9%</td>
<td>182.9%</td>
</tr>
<tr>
<td>Current ratio (g)</td>
<td>1.3%</td>
<td>1.4%</td>
<td>1.8%</td>
<td>1.8%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Interest-bearing debt and related swap agreements</td>
<td>250.0%</td>
<td>250.0%</td>
<td>250.0%</td>
<td>250.0%</td>
<td>301.2%</td>
</tr>
<tr>
<td>Stockholders' equity</td>
<td>372.1%</td>
<td>319.5%</td>
<td>248.3%</td>
<td>205.0%</td>
<td>80.1%</td>
</tr>
<tr>
<td>Total capital (g)</td>
<td>622.1%</td>
<td>569.5%</td>
<td>498.3%</td>
<td>455.0%</td>
<td>381.3%</td>
</tr>
</tbody>
</table>

Source: Herman Miller 2014 10K
Exhibit 6: Herman Miller Stock Price
Exhibit 7: Manufacturing in the Meltdown

Figure 1 - Manufacturing Industries With Severe Shortfalls In Recovered Production, 12/07-6/13

Source(s): Federal Reserve Board and MAPI
Exhibit 8: Selected Acquisitions before the Shift Strategy

**Helikon (1986):** With the Helikon deal, Herman Miller hoped to create a one-stop shopping experience for retailers. But Herman Miller struggled to integrate the Taftville, Conn., company into its operations. In 1991, Helicon was sold to a Pittsburgh financier.

**Meridian (1990):** Located in Spring Lake, Michigan, Meridian received 1.38 million shares of common stock in the deal. Mike Volkema, who later became COO and CEO, joined Herman Miller in the deal.

**Geiger (1999):** In a deal worth $38 million, Herman Miller acquired this Atlanta-based company. Begun as Interiors International Limited in 1964 and renamed in 1986, Geiger makes crafted, modular wood office furniture systems. The company grew from a small Toronto craft-based office furniture maker to a high-end wood furniture manufacturer that employed 600 workers. The two companies began working together in 1995, when they coordinated distribution.

**Brandrud (2007):** A Seattle-based company specializing in hospital products, Brandrud sells furniture and equipment designed to improve the experience of patient rooms, treatment areas, and waiting areas. Brandrud, which did $20 million in business in 2007, was acquired by Lee Falck and Bobby Holt in 2000. The company used Herman Miller to sell and distribute its models for years. Falck and Holt ran the Brandrud operation for two years after the Herman Miller takeover. Eventually, Herman Miller moved its Brandrud operations from Washington to Sheboygan, Wisconsin, where Nemschoff was located.

**Nemschoff (2009):** Herman Miller bought Nemschoff in 2009 for about $80 million in cash and shares. The company, which had more than $90 million in sales in 2008, is a leading producer of healthcare furnishings. The acquisition underscored the growing importance of the healthcare market, including healthcare construction. The percentage of Americans over age 65 was projected to grow to 20 percent by 2030.