SECOND EDITION

FIRMS *of* ENDEARMENT

How World-Class Companies
PROFIT
from Passion and Purpose

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Firms of Endearment

Wegmans is not unique in believing that if it takes care of its employees, its employees will better serve customers. What is unique (except among other FoEs) is the extent to which Wegmans delivers on that belief. The family-owned company pays well above average wages in its industry. It offers affordable health insurance to employees, along with a 401(k) plan under which the company matches employee contributions at 50 cents to the dollar up to allowable tax limits.

Even part-time workers fare unusually well at Wegmans. High school cashiers and baggers can earn a scholarship bonus of up to $6,000 over four years.[3] Over the past 27 years, Wegmans has paid out $81 million in college scholarships for more than 25,000 full- and part-time employees.

This nearly $6 billion company provides extensive training to all employees. CEO Danny Wegman says knowledgeable employees are "something our competitors don't have and our customers couldn't get anywhere else."[4] They gain this knowledge not only by reading or by attending local classes, but "many department heads travel overseas to work in French patisseries or to tour the countryside to learn about cheese."[5]

Karen Shadders, vice president of people at Wegmans, says, "If we take care of our employees, they will take care of our customers. If employees can't take care of their families, they cannot do their jobs. The focus is on freeing up people so that they can be more productive.... Our pay and benefits are at or above our competitions. It helps us attract a higher caliber of employee." Good employees ensure higher productivity, she says, and that translates into better bottom-line results.[6]

Wegmans puts great faith in its employees. Every employee has wide latitude to do whatever is necessary to ensure that a customer leaves the store fully satisfied—without needing to consult a manager. One employee cooked a customer's Thanksgiving turkey in the store after the customer found the bird was too big for her oven. On another occasion, a Wegmans chef went to a customer's home to help finish cooking a meal for guests that she had messed up.[7]

Wegmans' experience shows the direct connection between trust placed in employees and employee loyalty. Its annual voluntary turnover rate for full-time employees is just six percent in an industry in which the average annual turnover rate exceeds 100 percent for part-timers and 20 percent for full-timers.

The company promotes almost exclusively from within. More than half of its store managers started with Wegmans in their teen years. The company primarily uses exceptional employees from existing stores to staff new ones, and trains all employees extensively before opening a new store. The company spent $5 million on training employees for just one new store in Dulles, Virginia. One of the store managers for its new location opening in Burlington, Massachusetts in 2014 said that he had participated in 87 different training courses in 27 years with the company.[8]

Wegmans' direct labor costs are approximately 15 to 17 percent of sales. That's significantly higher than the 12 percent for a typical supermarket. Certainly, were Wegmans a publicly traded company, it would be soundly criticized by some analysts for paying wages at rates that are 25 percent or more than most of its competitors' pay. However, research has shown that the supermarket industry's annual turnover costs exceed its annual profits by approximately 40 percent.[9] No wonder that former Chairman Robert Wegman, son of cofounder Walter Wegman, said, "I have never given away more than I got back."

So, what does Wegmans get back from paying higher wages than most of its competitors? Doubtless, quite different from what most grocery industry analysts might expect. Wegmans' operating margins are *double* those of other big grocers. Its sales per square foot are 50 percent higher than the norm.

In describing the importance of his staff, Robert Wegman said, "When I visit our stores, customers stop me and say, 'Mr. Wegman, you have a great store, but, wow, your people are wonderful.'"[10] Consider how much money that saves in advertising and other marketing costs. That consideration indicates why employee compensation should not be evaluated in a vacuum. Employee compensation is not an independent variable. Employees either benefit or burden every dimension of a company's existence. The extent to which they deliver one or the other is primarily a function of company culture and leadership's view of employees' value to the company.

FoEs Put Meaning into the Work Experience

There was a time when work was simply a means of collecting a paycheck for most people. Work was generally drudgery, and conditions often inhumane. Over time, working conditions have improved dramatically, but the work itself remains boring, repetitive, and one-dimensional for far too many people.

Gallup has earned a well-deserved reputation for its work in tracking employee engagement. The company's findings paint a rather dismal picture of the typical workplace: Over a 13-year period between 2000 and 2012, average employee engagement in the United States ranged between 26 and 30 percent. The proportion of employees described as "actively disengaged" (in other words, deeply unhappy and even hostile) has ranged from 16 to 20 percent. This is a shocking state of affairs and points to a colossal and tragic waste of human potential. The blame for this must be laid at the feet of business leaders; most have simply failed to create the conditions in which people can give of their gifts and truly thrive.

In the Age of Transcendence, people look for more than a paycheck from their work; they crave "psychic income" as well as monetary income. Education levels have risen, and global awareness of life options and possibilities has exploded because of the Internet. More and more, people want work that engages them wholly, that fulfills their emotional and social needs, that is meaningful—in short, work that is psychologically rewarding. Emblematic of the scope of the cultural shifts taking place in the early years of the Age of Transcendence, people want to view their work as a calling, something they were born to do, that answers to a higher need. This goes far to give FoEs the inspirational character of their business models. Their employees feel a calling to help customers have a better life and to do what they can to improve society and the planet we live on.

FoE leaders facilitate, encourage, reward, recognize, and celebrate their employees for being of service to their communities and the world at large, simply because that it is the right thing to do. The best form of corporate social responsibility is not making monetary donations to charities, but the dedicated involvement of everyone in a company in meaningful pursuits beyond the bottom line. In FoEs, it is common to see executives, managers, and frontline workers working shoulder to shoulder, forging unshakeable bonds through shared service to others in all stakeholder groups. This fosters a sense of cooperation and support within the company. It gets employees to help each other succeed rather than viewing each other as rivals for advancement.

Outdoor wear and equipment company Patagonia has an environmental internship program that gives employees up to two months a year, with full pay and benefits, to volunteer with an environmental organization of their choice. The Harley-Davidson Foundation draws on some 50 employees to help review grants and guide company giving. Outfitter REI supports community organizations ($4 million in grants in 2012), but only issues grants to organizations nominated by employees. The sum total of all of these activities by Patagonia, REI, Harley-Davidson, and the like is not just another exercise in CSR. The other components of the FoE and SRM models that surround these clearly socially responsible human resource activities constitute a strategic system that reduces costs, improves productivity, and engenders superior customer and employee loyalty, enabling these companies to outperform their competitors on a consistent basis and deliver exceptional returns to shareholders.

FoEs can afford to be highly selective in employee recruitment because they are attractive places to work and rank well above average in their categories for wages and benefits. Yet, an interesting question to consider is whether this high degree of selectivity in employee recruitment is a *cause* or *effect* of these companies' success. If keen selectivity in recruiting is a driver of FoE success, then firms working with lower caliber employees would be unlikely to duplicate FoE success. It would also suggest that the number of FoEs will ultimately be limited by the number of high caliber employees that are available in the workforce. On the other hand, if it is an *effect* of the FoE way of being, then other firms might indeed be able to emulate FoE success. Nissan offers us a lesson on this point that demonstrates how ordinary, inexperienced workers can become extraordinary, highly skilled contributors (see the sidebar, "Mississippi Miracle").

Mississippi Miracle

Nissan CEO Carlos Ghosn has executed a remarkable turnaround at the company, taking it from steep losses and massive debt in the late 1990s, to the highest profit margins of any major carmaker in the world. Consider what Nissan has been able to do with its factory in Canton, Mississippi, which opened in May 2003. One of the poorest and least industrialized states in the U.S., Mississippi is an unlikely place to put a state-of-the-art $2 billion factory. The plant had to rely on an untested, largely inexperienced workforce, the product of the state's dismal educational system. Nissan offered pay that was nearly double the prevailing industrial wage in the state. The company held job fairs in all 82 of the state's counties, and some lines of job seekers were more than half a mile long. The governor of the state asked Ghosn to promise that half the workers at the new plant would be African-American; the company exceeded that threshold by 2005. The Canton plant has achieved some of the highest quality ratings in the world. Its success has far exceeded expectations, and the pride and joy of the workers is palpable. Employee meetings have taken on the air of religious revivals. At a graduation ceremony for new supervisors, one said, "Coming to Nissan was one of the best decisions I ever made." Another said, "If you don't know how to build relations with people, Nissan will show you." A woman got up to speak, her voice shaky and eyes filled with tears, and said, "I can't even talk because I'm so full of joy."

Many skeptics thought that locating a highly sophisticated auto factory in one of the most educationally and economically backward slices of land in the U.S. was the height of poor judgment. But those skeptics have changed their tune. By 2013, the plant's workforce had grown to 5,200, and it now produces 450,000 cars a year. One prominent former critic says that what Nissan achieved in Mississippi is "a miracle."[11]

Based on his research, Prof. Charles O'Reilly of Stanford has concluded that "ordinary people" can help to build great companies and achieve extraordinary results. In his book *Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary People,* he shows that if companies create a culture in which employees take psychological ownership, even average employees can perform at high levels. Employees need to feel that they are listened to and appreciated, and that they can make a difference. If that happens, they certainly do make a difference.

Most FoEs, especially those catering to particular customer lifestyles, try to hire employees with a passion for the purpose of the business. For example, Patagonia, L.L. Bean, and REI try to hire only outdoors enthusiasts. This tightens bonds between employees and customers. Trader Joe's, Wegmans, and Whole Foods recruit foodies. Design firm IDEO's employees come from an amazing array of systems-thinking backgrounds, from physicians to architects.

Executive leadership in FoEs typically comes up through the ranks. This is a big motivator for new employees, giving them hopeful and bright dreams about their future with the company. CarMax and Trader Joe's both have clearly laid-out career ladders. At CarMax, new employees choose one of four career tracks: Sales, Purchasing, Operations, or Business Office. The employee can be promoted through several levels within each track. At Trader Joe's, new hires generally start as "Novitiates," and then progress through Specialist, Merchant, First or Second Mate, and then Captain or Commander.

The Partnership Advantage in Management-Union Relationships

Prof. Jeffrey Pfeffer of Stanford University argues that if management and unions can maintain a cordial relationship, unionized companies tend to perform better than non-unionized ones. Of course, if the relationship turns adversarial, the opposite is the case. Unionization's most direct benefit is higher wages, which attracts better employees and reduces turnover. The net profit impact tends to be zero (and can even be positive) because turnover is expensive and experienced workers are more productive. When Kaiser Permanente