Building a Culture of Caring
Relationships and Passion for Innovation

Carlson School of Management
University of Minnesota
HR Tomorrow Conference
April 15, 2011
Toro turf and snow equipment has been used on U of M properties since the 1920’s.
In 1930, Ray Smith, U of M Director of Intramural Athletics, asked Toro to build a machine to roll tennis courts. The Power Roller was thus our first SF&G product.

“One of the most thoroughly satisfactory machines in our line.”
University of Minnesota & Toro

David M. Lilly
Visionary Toro Leader 1945 - 1987

- Dean of College of Business Administration U of M (changed name to School of Management) 1978 - 1983

Today, 7 of our 12 Executive Officers hold a variety of degrees from the U of M.
Bolman and Deal’s Four Frame Model
### Bolman and Deal’s Four Frame Model

<table>
<thead>
<tr>
<th>Frame</th>
<th>Structural</th>
<th>Human Resource</th>
<th>Political</th>
<th>Symbolic</th>
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"No matter how you “frame” it, TORO will persevere and succeed during these “rocky” economic un-times!"
- Professor Jim “We’ve Only Just” Begun

Organizational Behavior

James W. Begun, Ph.D.

James A. Hamilton Professor of Healthcare Management
Division of Health Policy & Management

University of Minnesota School of Public Health
Agenda

Mike Hoffman ~ History and Culture
Lee Ann Hartert ~ HR Roles at Toro
Claudine Weiler ~ HR Roles at Toro
Q&A
The Toro Story
Agricultural...
Industrial ...
Healthy Diversification
Toro Today

• In business for over 96 years – Centennial in 2014
• Revenues of approximately $1.9 billion
• Approximately 5,000 employees worldwide
• Rich history and deep expertise in the care of turf and landscapes – maintenance equipment to precision irrigation systems
• Strengthening operations through LEAN and DFMA
• Strategic Focus:
  – Innovative Products
  – Comprehensive Customer Care
  – Strong Relationships
Sales & Profit History ($ millions)

Net Sales $ 1,353 1,399 1,497 1,653 1,779 1,836 1,877 1,878 1,523 1,690
Net Earnings $ 50.4 59.9 81.6 102.7 114.1 129.0 142.0 120.0 62.8 93.2
% of Sales 3.7% 4.3% 5.5% 6.2% 6.4% 7.0% 7.6% 6.4% 4.1% 5.5%

Guidance (12/7/10)
Revenue growth approximately 5%
EPS about $3.20

Net Earnings are after restructuring charges
Toro around the world
To help our customers enrich the beauty, productivity, and sustainability of the land.
Values and Beliefs (What we believe and how we interact with others)

The Toro Company’s success is founded on a long history of caring relationships of trust and integrity. These relationships are the foundation on which we build market leadership with the best in innovative products and solutions to make outdoor environments beautiful. We are entrusted to carry on this legacy of excellence.

Caring relationships ➔

market leadership through innovation ➔

building on a legacy of excellence.
"You can replace anything except the good will of your customers."

- John Samuel Clapper
  founder & first president

2014
“Mr. Clapper would come down stairs and walk through the plant. He knew everyone’s name and would ask about their families.

There was a real family feeling about the place.”

– Doug Lande
Toro millwright

“tribute to the employer-employee spirit at this Minneapolis industrial plant”
“My basic philosophy about management is very simple: It’s getting things done through other people – the only way you get things done ... is to know the people and talk with them and agree on what the problems are and what solutions you’re looking for. I spent a lot of time working with the engineers ... and out in the factory talking to the employees and asking them how things should be done. There’s nobody who knows how to do the job better than the person ... doing it.”

“Without the people, we would be nothing.”
1947 – Created New Employee Division

from employee letter:

• Full-fledged division

• Handle employment, safety, first-aid, negotiations, job evaluation, grievances, working conditions, parties, training …

• “created for the Employees, so they can come in and talk it over with someone who wants to hear what they have to say – AND WHO CAN DO SOMETHING ABOUT IT!”

• Help make Toro the best place in the country to work – the best lawnmower … plant in the world.
1970’s

Construction begins on Toro headquarters
To the Shareholders:

Fiscal 1981, which saw your Company record the only loss in its post World War II history, was an extremely difficult year for The Toro Company. This report details our operations during the year, and we would like to take this opportunity to summarize the sequence of events which combined to create losses in Fiscal 1981, and then to address ourselves to the future.

For Fiscal 1981, Toro registered a net loss of $13.1 million or $2.66 per share on sales of $247.0 million.
1980’s
THE TORO DIFFERENCE

THE TORO MISSION
We will produce the most distinctive and the best outdoor maintenance and beautification products in the world.

THE TORO DIFFERENCE
We believe that to be the best, we must be different. The Toro difference is an attitude that says: we care — a commitment to every action and business decision we make. It is a sense of pride in who we are, what we do and what we mean to each other. We are individuals with unique talents and complex, evolving as a team to serve Toro's customers, employees and shareholders.

OUR PEOPLE COUNT
The Toro Company's greatest asset is its employees. Therefore:

Our people will shape the present and provide direction for the future. We believe:

- Our employees will always be our most valuable asset.
- Their creative energy and superior quality are the driving force behind our growth.

EXCELLENCE IN ACTION
Our people and customers will have confidence in our corporate image and commit to excellence in action and to making products of the highest quality.

TORO
Pride in Excellence

People Values
- Respect & Trust
- Teamwork/Partnership
- Empowerment
- Coaching
- Recognition
- Communication

Performance Values
- “Do What We Say We Will Do”
- Be Customer Driven With Urgency
- Building Growth & Profitability
- Continuously Improve
- Create and Leverage Innovation
- Embrace Risk and Opportunity

TORO Vision
- Values & Beliefs
- Purpose
- Mission

A change in the right direction…
Pride in Excellence Culture “Check-up”

Continuous Testing of Cultural Health
• Systematically measure performance against cultural values and beliefs.
• Conduct surveys every two years.
• Postponed scheduled 2009 survey due to global economic crisis.
• The key question of the 2010 survey was how much cultural equity did we borrow due to painful, yet necessary, actions to address 2009 realities.
Toro Employees Take Pride In The Company

* Based on Toro Overall data
# Toro Overall – People Values

<table>
<thead>
<tr>
<th>People Values</th>
<th>Empowerment</th>
<th>Respect and Trust</th>
<th>Communication</th>
<th>Teamwork and Partnership</th>
<th>Coaching</th>
<th>Recognition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Favorable (%)</td>
<td>7%</td>
<td>12%</td>
<td>18%</td>
<td>14%</td>
<td>21%</td>
<td>24%</td>
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<tr>
<td>Norm (%)</td>
<td>15%</td>
<td>19%</td>
<td>19%</td>
<td>24%</td>
<td>25%</td>
<td>25%</td>
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<tr>
<td>67%</td>
<td>56%</td>
<td>52%</td>
<td>53%</td>
<td>42%</td>
<td>46%</td>
<td>46%</td>
</tr>
</tbody>
</table>

*Norm % Favorable = Questar Manufacturing Industry Comparison – Overall Population
* *Based on Toro Overall data
## Toro Overall – Performance Values

<table>
<thead>
<tr>
<th>Category</th>
<th>Norm % Favorable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Build Growth &amp; Profitability</td>
<td>71%</td>
</tr>
<tr>
<td>Be Customer Driven with Urgency</td>
<td>69%</td>
</tr>
<tr>
<td>DWWSWWD</td>
<td>65%</td>
</tr>
<tr>
<td>Continuously Improve</td>
<td>61%</td>
</tr>
<tr>
<td>Create &amp; Leverage Innovation</td>
<td>51%</td>
</tr>
<tr>
<td>Embrace Risk &amp; Opportunity</td>
<td>34%</td>
</tr>
</tbody>
</table>

- Build Growth & Profitability: 7% (Red) 14% (White) 79% (Green)
- Be Customer Driven with Urgency: 6% (Red) 18% (White) 76% (Green)
- DWWSWWD: 11% (Red) 16% (White) 74% (Green)
- Continuously Improve: 11% (Red) 22% (White) 67% (Green)
- Create & Leverage Innovation: 14% (Red) 26% (White) 60% (Green)
- Embrace Risk & Opportunity: 19% (Red) 32% (White) 49% (Green)

* Based on Toro Overall data  
* Norm % Favorable = Questar Manufacturing Industry Comparison – Overall Population
Why Toro is Different

- Exclusively focused on equipment & precision irrigation for turf, landscapes and growing fields
- Toro is more important to customers
  - More comprehensive and relational
- Bring more added-value via innovation and creativity
  - Performance, Productivity, Environmental
- Culture of continuous improvement via engaged employees
- Better financial disciplines to combat challenges

"Without the people, we would be nothing."
The Role of Human Resources in The Toro Company

Lee Ann Hartert
HR Director, Employee Relations & Development
Our Journey to HR Excellence

• Human Resources function has long been regarded as a key partner at Toro
• Challenge was within the function
  – Generalist vs. Specialist
• Service to our customers was in jeopardy
• Initiated the process of defining our HR Value Stream
Core HR Expectations

- Following Toro’s values
- Great work
- Good judgment
- Functional citizenship
Purpose of the HR VSM

• Frame a common understanding of the HR functional model:
  – “Objectives”
  – “Roles”
  – “Rules of Engagement”

• Provide standards for engaging with the divisions/functions and each other

• Provide a framework for ongoing development/ improvement of our function
  – Setting the vision
  – Identifying needs/gaps
  – Prioritizing efforts
  – Determining success
  – Assessing progress
  – Resetting the vision…
HR Objectives

Control
Maintaining compliance and control of management process

Services
Providing effective services

Decisions
Focus on improving organizational decisions
The mission of the human resources function is:

To enhance the success of Toro by providing systems and control, distinctive expertise and insight into decisions that depend upon or impact the employees of Toro world-wide.
HR Roles

HR Functional Leadership
- Lead and manage the HR function

Business Unit HR
- Partner with the business leaders to determine the talent implications of their strategy, deploy HR systems and address their HR needs

Centers of Expertise
- Establish HR points of view and systems direction, and develop and manage key HR processes

HR Operations
- Develop and maintain HR infrastructure
HR Functional Leadership

Lead and manage the HR function

Vision & Strategy
- Set the vision and strategy for the HR function.

Policy & Process
- Establish the policies and process for key HR and related aspects of the business.

Resource Management
- Effectively manage the budget, talent and other resources utilized by the function.

Enterprise Boundary Management
- Proactively define and partner with other functions on organizational boundaries and interfaces.

Project Management
HR Roles: Business Unit HR

- HR Functional Leadership
  - Lead and manage the HR function

Business Unit HR
- Partner with the business leaders to determine the talent implications of their strategy, deploy HR systems and address their HR needs

- Divisions
  - Seven business units that each compete in their own market categories

- Enterprise Function
  - Five major functions that span and integrate the organization

- Manufacturing
  - Operating locations where the majority of employees are hourly production workers.

Location Lead

Country Lead
## Division vs. Functional HR Business Partners

<table>
<thead>
<tr>
<th>Division</th>
<th>Functional</th>
<th>Manufacturing</th>
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<tbody>
<tr>
<td>- Strategy is a “competitive“ strategy</td>
<td>- Strategy is an “enterprise resource” strategy</td>
<td>- Strategy is around “safety, quality, delivery  &amp; cost”</td>
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<tr>
<td>- Change management is within divisional team</td>
<td>- Change management is across enterprise</td>
<td>- Change management is in a particular value stream or adopting a new technology</td>
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<tr>
<td>- Shared talent pools across divisions</td>
<td>- Specialty talent pool within function</td>
<td>- Talent pools vary but often in very talent sparse locations</td>
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Changing HRBP Expectations

Key Objective:
- HRBP’s gain deeper knowledge and connection with the business strategic context

Tactics:
- Clearly define the objective and celebrate when it is demonstrated.
- Each quarterly “HR All Staff” meeting begins with a 30-45 minutes session on the financial results and key business issues impacting Toro.
- Pre & Post operational reviews for all divisional business partners.
Business Unit HR: Engagement Model

Decisions
(IMPACT
effectiveness
efficiency)

Services
(impact,
EFFECTIVENESS
efficiency)

Control
(impact,
effectiveness,
EFFICIENCY)

Value (Positive Impact on Strategy Achievement)

HR Focus

Strategy

Enablers

Determine Talent Implications of Business Strategy

Change Management

Leadership Development

Leadership Team Effectiveness

Talent Pool Strategy

Deliver Professional Services
- Staffing
- Compensation
- Performance Management
- Development
- Talent Management

Resolve Complex Workforce Relations Issues

Manage HR Transactions

TORO.
HR Functional Roles

- **HR Functional Leadership**: Lead and manage the HR function
- **Business Unit HR**: Partner with the business leaders to determine the talent implications of their strategy, deploy HR systems and address their HR needs
- **Centers of Expertise**: Establish HR points of view and systems direction, and develop and manage key HR processes
- **HR Operations**: Develop and maintain HR infrastructure
The Role of Human Resources in The Toro Company

Claudine Weiler,
Director, Total Rewards & HR Services
HR Functional Roles

**HR Functional Leadership**
- Lead and manage the HR function

**Business Unit HR**
- Partner with the business leaders to determine the talent implications of their strategy, deploy HR systems and address their HR needs

**Centers of Expertise**
- Establish HR points of view and systems direction, and develop and manage key HR processes

**HR Operations**
- Develop and maintain HR infrastructure
HR Roles: Centers of Expertise

**HR Functional Leadership**
- Lead and manage the HR function

**Centers of Expertise**
- Establish HR points of view and systems direction, and develop and manage key HR processes

**Consulting**
- Change management
- Org Design
- Boundary Management
- Targeted Coaching
- Team Building
- Enterprise Initiatives
- Communications

**Decision COEs**
- Staffing
- Compensation Systems
- Performance Management
- Development
- Talent Management

**Policy COEs**
- Benefits
- HR Policy
- Compliance
- Labor Negotiations
- Executive Compensation
- Compensation Administration

**Culture (PIE Values)**

*Ad hoc interventions that support business unit or enterprise initiatives*

*Key HR processes where Managers make individual talent decisions one person at a time*

*Key HR processes where HR experts make policy or program decisions*
Centers of Expertise: Engagement Model

Where do Centers of Expertise focus their efforts?

- **Leadership Development**
  - Create Points of View for Consistent, Reliable Talent Decisions for Key HR Processes
  - Teach Broader HR to Deploy Points of View
  - Align HR Processes to Business Strategy

- **Succession Planning**

- **Leadership Assimilation**

- **Onboarding**

- **FMLA Outsourcing**

- **Equity Plan Administration Outsourcing**

- **Monitor Compliance with HR Policies and Procedures**
  - Design and Implement Common HR Processes

- **Support HR Business Partner Requests**
  - Design and Implement Customized HR Services
  - Research Best Practices and Adapt to Organizations Needs

**Decisions**
- (IMPACT, effectiveness, efficiency)

**Services**
- (impact, EFFECTIVENESS, efficiency)

**Control**
- (impact, effectiveness, EFFICIENCY)

**Value**
- (Positive Impact on Strategy Execution)

**TORO**
HR Roles: HR Operations

HR Functional Leadership
- Lead and manage the HR function

HR Operations
- Develop and maintain HR infrastructure

- HRIS Strategy
- Technology Integration
- Data Governance Model
- Talent Intelligence & Analytics

Developing and maintaining systems that support company-wide human capital information needs
HR Solutions Migration

Previous …

- SAP (US Payroll)
- Staffing
- Succession
- Performance Management
- Compensation
- Time and Attendance (home grown)

Moving Towards …

- SAP (Single Global “Source of Truth”)
- Kronos Time and Attendance
- Staffing
- Talent Management Suite
Benefits to Date

• Improved partnership within HR team.
• Clear understanding of roles in HR delivery.
• Deepen, more consistent understanding of the business.
Positive Culture Change

Collaboration occurs effectively across teams

- 9% Favorable Change from 2007
- 22% Favorable Change from 2007
- 70% Favorable Change from 2007

Leaders I work with openly share relevant information

- 9% Favorable Change from 2007
- 91% Favorable Change from 2007

% Favorable Change from 2007

+30 pts

+28 pts
Challenges Remaining

• Level of change has been significant, amplified by the requirements of the changing economic environment.
• Need to improve on project management discipline
• Need to bring both continuous improvement and better HRIS systems to Toro, while making the processes more “global”.
Questions