

APPLICATION FOR
2004 INTERNATIONAL SPIRIT AT WORK AWARD

HEARTHSTONE HOMES, INC.
May 28, 2004

1. Basic Information:

Name:	HearthStone Homes, Inc.
Date of Founding:	1970
Number of Employees:	108
Nature and scope of Business:	Homebuilding (2004-960 residential homes; 2005-1200 residential homes)
Location:	810 North 96 th Street, 3 rd Floor Omaha, Nebraska 68114
Website:	omahanewhomes.com

2. Contact Information:

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3. Brief Description of:

A. What are the vision and mission; philosophy and core values of your organization?

Values:

- Spirituality- We honor our connectedness to each other and practice the principles of compassion, generosity and service which help us define who we are and what we contribute.
- Integrity- We look, see, tell the truth, and take authentic action.
- Nurturance-We create a supportive environment that promotes interdependence.
- Continuous Learning-We encourage growth and development in our relationships.
- Courage-We acknowledge our fears and choose to move beyond them.

Core Purpose (the reason for our company's existence beyond making money):

“Discover the hero in everyone.”-Our core purpose is to value the spiritual journey that we and all people are experiencing, and to seek out the hero that is a part of each person as they progress on their life's trek.

Vision: Our vision is defined by our business model which is made up of three interrelated components:

- We have a passion for delivering our customer promise through our company values and unique operations model.
- Our economic driver is net profit % per home closed.
- We can be best in the world at integrating culture and technology to produce more home for less money.

Mission: Our mission is to perpetuate our values based culture and create consistent, predictable and accountable performance.

Philosophy: Our philosophy is best represented by our core operating strategies:

- Our values provide the overriding context that guides all of our activity and interaction with other people.
- Hearthstone Homes strives to integrate our culture and technologies to provide more home for less money with more choice. At this task we can be best in the world.
- We design and implement our core business processes to deliver our customer promise of a more enjoyable home building experience, more choice, and more home for less money.
- Our economic driver is net profit percentage per home closed. All efforts are focused upon providing a positive impact to increase this specific measurement.
- The use of threshold sales value leads to increased sales which allows us to reduce costs, which allows us to give a better value to the home buyer, which increases sales resulting in a virtuous cycle of benefit to our customer while providing consistent levels of profitability for the company.
- Target market niches identified by the market demographic research drive land acquisition and development activities.
- Product development uses simple designs and value engineering to meet the needs established by market demographics. Centralized purchasing and contract management provide a critical advantage in achieving the value equation.
- Pre-sold, consistent application of our operations model, with volume optimized to overhead, drives stable cash flow and profitability. Each community's velocity (number of homes sold) is managed by controlling release of pre-sale slots in order to maintain a pre-sold backlog.
- After the sale, planned profit margins are protected through focused cost management, pushing the accountability for cost control to the best control point for each type of cost.
- We exercise strong leadership, delivered through multiple, collaborative cross-functional teams. Leaders establish clearly defined processes and challenging standards requiring both individual accomplishments and cross-functional collaboration. Performance management and compensation systems support superior team based performance.

- Continuous associate development, for both personal and professional growth, is an integral part of HearthStone Home's commitment as a company.

B. How your organization defines “Spirit” or “Spirituality”. How do you talk about the “vertical” and “horizontal dimensions of spirituality?”

Spirituality- Our definition of spirituality is included in our first value- **“We honor our connectedness to each other and practice the principles of compassion, generosity, and service which help us define who we are and what we contribute.”** A further breakdown of this value is as follows:

- **Honor**-We respect and recognize.
- **Connectedness**-We are all connected such that what impacts on one impacts on all.
- **Practice**-We do or perform habitually as a part of our day-to-day activities.
- **Compassion**- We have concern for others with a willingness to give support and aid.
- **Generosity**- We are willing to give of ourselves with abundance in the service of others.
- **Service**- We act to assist and benefit others in our daily activities and interactions.

Vertical Component:

Through our corporate wellness program we:

- Provide for the associate and their families professional coaching counselors, mind/body energy release professionals, massage therapists, sacra-cranial therapists on site and available weekly at no charge to the associate and their families.
- Provide meditation rooms that are available to the associate through out the day.
- Provide a comprehensive training program to both associates and their significant others to assist them in life's journey. This program includes four interdependent four day programs provided in Sacramento, California. The programs are designed to focus upon the energies in a person's life that have impact upon their maximizing their spiritual and human potential. The programs also provide a professional coaching model personally and interactively that is used by the company daily.

Horizontal Component:

Our company values are the shaping force of the entire organization. They beget attitudes that specify behavior. Our values control our priorities, provide the foundation for our goals, and set the tone for decisions made, and how we will achieve them. As a result, our people (associates & vendor partners) feel committed to something they feel is worthy of their best efforts. The shared values of the company and our associates serve to energize people. We start all scheduled meetings by reviewing our values and our core purpose. Discussion centers on providing a perspective for each meeting based on our values, and practicing the principles prescribed by the values in both behavior and belief in all that we do and accomplish.

Monthly company meetings provide a time for all associates to discuss how they have practiced the core values and core purpose in their day to day lives-both at work and personally.

A strong component of spirituality that is emphasized is to be “in service”. In service by our definition means to our higher being, to ourselves, our families, our friends, our co-workers, and our customers.

We measure our values, organization culture, and organization effectiveness annually. This measurement is both summative and formative. We look at how we have grown, as well as opportunities for continuous improvement. In both cases, we have attained and maintained extremely high scores for the past five years on all measurements related to horizontal spirituality.

C. How do you handle concerns about diversity or religions and what boundaries do you set around employees trying to convert each other, or in any way making others uncomfortable?

A clear differentiation is made between “spirituality” and religion. By our definition, spirituality is the common element of all human experience and it’s religious preferences. HearthStone homes, both individually and collectively, allows freedom for all associates to practice their specific religion within the general context of “Spirit”. Personal growth is individually defined. Freedom to practice growth by what ever means is appropriate to the individual is encouraged. The programs, processes, and practices are not “religion” defined but of a more general spiritual nature. They define processes that will facilitate spiritual growth regardless of the specific religious, personal beliefs or backgrounds of the individual. In addition, all programs are on a voluntary basis. Our approach is to provide awareness and opportunity for each individual’s spiritual growth. They go where they want to go within this context. (The fact that the majority of the company takes advantage of this opportunity suggests that they are both welcomed and seen to provide value.)

Conversions from specific perspectives are not a part of the culture. We have not encountered any problems regarding diversity or conversions.

D. What policies, programs, or practices explicitly promote or enable spirituality at work?

Five years ago it was decided that the development of a “values based” company was the intention. As such, a concerted effort was designed to change our organizational culture as the means of turning this intention into a reality. A comprehensive program was developed that included both vertical and horizontal spiritual approaches to providing a “spiritual company” that emphasized both individual and organizational factors as the primary change mechanisms. The following are major components that have been used, and are currently being maintained:

1. Values Based Company:

- **Developing and defining our values-** The entire company was involved in developing our core values and core purpose. This involved a number of meetings and collaborations between all levels and functions within the company. Once identified, an equal number of meetings were used to define, verbally and operationally, what these values meant. This process was conducted over a period of months (14 months) with individual leaders and managers concurrently conducting discussions to gain clarity and focus. The resultant five values were representative of the intent of all our associates.
- Our values are used to determine our vision and direction, guide our leaders and associates in their day-to-day practices, and give our company its unique identity.
- Our first value is “spirituality”. This value in combination with the other four values helps to provide alignment and balance from both a personal and professional perspective for our associates.
- Values help communicate what is important in our culture and dictate what we stand for, what truly matters, and what is worthwhile.
- The integration and alignment of our associates to our values provides a constant that helps us make business decisions and serves as the guiding force that holds our vision together.
- The alignment of our associates with our values provides both personal and collective growth in our spiritual development as we connect to provide the pragmatics of a successful business.
- We begin every meeting with a review of our values and core purpose. We determine how the values can be used to influence and support each other in that meeting, and they provide a useful tool in the interdependent spiritual growth of all stakeholders in the meeting.

- We practice a group exercise at our monthly company meetings that further supports the emphasis on values and the difference they have made in our lives
- We are in gratitude for embracing a love based, abundance viewpoint versus a scarcity, fear based viewpoint.

2. Corporate Wellness

Our **corporate wellness center and program** focuses upon the personal growth and energy of our associates, their significant others, and their families. This optional program has grown in usage such that very active participation of our associates has become the norm rather than the exception. The program is on site, and is offered free of charge to associates and their families. Our corporate wellness program:

- Provides access to **meditation rooms**. These rooms have been designed to enhance the spiritual needs of individuals. Our associates are free to use the rooms through out the day.
- Includes Mind/body therapists to assist individuals on their path to self discovery and growth. This service has been actively used by both associates and their families. It is provided free of charge with no limitations on usage.
- Includes **message therapists** to enhance both body and mind.
- Includes **Sacra-cranial therapists** to facilitate individuals in their personal journey. These professionals are also available to their significant others and families of our associates, free of charge and with no limitations on usage.
- On site **professionally certified coaches** are available on an on-going basis for associates.

3. Academy for Coaching Excellence

Our company provides a comprehensive program for personal growth and applied “coaching” that is integrated into our daily practices. This program is provided by Dr. Maria Nemeth and her Academy for Coaching Excellence. This program is provided in Sacramento, California and includes four courses that are progressive in nature and last four days each. We make the program available for all our associates and their significant others. It is also used as a part of our recruiting process within the company. Prior to hiring someone they are invited to attend the first course at our expense as a further means of helping they determine the fit between the “spiritual” culture of our company and them. The following is a brief description of each of courses:

- **Course #1-Mastering Life’s Energies**
This seminar teaches the fundamental principles of working with life’s energies to help people deal consciously with them. In this way they can design goals that make effective use of these energies as well as actions tailored specifically to those goals. There are six forms of energy that most people work with during their lifetimes. These are:

money, time, physical vitality, creativity, enjoyment and relationship. With each of these energies, we can be frustrated or fulfilled.

The seminar teaches participants how to shift their relationship with these energies to use them fully, as well as strategies for improving to focus energy with clarity and ease. It boosts the process of both self-discovery and goal attainment. Participants leave with tools that they can use for themselves and those they serve.

- **Course #2-Being Coach**

The purpose of Being Coach is for participants to learn how to empower others, consistently and with ease. It builds on the method used in Mastering Life's Energies course. Its purpose is to rehabilitate the natural ability we all possess to enter into powerful and compassionate conversations that allow people to go beyond where they would normally stop themselves.

Being Coach is a course for personal and professional development. It works on the premise that in order to be an effective coach, you must learn how to prepare for possibilities in your own life. By mastering the Being Coach principles, we are lead to have a clearer, more empowering view of ourselves and others. It helps us reveal and objectify the usual judgments and evaluations we have of others that prevent us from seeing how capable and willing they are.

The course goes beyond abstract theories and produces experiential exercises that have long lasting results.

- **Course # 3-Advanced Coaching**

The purpose of Advanced Coaching is for participants to continue to develop their specific skills, and to apply these skills to a variety of interpersonal situations. A coach is someone in whose presence people are freed up to take authentic action. Authentic action either clears away obstacles or furthers an individual toward a particular goal.

The Advanced Coaching course takes the principles learned in Mastering Life's Energies and Being Coach further. It increases the individual's ability to empower people to go pat their personal self-limiting internal dialogues so that they attain extraordinary results with ease. The course is geared toward skill development in the following core competencies:

- See people for the best of who they really are (find the hero).
- Foster communication that is empowering.
- Demonstrate compassion for others in communicating with them.

- Establish and sustain partnering relationships.
- Recognize personal judgments about others.
- Help people focus on what has meaning and relevance for them.
- Help people clarify their intentions.
- Look at things from new perspectives.
- Help people go past their self-imposed limits.
- Help others generate their own action without directing or taking over.
- Support people in keeping their promises.
- Acknowledge strengths in others.

- **Course # 4-Coaching and Results**

The purpose of Coaching and Results is for participants to master producing results in their own lives and coaching practices with clarity, focus, ease a sense of grace, and the knowledge that everyone with whom they come in contact is treated with respect and appreciation. They learn to combine the rigor of guaranteeing exactly the results they promise, with the understanding that they are doing so in the spirit of service.

4. Scholarship Program for Non Associates

In addition to providing the four courses to associates and their significant others, we also have set up a program to provide the opportunity for people apart from the company to take advantage of the benefits of these programs. Over the last three years, we have provided scholarships for over 80 people who are not part of the company. These scholarships include the tuition for the programs as well as the expenses associated with attending the seminars in Sacramento, California.

The process of being in service to others was the motivating factor in the development and practice of this program. Its alignment with our core values provides a further reinforcement for us all.

5. Public Visibility (marketing, branding)

At HearthStone Homes we share our values with the public primarily through the display of our values in our Information Centers. It is here we have daily interaction with customers and prospective customers. Each office has the values displayed prominently to remind all of the philosophies that guide HearthStone Homes' decisions and interactions as well as a tool that customers can use to measure HearthStone against and hold us accountable.

The energy behind the values also permeates HearthStones' advertising, merchandising and support collateral materials. These elements demonstrate relationship and interconnectedness through the pictures and copy that integrates the message of "More Home, Less Money (HearthStones' advertising "tag line") with our core purpose of "Discover The Hero In Everyone". (Advertising and collateral materials are available at your request.)

In the Customer Care department, the values in conjunction with the coaching model, provide the foundation of supporting our customers after they have closed on their homes.

6. Organization Development

A major part of our culture change was to institute a rethinking of HearthStone Home's fundamental design as a company. For values based growth to occur, we needed a more team based, cross-functional organization structure where real connectedness could occur. The basic premise was that for the company to be effective, it must establish an organization structure and management process that responds to both internal and external imperatives in an efficient and effective manner that emphasizes the inter-connectedness of our associates. We developed **Natural Work Teams** that are integrated vertically, horizontally and diagonally throughout the company. The purpose of these teams is to perform our core business processes in a collaborative and interdependent manner. The resultant productive action of the teams occurs through the application of our core values, core purpose, vision and mission.

Each team has a specific charter that emphasizes its purpose, membership, process, and responsibilities not only within the team, but equally important, how the team interacts with other teams and departments within the company. This spiritually interconnected approach provides a mechanism that translates the abstract concept of spirituality into a pragmatic application on a day-to-day work level.

Summary:

The above strategies have been implemented for five years and continue to be sustained. The President/CEO, executive leadership team, mid-managers, and associates are aligned to the benefit and purpose of an organization that is "spiritually" based and values motivated. The culture is well established in this perspective and continues to grow and develop within the guidelines of our values and core purpose. What was once new and exceptional, is now an accepted practice and expected. Therefore, we have already demonstrated sustainability for the short term, and for the future it will evolve into an even more "spiritual" culture.

E. What has been the effect of policies, programs, or practices on the stakeholder community?

Associates (Employees):

The first evidence of effect is provided through annual surveys conducted by the company to provide an evaluation of Associates' perception of the company's current levels of organizational functioning, organizational climate and management team interaction. The surveys are completed annually by all associates in the company and comparisons are made to a benchmark year of 1997 (the first year they were administered) and to the most recent two years. The surveys were independently developed with a base reference of 1100 high performance companies.

The first survey focuses upon the general health of the company with the following constructs:

- Overall organizational health
- Management practices and behaviors
- Ability to perform basic operations
- Associate development

The second survey measures organizational climate and includes the following constructs:

- Goals and Objectives
- Job/task
- Communication patterns
- Problem solving/decision making processes
- Climate, standards, values, norms
- Management practices and behaviors
- Inter-group functioning
- Training and development
- Reward systems

On both of these surveys, we have shown significant growth from the bench mark year of 1997. On all measures and constructs assessed by the surveys, the company has demonstrated performance at the high performance team level when compared to the norm reference group of high performance companies for the past five years (the highest level).

This level of growth coupled with its sustainability over the past five years gives rather dramatic support for the positive effect our “spiritual” culture has had on our associates.

Likewise, the results obtained from the **Management Team Interaction** survey have shown significant and sustainable growth across all variables measured. The constructs for this measure are as follows:

- Participative Leadership-gaining commitment to high performance.
- Shared Responsibility-feeling personally responsible for the success of the group.
- Alignment on Purpose-having a shared values and vision which gives work meaning.
- Openness to Communication-being willing to express ideas or opinions.
- Future Focus-seeing change as an opportunity for growth both personally and professionally.
- Task Focus-keeping meetings and interaction focused on results.
- Use of Creative Talents-appreciating and applying individual skills.
- Rapid Response-identifying and acting on opportunities.

These results suggest that our employee stakeholder group (associates) has responded favorably to our “values based culture”, and that it has had a positive

impact on them. Further evidence of the impact on our employee group is the willingness they continue to demonstrate to take advantage of the personal growth opportunities provided in the company. The participation of the employee's in our wellness programs, to use the values as a basis for their personal and professional lives in the behavior they demonstrate daily, and the high levels of retention, loyalty and their active participation in our corporate community further demonstrate a very positive impact. (The results of all surveys are available upon your request.)

At our monthly company meetings, open discussion occurs regarding our "cultural" impact. These discussions demonstrate not only alignment to the culture, but the willingness and active participation of all associates. New associates very quickly make testaments regarding the nature of the company and the ability of the company to walk the talk regarding our spiritual orientation in the practice of our business on a day-to-day basis.

Vendor Partners:

Another important stakeholder in our company is our vendor partners. These vendor partners provide the subcontracted work and materials needed to build our homes. An annual survey completed by the vendor partners continues to rank our company at the highest levels across five categories measured:

- Office processes
- Management performance
- Field personnel performance
- General questions
- Comments.

These results have been sustained and continue to demonstrate the positive general impact we have on our external partners.

Customers:

Another measure we collect on a continuous basis is our independent customer satisfaction rating. We have been able to maintain a 96+% in customer satisfaction over the past 3 years with a willingness to refer percentage (42% which is 4 times the national average) well above that of national averages.

Summary: In all aspects with our stakeholders, we have been able to achieve the highest ratings of performance based on their perceptions. We are very confident that we will continue to grow in the positive impact we have had and that our spiritual culture will continue to develop on a continuous basis

F. What has been the effect of policies, programs, or practices on nominee's business success?

We have grown over the last seven years from producing 300-350 homes annually to producing 960 homes in 2004 and a planned 1200 homes in 2005. Gross

income has grown from approximately 25 million dollars annually to 140 million dollars annually. By every financial measure the impact has been significant, progressive and sustainable. We have also grown from 42 associates to 108 associates.

In addition, our growth in customer base has continued to grow, as has the retention of associates and vendor partners and suppliers.

G. How the organization has been a model or inspiration for others companies in your industry or outside of it?

We have only recently begun to present our company as a “model” that can serve as a template for other companies. Our CEO recently made a presentation in Malacca, Spain for the International CTT Users Conference. Our company also sponsored a world summit (Whole Systems Change Summit I) at Gold Lake Resort in Ward, Colorado (November 3rd through the 11th) and again March 15th through the 19th in Palm Springs, Ca. Another Whole Systems Change Summit is scheduled for the fall of 2004. These conferences are designed to integrate “best practices” approaches in developing values based businesses.

5. Stake holder References:

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