

CAROL TOMÉ:

“No Winking, No Blinking” **AT THE HOME DEPOT**

BY TERRI THORNTON

CAROL B. TOMÉ IS ONE OF THE MOST POWERFUL

PEOPLE IN BUSINESS TODAY. She is both executive vice

president and chief financial officer for The Home Depot,

the world's largest home improvement retailer, and chair of

the audit committee for UPS. She understands both what

directors need and what a CFO should provide to ensure

good corporate governance.

I'm a strong proponent for **Sarbanes-Oxley** because we are a better company as a result, and all of corporate America is better as a result.

She joined The Home Depot in 1995 and rose to become CFO in 2001. She is now responsible for all the company's corporate finance matters, including financial reporting, financial planning and analysis, financial operations, divisional finance, internal audit, investor relations, treasury, and tax. In this interview with *Strategic Finance*, she speaks candidly about the challenges and benefits of the Sarbanes-Oxley Act.

SF: When you began your accounting career, did you imagine that accounting would become so closely aligned with corporate governance in the way it is today?

Tomé: I think finance leaders understand the responsibility, from a fiduciary perspective, to do the right thing. As a finance leader, I've never been confused about the role I have with the shareholders, the associates, the customers, and my family to do the right thing.

At The Home Depot, we've always had the right tone at the top, and by that I mean (CEO) Bob Nardelli will say "no winking, no blinking" when it comes to compliance—not just with the letter but with the spirit of the law. It has always been the right tone at the top.

When you look at some other companies, they didn't have the right tone at the top—the Enrons and Health-Souths...the list is very long and covers some very large companies.

Then there were legislative acts like Sarbanes-Oxley and new rules from the Securities & Exchange Commission, the New York Stock Exchange, the Financial Accounting Standards Board, and the Public Company Accounting Oversight Board. Because some companies didn't have the right tone at the top, all of us are paying the dues for a select number of companies.

SF: What has Sarbanes-Oxley's impact been on Home Depot?

Tomé: For us, in many ways, it was business as usual. But, clearly, we are a better company because of Sarbanes-Oxley. We went through our internal documentation and testing of internal controls and found opportunities for improvement. I think we're better as a result. There was a lot of struggle at the beginning because the rules weren't clear and they continued to change. That put a lot of pressure on us and other companies, but we wanted to do the right thing.

I'm a strong proponent for it because we *are* a better company as a result, and all of corporate America is better as a result. I am a strong believer that Sarbanes-Oxley compliance is not an end unto itself. Adoption of corporate governance best practices should not foster board complacency. "Best practices" are not the end game; the end game is the best competitive performance the corporation is capable of. As boards look beyond reform implementation, the challenge is to get down to business, focusing on corporate strategy and its execution and, in particular, on understanding the key risks to the drivers of corporate performance and how management is controlling such risks.

SF: Has the ambiguity abated? Hundreds of large companies missed the March reporting deadline, blaming Section 404.

Tomé: The rules around Sarbanes-Oxley are much clearer now, but they aren't crystal clear. If you look at the accounting firms, there is still some confusion among them, which translates into different interpretations of the rules. This is an opportunity going forward.

From what I read, the companies that hadn't filed on

time were actually the ones that had some issues with internal controls. That had nothing to do with clarity. Their finance shop wasn't where it needed to be.

SF: How has Sarbanes-Oxley changed the relationships among the board, the CEO, and the CFO?

Tomé: It has changed a lot. With The Home Depot, we would always talk to the audit committee about our internal controls. We now share that with the full board. I think that's a very good process that most companies should adopt, and I think most good companies are adopting that process.

SF: Have you ever been in the position of having to deliver bad news to the board? Not necessarily at Home Depot but at some point in your career...

Tomé: I've had lots of opportunities to deliver bad news, and it's our responsibility to do that—to deliver the news and the why behind the news and to offer a solution. But if there isn't a solution, there isn't.

I don't like surprises. CEOs don't like surprises. And board members don't like surprises.

SF: What advice would you give to other management accountants when it comes to delivering bad news?

Tomé: Stay on top of your game, hone your forecasting skills, and use technology as an enabler. Accountants can get surprised if they close the books and see "Uh oh, our numbers aren't where they're supposed to be." With technology, you can look at real live data and say, "Sales are weaker than we thought, so, therefore, we need to do something on the expense line." With that forecasting, you can give people a heads up as to what might happen.

Last year, we completed the world's largest implementation of SAP finance. We're very pleased with that. We have visibility we didn't have before.

SF: How did the SAP implementation come about?

Tomé: When I came to Home Depot in 1995, our

general ledger was about to fall apart. We had less than 500 stores and revenue of less than \$16 billion. Last year we had more than 1,800 stores and revenue of more than \$73 billion.

When I became CFO in 2001, I told the team several things: We are on a journey to be the best...and by that I mean produce the best results, be the best partner, and be the best place to work. I also said that I would get them a new general ledger system, and we selected SAP.

I went to Bob Nardelli, my new CEO, and he said, "Are you crazy? What are you thinking?" But we knew, for us, it was going to be the best software solution.

We put the right team together, and we adopted the best processes. We had a tremendously successful implementation—on time and on budget. We closed the books in 13 days after we went live and now close the books in five days. It's a tribute to the team, which was co-led by our VP and corporate controller as well as our VP Finance Technology, staffed by an incredible group of Home Depot finance and IT associates, and supported by third-party system integrators. After our official kickoff date, we completed the implementation in about a year, and, while it changed our processes in finance, we are more efficient and have better information than ever before.

SF: What advice would you give other companies that are embarking on similar installations?

Tomé: I personally was committed to the success of the project. My personal "brand" was at risk. You need true commitment from the executive sponsor. The executive sponsor needs to be sure he or she has the right people on the team.

Also, the business leaders led this project, not IT. In every area of finance, we had project champions and change management agents, and people were really committed to this success. It was really just one of the best examples of teamwork.

SF: Even though you have a demanding career, you

Stay on top of your game, **hone** your forecasting skills, and use technology as an **enabler**.

dedicate a good deal of time to nonprofit causes. You're on the boards of the Metropolitan Atlanta Arts Fund, The Committee of 200, and Girls Incorporated. Why?

Tomé: Personally, it's very important to me because it means I'm a better business leader, and it's certainly one of our core values at Home Depot. This company is totally committed to taking care of the communities in which we work and live. It's an honor to be associated with a company that has this as one of its core values.

SF: What challenges are ahead for the profession as a whole?

Tomé: The SEC has a number of brand-new accountants—recent graduates—reviewing companies. That can cause some havoc because they aren't experienced. They can change the interpretation of a practice

Home ownership is skyrocketing among **China's** rapidly growing middle class.

an industry has followed for years. That doesn't seem practical, and it doesn't add what investors are looking for, which is transparency.

If a new person reads a regulation and says "this means something else," it doesn't help the investment community; it adds confusion to the investment community. So I hope they can add some people who can be more consistent with their standards.

SF: Home Depot set several records with its 2004 results. Record net earnings were \$5 billion, diluted earnings per share rose more than 20%, and sales were up almost 13%. Does that make your job easier or harder?

Tomé: Our results were good last year, and it was a tribute to the hard work and effort of our more than 300,000 associates. We brought in new, distinctive, and innovative merchandise and focused on meeting the needs of our customers. While we operate in a healthy industry, our industry grew 5%, our associates did the

right thing for our customers, and we were able to translate that into growing our sales and earnings. We are the only company in the Dow Jones Industrial Index whose earnings per share grew more than 20% for each of the past three years. That makes my job easier.

But our stock is not reflecting our financial performance, and that makes my job harder.

I can go talk to a store manager and say, "Keep it up; it's fantastic!" He or she can ask, "Why didn't that translate into a higher stock price?"

I wish I could explain Wall Street, but I can't. My answer to our store associates is simply: Take care of the customer, and the stock will take care of itself.

I recently was meeting with investors in New York. I had four or five meetings, and every one was very positive. But as I walked out, they were asking me why our stock was down. So it's a very interesting time for us.

SF: Home Depot announced last year it plans to do business in China. What does that mean from a finance perspective?

Tomé: Doing business in China is vastly different from doing business in Canada and Mexico. There are different currencies, different rules, different cultural practices. But it is a tremendous opportunity. Home ownership is skyrocketing among China's rapidly growing middle class. New housing construction is growing at 33% annually, driven by rising incomes.

We are looking forward to serving the unique needs of customers in China. We'll follow the model we established in Canada and Mexico, where the company's leadership and store associates come from local communities and merchandise offerings are driven by local market trends.

SF: What other challenges do you expect?

Tomé: Staying on top of the changing regulatory environment. It used to be the Financial Accounting Standards Board established accounting practices and policies. Now, it's coming from all different angles. Staying abreast of that is important. We also have to maintain a positive attitude because the world is a changing place.

We also need to keep top talent and attract new top talent. And we want to make sure that people choose to come to The Home Depot—they should because it's a great place to work. ■

Terri Thornton is the owner of Thornton Communications in Decatur, Ga. You can reach her at (404) 687-8760 or territhornton@mindspring.com.