

Wholesale

CONNECTIONS

Costco's culture helps its employees thrive.





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BY MICHAEL LEE STALLARD

Costco recently surpassed Google to earn the title of America's best large employer. To determine the best employer each year, Statista and *Forbes* survey 30,000 workers at U.S. organizations, asking them questions about their work experience. Costco has consistently appeared in the top three. Clearly, Costco is doing something right.

In early August, I traveled to Seattle to attend a portion of Costco's Annual Managers' Meeting, where I gave a keynote speech based on my book *Connection Culture: The Competitive Advantage of Shared Identity, Empathy, and Understanding at Work*. (In the spirit of full disclosure, Costco purchased 1,100 copies of *Connection Culture* for its leaders.)

Recently, I've learned a lot about Costco and have come to believe that at a time when the percentage of engaged employees in the United States is stuck at around 33 percent and American-style capitalism has fallen out of favor in the eyes of many, Costco's culture provides the solution to what ails American business. It provides a model corporate culture that all organizations should strive to emulate.

Is there a best corporate culture?

Culture is a vague concept to most leaders. When my colleagues and I set out to make culture clear so leaders could become more intentional about developing and maintaining a healthy culture, we came up with this simple definition: Culture is the predominant attitudes, language, and behavior of the organization.

- Attitudes are the ways people think and feel that affect behavior.
- Language is the words people use to describe their thoughts and feelings.
- Behavior is the ways people act.

Our research reveals that there are three types of culture leaders and workers need to be aware of. The first is the culture of control. In this culture, most people feel controlled by one of more of the following: autocratic leaders, micromanagement, too many rules, or bureaucracy. The second is a culture of indifference, in which most people feel that the people they work with don't care about them and see them merely as a means to an end. Both cultures of control and cultures of indifference make people feel unsupported, left out, and lonely. With the prevalence of these organizational cultures in the United States, it's not surprising that two-thirds of American workers are disengaged.

The best culture we discovered is a connection culture. In this type of culture, most people describe feeling connected to their supervisor, colleagues, their work, the organization's leaders, and the people the organization serves. When people feel these connections, they thrive, individually and collectively.

A connection culture is created when leaders communicate an inspiring vision, value people, and give them a voice. An easy way to remember this is Vision + Value + Voice = Connection. A connection culture provides five benefits to organizational performance (see sidebar) that, taken together, add up to a powerful source of competitive advantage.

The high degree of human connection in Costco's workplace culture helps explain why it is among America's best employers. Let's look at the three elements of vision, value, and identity and how they help create the shared identity, empathy, and understanding that connects people and provides the foundation of Costco's connection culture.

Communicate an inspiring vision (creates shared identity)

In the context of a connection culture, my colleagues and I define vision as having three parts: mission, values, and reputation. Costco's vision is that the organization helps people make ends meet, helps businesses be more efficient and serve customers better, and is a positive force in the communities where its warehouses (the term used for its stores) are located.

Costco's values are summed up in the phrase "Do the right thing." Its code of ethics elaborates: Obey the law, take care of our members, take care of our employees, and respect our suppliers. It's reinforced in stories of the company doing what's right even when it hurt. The attitude at Costco is that if people throughout the organization live up to these standards, it will reward shareholders. The company lives this out in the way it faithfully serves its members, the way it treats employees like family, and the positive things it does for local communities.

Because Costco deliberately lives out these aspirations, its reputation is stellar. As a result, employees trust that the company's leaders will treat them well and Costco members trust the company will provide quality goods and services at an attractive price. This extremely high level of trust and loyalty comes through in the data. Annual employee turnover is around

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5 percent, management turnover is around 1 percent, and annual membership renewals are close to 90 percent in the United States and Canada. Such low levels of employee and management turnover, combined with a high level of membership renewal rates (which encourages members to shop regularly at Costco), help the company maintain its selling, general, and administrative expenses (SG&A) under 10 percent versus competitors' SG&A rates that are in the 18-23 percent range.

Value people (creates shared empathy)

Value exists in a culture when people are valued as human beings rather than being thought of and treated as a means to an end. Costco values people. Compared with its competitors, the company provides generous compensation and benefits to its employees, as well as career opportunities. The fact that senior executives started out working on the front lines in warehouses is a testament to upward career mobility. The job security Costco has provided also shows that it values employees as human beings.

Valuing people has been stress-tested at Costco, too. The times Wall Street criticized Costco for its generous compensation and benefits, company leaders didn't cave in. Instead, it continued to do what was best for the long term by giving raises to its people. During difficult economic seasons, the company tightened its belt, rolled up its sleeves, and worked harder and smarter so that its employees would continue getting raises. No jobs were cut when Costco merged with Price Club. At the local level, leaders at warehouses hold programs to help employees move up in responsibility and they teach managers to "greet before delegating."

In a recent conversation I had with Jim Sinegal, Costco's co-founder and CEO from 1983 to 2011, he emphasized that valuing people is the right thing to do and it's a good business practice. The company's low employee

Five Organizational Benefits of a Connection Culture

Cognitive advantage. Individuals who feel connected have a cognitive advantage that makes them better decision makers and more creative.

Employee engagement. Employees who feel connected care about achieving results so they exert additional effort and persevere. Disconnected and disengaged employees show up for the paycheck and give the minimum level of effort that is required to keep their jobs.

Strategic alignment. Because employees who feel connected care about achieving results, they are more likely to align their efforts with their supervisor's and organization's goals. Organizations with greater connection, therefore, experience a higher percentage of employees pulling in the same direction.

Quality of decisions. Employees who feel connected, because they care about their organization's performance, are willing to speak up and share information that decision makers need to hear to make optimal decisions.

Innovation. Employees who feel connected engage in creative conversations that contribute to the marketplace of ideas in an organization, and this acts to increase creativity and innovation. A marketplace of ideas is important because innovation frequently occurs when ideas from different domains are combined or synthesized. When a robust marketplace of ideas exists, people have more opportunities to potentially connect the ideas, which will result in new products, services, processes, and businesses.



turnover proves him right. Furthermore, long-time employees develop friendships with each other—a factor that has been shown to boost employee engagement and performance. A word you will hear frequently at Costco is *family*. The intentional attitudes, language, and behavior make its people feel like valued members of the Costco family.

Give people a voice (creates shared understanding)

Giving people a voice to express their ideas and opinions, then considering this input, is a third way Costco strengthens its connection culture. While attending the Annual Managers' Meeting, I observed one of the ways in which the company continuously taps into the ideas and opinions of its employees around the world to identify ways to improve its delivery of goods and services to members, as well as improve efficiencies that reduce costs.

Video after video was shown of employee ideas that have been implemented, along with estimates of the economic benefits associated with each. The creativity and ingenuity of employees was a sight to behold. In highlighting these stories, leaders celebrated these improvements and while at the same time disseminated practices that could be replicated across the company.

Another manifestation of the connection culture element of voice came through in a story Sinegal told me. In Costco's early days, it was opening a warehouse in downtown Seattle and the local liquor license inspector questioned

everything. As the inspector's inquiry stretched out, Sinegal blew up at him in frustration. A colleague had to be sent to convince the inspector that Sinegal had gone temporarily insane.

Looking back, Sinegal wishes he could thank the inspector. The man's thorough questioning helped Costco become better prepared for what it would face ahead during its decades-long expansion. The bottom line is that difficult conversations and questions can be gifts in disguise. Costco embraces this attitude of humility and honesty, and that posture makes the company smarter and stronger.

The heart of Costco's culture

As one speaker at the Annual Managers' Meeting put it, "connection is at the heart of our culture at Costco." CEO Craig Jelinek says the Costco leadership team is focused on leading for the long run so it will be here 60 years from now. It should come as no surprise, then, that Jelinek encourages Costco leaders to be intentional about connecting, and the organization is preparing future generations of leaders in the ways of connection. These efforts will help ensure that Costco continues to thrive and lead the pack in the decades to come.

■ **Michael Lee Stallard** is president of Connection Culture Group and the author of *Fired Up or Burned Out: How to Reignite Your Team's Passion; Creativity and Productivity*; and *Connection Culture: The Competitive Advantage of Shared Identity, Empathy, and Understanding at Work* (ATD Press); mstallard@epluribuspartners.com.



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