The Democratic Company

Four Organizations Transforming our Workplace and our World

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Dedication

To the men in my life who showed me how to reach for the stars. . .

John Fenton, Matt Gaumer, Fredo Arias-King, Sandy Wilder, Keith Chiavetta, Al Rowe, John Richardson

The women who supported me on the journey. . .

Diana Fenton, Jodi Fenton, Libby Hoffman, Leslie Danziger, Elisabet Sahtouris, Kelly Buchanan, Kittie Burris

And to the one divine Mind who makes it all possible.

Thank you for your unselfishness, patience, steadfastness and inspiration. Your individual and collective lives are examples of greatness and humility. I am blessed to call you friends, family, mentors and spiritual guides.

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Preface

I believe every CEO, manager, entrepreneur, consultant, investor and business student should read this paper. I make this claim not because I wrote the paper, but because of what these four companies have to teach us about new models of organization, particularly at a time when current events and globalization are demanding we rethink our outdated and failing systems.

In this paper, I endeavored to do what no one, to the best of my knowledge, has ever done before. My goal was to take the principles of democracy and apply them to four companies – three from the United States and one from Brazil—and show how they are creating the business model of the future through the operationalization of democratic principles.

My goal was to go beyond the incessant buzz of management trends to truly discover the *timeless* principles of democracy and their applicability to the development of organizational systems and creation of healthy corporate cultures. I also wanted to show how these principles are universal, robust, practical and adaptable to a variety of business contexts.

Once considered only a political system, I believe democracy is as much an organizational system for businesses as it is a political system for governments. The same passion and commitment to freedom and self-expression that drives countries to embrace democracy was also evidenced as the compelling force behind each of the selected company's motivation for democracy in the workplace.

I began this project through an academic, cerebral lens, but was soon deeply touched by the depth of commitment these organizations had, on all levels, to respecting human dignity and creating meaningful work environments. Although only one of the four selected companies uses the word democracy to describe its culture, the meta-reason for each company's commitment to democracy surfaced as an unwavering dedication to creating environments which unleashed the human spirit, rather than trying to control or suppress it. As I studied these companies, I found myself energized, even inspired, by what they were accomplishing.

Gone forever is any notion in my mind that organizational democracy is boring, inefficient, impractical or relevant only to American companies. Instead, I emerged from writing this paper with a solid conviction that democratic principles and practices are applicable and germane for any company interested in becoming a powerful, competitive and *humane* force in a dynamic and changing world.

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The Democratic Company

This is not a paper about voting, consensus-building, collaborative decision-making or participatory management techniques within businesses. This is a paper about something far more enduring, substantial and far-reaching. It is a paper about **democratic companies**.

So what is a democratic company? A democratic company is an institution practicing the principles of democracy at all levels as a coherent organizational system. The main point is that a democratic company is an *organization* – not just a management or leadership style of a CEO.

No doubt when you hear the word democracy you have your own mental file on what the word means. What images does democracy conjure up for you? Perhaps elections, the Fourth of July, the US Constitution? Now, what images does democracy create when you think of it in a *business* context? This is sometimes a bit harder to imagine, or at least less clear. Here's the process I went through to initially identify democratic companies:

First, pause for a moment and try to compose your own mental list of three to five companies that fit the following criteria:

> Widely known and admired for creating an environment people want to work in that is fair, rewarding and exciting
> Is considered one of the top leaders in its industry
> Has more than 1,000 employees
> Has been in existence for at least 20 years

Secondly, working with your mental list of companies, try to think of tangible and quantifiable ways it practices democratic principles such as justice, ownership, transparency, decentralization, equality and accountability. Does your list become shorter?

My goal was to study companies that were practicing not just one or two principles but *all* of the 17 democratic principles I identified as comprising the system of organizational democracy (further defined in the section entitled *Principle-Based Democracy*™).

There were some constraints on my research, namely time (the entire project was researched and completed in about ten weeks) and access to resources, including personal interviews and site visits. Almost all of my information about the selected companies was gathered through books, newspapers and journal articles. I tried to avoid most company propaganda, with a few exceptions.

Drawing from the criteria mentioned above, I also chose companies which:

Represented a diversity of industries
Were at different stages of their growth cycle
Varied in number of employees
Were either private or public
Were doing well financially at the time of writing
Had survived various economic boom and bust cycles
Had broadly recognizable names
Were well-respected in their industries
Had information about it from a variety of sources
Were practicing ALL of the 17 democratic principles

Working with these detailed and specific conditions, I chose the following four companies as democratic models, summarized in Table 1.0:

Selected Democratic Companies

Company	Location	Industry
Southwest Airlines	Dallas, TX	Airlines
The Container Store	Dallas, TX	Retail
SAS Institute	Cary, NC	Software
Semco	Sao Paulo, Brazil	Manufacturing

Table 1.0

These four organizations fit all of the requisites of a democratic company.

Organizational Democracy

My first job out of college startled me into the need for democracy in the work environment. I'd accepted a position as an advertising account executive for a local newspaper owned by a Fortune 500 company, selling advertising space. Although I considered the job to be far from ideal, I was nonetheless excited to be a part of a large company and prove my worth. I was determined to make a contribution, share the ideas and insights I'd learned at college and eventually make my way to the top.

However, my dreams of success hit reality hard that first day on the job. Day one was nothing less than culture shock. I entered the office building as a confident, bright-eyed college graduate who had held almost every leadership position while in school. I left that day, however, demoralized and deflated, feeling more like a child than an empowered employee. My first few days were spent being told what I could and could not do, how I was to behave, who was important in the organization – and who was *not*. I was told what my sales goals were and how I was to accomplish those goals. Any questions I had were either shrugged off or ignored. I was assigned to a cubicle with minimal resources needed to do my job. I was not trained; instead, I was told to just "get out there and figure it out as you go." By the end of the first week I had never felt so low in all my life. I remember thinking, "If this is what I'm supposed to expect from work for the next 40 years, I quit!" My passion towards service and leadership within the company was almost extinguished.

As time when on, my attitude toward my job and the company grew worse. I witnessed the unfair way decisions were made, without ever dialoguing with those whom the decision impacted. I saw how experienced sales people who knew their territories and performed well were never consulted when their sales targets were set. I quickly learned that my job was not to protest against management and its policies but to figure out how to work *around* them if I were to succeed. And although I was hitting all my sales goals, my work was far from meaningful. Conversations with co-workers rarely deviated from plotting our escape strategies. I soon adopted a survive-rather-than-thrive mentality and did the minimal amount required of me in order to get the job done. I wasn't alone – it's what everyone else had learned to do as well.

The weeks became months and I finally reached a point where I realized I had more self-respect then to allow myself to be treated as just another cog in the mechanism of corporate America. Although I had no other job prospects, I reasoned that having *no* job was a better alternative to having *this* job. Almost four months to the day, I resigned. When I handed my boss my resignation letter he looked at me and said, "Traci, when I hired you I knew you wouldn't last more then six months. You're too smart to let yourself be treated this way." Those were the kindest words he'd ever spoken to me.

This scenario is repeated across the US and around the world each day for countless individuals. People begin working at an organization only to quickly discover that no one is interested in hearing *their* ideas about how to improve the company or market to new clients. No one is interested in what *their* personal life-goals are and how they might be actualized within the company. They're expected to be committed, show up on time and give it their all, often at the expense of personal freedoms. Employees soon learn that they are there to serve the firm – with little reward beyond a paycheck in return.

Kenneth Cloke and Joan Goldsmith write in their recently released book, *The End of Management and the Rise of Organizational Democracy,* about the results of undemocratic work environments on employees:

> Through years of experience, employees learn that it is safer to suppress their innate capacity to solve problems and wait instead for commands from above. They lose their initiative and ability to see how things can be improved. They learn not to care and to accept things the way they are. They justify making mistakes and are allowed to be irresponsible and pass the blame to others for their mistakes. They become mindlessly obedient, fatalistic, intransigent, and hostile. Yet in spite of the obvious limitations created by these responses, managers continue giving orders rather than helping employees learn for themselves what needs to be done and how and when to do it best.[1]

There are managers who are right now sitting in conference rooms asking, "How do we increase productivity? How do we increase loyalty? How do we improve our ability to adjust to market changes? How do we decrease turnover?" They tend to look to financial statements for shortsighted answers rather than the organizational environment which they've created. They look to formulas and figures rather then their human capital. They reason that if they can just manage their people better then surely they will be successful. But they are wrong. Many employees are loyal, not because they deeply care about their company and its mission but because they have no other choice. It's loyalty based on fear. It's loyalty by default.[2]

The paradox occurring in corporations around the world is while simultaneously trying to generate more growth they are also creating more barriers severely stifling or even *blocking* this growth. Rules, policies, codes, mundane tasks, bureaucracy, departments, formality, restrictions, fragmentation and hierarchy are all restrictive forces that choke the life-blood needed in order for a company to achieve high levels of innovation, customer service and adaptability in order to compete in a global economy.

Rosabeth Moss Kanter of Harvard Business School points out, "You can't buy loyalty with just a paycheck. Building long-term commitment depends on four things: the nature of the work itself, the opportunity to grow, the chance to speak up and be

listened to and the feeling of making a difference. Members of the new generation in the work force don't want to be subordinates; they want to control their own fate. They want to do meaningful work that has redeeming social value without sacrificing the chance to get a life. Give them that and they'll give you loyalty in return. "

I am not the first to point out the paradox of the current corporate environment or the fact that the very structure of companies is limiting rather than liberating, mechanistic rather than multidimensional. There are many excellent management strategists who have presented countless ideas on how to counter our autocratic, command and control organizational models by creating living, learning organizations that treat employees as human beings rather than just human *doings*.

However, there's a search going on for a more comprehensive organizational *system* that humanizes the work place and creates sustainable, adaptive, and financially successful companies. I believe that system is *democracy*.

The Democracy Imperative

Imagine if our bodies acted the way many corporations do. What if one day our heart said, "I don't feel like equally distributing blood to the other organs today." And what if our nerves said, "We're going to create road blocks so the messages from the brain can't get to the legs." And what if our cells said, "We don't feel like working together to help heal that wound. Let him bleed!" What would the results be if our bodies acted this way? We'd be dead!

The reality, however, is that our bodies work as a collaborative organizational system, governed by principles such as accountability, participation, transparency and an absence of tyranny. If one part of our body decided to become territorial or dictatorial the entire bodily system would malfunction and possibly break down.

However, many companies are not structured as a healthy body and instead operate with a mind-set of inequality, tyranny, competition, secrecy and irresponsibility. It's no wonder organizations are not achieving their goals! We've created systems that are doomed from the start, literally designed to fail.

Democracy presents an alternative to the authoritarian, top-down, mechanistic way we've conceived organization. The very purpose of democracy is to create an environment of freedom. Freedom can only be achieved when a system is participatory, just, equitable, transparent and free of tyranny. Democratic systems promote individual ingenuity, thrive on collaboration and participation and are capable of rapidly adapting to change.

Russell Ackoff, a leading business strategist and author of *The Democratic Corporation: A Radical Prescription for Recreating Corporate America and Rediscovering Success*, explains democracy as a social system and how businesses conceived and organized as such are able to adapt more easily to a changing, unpredictable global business climate:

> The parts of a completely democratic system must be capable of more than reactive or responsive behavior; they must be able to act . . . Enterprises conceptualized and managed as social systems and their parts, can respond to the unpredictable changes inherent in turbulent environments and can deal effectively with increasing complexity. They can expand the variety of their behavior to match or exceed the variety of the behavior of their environment because of the freedom of choice that pervades them. They are capable not only of rapid and effective passive adaptation to change but also of active adaptation. They can innovate by perceiving and exploiting opportunities for change that are internally, not externally, stimulated.[3]

If a company is not democratic, then what is it and what are the effects on the entire organizational system? In Table 2.0, there is a comparison capturing the characteristics of an undemocratic company versus democratic company:

You Know You Work In an **Undemocratic** Company When:	You Know You Work In a **Democratic** Company When:
Your relationship with your boss reminds you of your relationship with your parents as a teenager.	Your relationship with your boss is peer-to-peer.
The phrase, "We've got to manage our people better," is a commonly heard admonishment.	The phrase, "We've got to help our people become better leaders," is a commonly heard cheer.
You work twice as hard as your boss but make half as much.	You're paid for the value you bring to the organization rather than for your job title.
You have to ask if it's all right to go to the bathroom.	You never have to ask to go to the bathroom.
You heard from you next-door neighbor that your company is merging with another.	You helped decide if your company should merge with another.
You rarely laugh on the job except when you get a funny email from a co-worker making fun of your boss.	Humor and having fun is actually encouraged at your company.
You have a boss.	You're your own boss.
You found out your company declared bankruptcy on the local nightly news.	You have real-time access to relevant financial information about the company.
The idea you proposed for improving a product has been stalled in bureaucracy for two years.	It took only a few days to implement the idea you proposed for improving a product.
The CEO makes *more* than ten times the lowest paid worker.	The CEO's salary is *no* more than ten times the lowest paid worker.
There are *more* than five layers of management.	There are *no* more than five layers of management.
The employee manual is longer then the Encyclopedia Britannica.	The employee manual can be summed up in one sentence: "Use common sense!"
You spend your time in meetings thinking about how you can get out of meetings.	You look forward to meetings where you can collaborate and share ideas.
The only sense of ownership you have in the company is the company mug they gave you.	You have stock in the company and there's a spirit of ownership in every project you work on.
You don't know what the company's purpose and vision statements are.	You either helped create or strongly share in the company's purpose and vision statements.
You spend the majority of your day trying to make people think you're busy rather than actually having meaningful work to do.	You're actively engaged all day in meaningful work.
The only time your boss or co-workers give you feedback on your performance is when you mess up.	You receive real-time, on-going feedback from your co-workers, and you're often publicly acknowledged for excellent work.
Whenever your boss is gone from work everything falls apart.	Your boss knows everyone is capable of doing just fine whenever they are gone.
You'd rather be anywhere other than your job	You're job is one of your favorite places to be.

Table 2.0

I believe most people work in companies that are far from democratic. Indeed, most companies aren't democratic at all. Unfortunately, because we've created organizations that are often demeaning to the people who work in them, they do not succeed to the level they could if they were designed differently. Democratic companies, by the nature of their design, engender, and find a way to answer, the following questions:

> Why can't employees choose their bosses?
> Why can't they hire and fire the people on whom they are increasingly dependant?
> Why can't they benefit directly from initiatives that result in higher profits for the organization?
> Why can't employees set production goals?
> Why can't they have access to financial information that would enhance their ability to make better decisions?

Ricardo Semler, CEO of Semco, a manufacturing company in Brazil and leader of the company's transition to a democratic work environment, sums it up like this:

> In a word, we hire adults, and then we treat them like adults. Think about that. Outside the factory, workers are men and women who elect governments, serve in the army, lead community projects, raise and educate families, and make decisions everyday about the future. Friends solicit their advice. Salespeople court them. Children and grandchildren look up to them for their wisdom and experience. But the moment they walk into the factory, the company transforms them into adolescents. They have to wear badges and name tags, arrive at a certain time, stand in line to punch the clock or eat their lunch, get permission to go to the bathroom, give lengthy explanations every time they're five minutes late, and follow instructions without asking a lot of questions.[4]

Although democracy has been discussed on an academic level as a possible management technique, it has not been explored as both a tool for building corporate culture and as an organizational system. In *The Democratic Company: Four Organizations Transforming Our Workplace and Our World*, I set forth a radical and realistic framework of organizational democracy called Principle-Based Democracy.™ The four models of democratic corporations will be an invaluable guide for any CEO, business leader, manager or consultant endeavoring to create more productive, just, meaningful and financially successful enterprises. It's time to conceptualize a different model of organizational design and revision the possibilities for releasing the human spirit in our workplaces.

Principle-Based Democracy™

Recently, I asked a leading expert on democracy and democratic reform within countries how he defines the term. He told me he identifies democracy like the Supreme Court Justice's famous remark about pornography –"I know it when I see it." This comment illustrates how challenging it is to actually define what democracy actually is.

The *term* democracy comes from the Greek words *demos*, "the people," and *kratein*, "to rule." The essence of democracy is the idea of people having power to shape their lives and their future both individually and collectively.

Too often democracy is defined in the political sphere by the presence of elections and voting or a free press. But these actions alone don't prove that a country is democratic. In some communist countries there are elections, and it's possible for a country to have a free press that's still sensational and inaccurate. These practices, although often considered indicators of democracy, are not *guarantees* of democracy. It becomes even more challenging to think about how to identify and define democracy at an *organizational* level.

For these reasons, I've decided to take a principle-based approach to defining democracy. Instead of characterizing democracy as a group of activities (or lack of activities), I use a checklist of universally acknowledged democratic principles to define democracy.

Before I present the principles of democracy and how I arrived at selecting them, let's first explore what a principle actually is. The word principle comes from the Latin word *principium* meaning "a beginning." A principle is often acknowledged to be a fact, or a rule. We do not invent them. On the contrary, they are the natural laws that govern the universe and are as inviolate and unchanging as the law of gravity. They are woven into the social fabric of our societies. Unlike values, which are subjective, principles are objective. Just as a compass points to magnetic North, principles act as a way-shower, pointing us in the right direction. They apply at all times and in all circumstances and are universal.

Principles guide, but they do not *prescribe*. In his book, *Birth of the Chaordic Age*, Dee Hock, CEO Emeritus of VISA, describes why a principle-based system is effective:

> Principles are never capable of ultimate achievement, for they presume constant evolution and change [in the individual and society]. "Do unto others as you would have them do unto you" is a true principle, for it says nothing about how it must be done. It presumes unlimited ability of people to evolve in accordance with their values, experiences, and relations with others.[5]

Because principles are a beginning point, I used them as the point of departure for evaluating if a company is democratic by looking for evidence of 17 universal democratic principles in operation. Rather than using a cookie-cutter checklist of practices in evaluating if a company is democratic or not, I looked for unique and creative ways each organization is currently practicing the principles. Practices vary from company to company because each has its own distinct culture and way of doing things. With the principles as a guide, I looked for various ways the principles were manifested within the corporation. And because each company practices the principles differently and to varying degrees, the evaluation process had to be principle-based rather than practice-based. The principles created a dynamic framework allowing me to evaluate a company relative to itself rather than another. A principle-based approach also allowed me to capture the various creative and innovative ways democracy is operationalized in companies.

Selecting the 17 Democratic Principles

My search for the fundamental principles of democracy began over six years ago. Throughout the process, I researched what democracy is – and what it isn't. I studied classical democratic thought and as well as leading contemporary thinkers. I traveled throughout democratic and undemocratic countries in Southeast Asia, Latin America, Western Europe and the US querying dozens and dozens of practitioners of democracy as to what they believe constitutes the fundamental principles of democracy. And I attended multiple global forums and conferences devoted to an exploration of democracy and its various practices.

Gradually, as I spoke with democratic practitioners and observed the various ways democracy was practiced around the globe, a list of over twenty-five principles began to emerge. Some principles were very similar and were summarized together. Other principles that didn't appear germane to creating a democratic system but were instead the *result* of democracy were omitted. In the end, I was looking for the very core principles that *must* be present in order to have a democratic system. My premise was that if even one of the principles was removed the system could no longer be considered democratic. I also recognized that the principles had to create a dynamic tension between them, ultimately holding the entire system in balance. With these factors in mind, a list of seventeen core principles of democracy then emerged, creating what I call Principle-Based Democracy™.

While researching the principles and formulating Principle-Based Democracy™, I was also exploring hundreds of organizations around the world working in the fields of democracy, organizational development, management consulting, systems thinking, international development and even the new sciences searching for anyone or any other firm dedicated to taking the principles of democracy and implementing them into organizations to create dynamic, effective, meaningful and sustainable organizational systems. To date, I have found none. To the best of my understanding, Principle-Based Democracy™ is a unique and highly innovative approach, blending the best ideas and practices from various fields into one accessible organizational framework.

Perhaps seventeen principles seem like a lot, especially in an age that wants everything quick and in bite-size chucks. However, when you consider that I'm presenting an organizational framework that can literally revolutionize our organizations and the world, seventeen principles seems like a profound few. And don't worry if you can't remember them all – that's what the paper is for! You can easily come back and reference the principles, their definitions and practices time and time again.

The Principles of Democracy

Presented below in Table 3.0 are the principles that comprise Principle-Based Democracy™ and their organizational definitions:

Principle	Organizational Definition
Purpose & Vision	Purpose is the reason the organization exists; vision is the organization's sense of direction.
Dialogue & Listening	Is when we engage in two-way conversation, particularly among people who may not normally have occasion to talk with each other and listen together.
Participation & Collaboration	Is when we engage and contribute, either individually or in a team, to decision-making and achieving a goal.
Equality	Is when every employee is regarded impartially regarding rights, treatment and access to opportunities.
Empowerment	Is when employees genuinely believe their presence, perspective and voice are vital to the progress of the organization.
Ownership	Is when an employee legally possesses a portion of the company or a project.
Accountability	Is when both employees and the organization are responsible and answerable to each other, their customers and their community.
Individual and Collective	Is valuing the unique contribution each employee makes in support of the organization's shared goals.
Transparency & the Free Flow of Ideas	Is when there is openness about organizational objectives and expectations and information pertaining to those goals is freely shared.
Justice	Is when there is fairness and reasonableness in the way employees are treated and decisions are made.
Innovation	Is when employees are encouraged to think creatively and invent new ideas, products, practices and services.

Table 3.0

Principle	Organizational Definition
Absence of Tyranny	Is when the work environment is free from all forms of overt and subtle oppression and domination.
Diversity	Is when differing views and perspectives are presented and valued.
Choice	Is when there is the opportunity to choose between a variety of possibilities.
Spirituality & Love	Spirituality is when employees are engaged in meaningful work, which contributes to their process of self-actualization and encourages their connection with the Divine; Love is when we reach out and show sincere care for others.
Decentralization & Distribution of Power	Is when power is shifted from the core and appropriately shared with employees at all levels of the organization.
Reflection & Evaluation	Is careful and thorough reconsideration and feedback regarding previous actions, events or decisions within the organization.

Table 3.0 continued

The Scorecard

Imagine the process of practicing the principles of democracy much like looking through a turning kaleidoscope. When you look into a kaleidoscope you see the various shapes and flecks of color at the end. Rotate the kaleidoscope and there are an infinite number of pictures that appear. The principles are like the unchanging colored pieces. The art of practicing the principles within an organizational setting is like the act of turning the kaleidoscope and watching an infinite number of outcomes, or practices, appear.

Table 4.0, illustrates the Principle-Based Democratic Scorecard™ which represents the checklist of democratic principles looked for within the four companies:

| Principle	Evidence of Practice?
Vision & Purpose	Y/N
Dialogue & Listening	Y/N
Participation & Collaboration	Y/N
Equality	Y/N
Empowerment	Y/N
Ownership	Y/N
Accountability	Y/N
Individual and Collective	Y/N
Transparency & the Free Flow of Information	Y/N
Justice	Y/N
Innovation	Y/N
Absence of Tyranny	Y/N
Diversity	Y/N
Choice	Y/N
Spirituality & Love	Y/N
Decentralization & Distribution of Power	Y/N
Reflection & Evaluation	Y/N

Table 4.0

The practice of democracy within an organizational setting is far from linear, as the kaleidoscope analogy hints. On the contrary, it is systemic, holistic and *non*-linear. Organizational democracy shows how the practices, based on principles, blend together to create a mutually reinforcing living system, with each principle, and ultimately each practice, supporting the development and unfoldment of another principle and practice.

Think of each of the principles and the way they're practiced weaving together to create a beautiful tapestry, or organizational system. These principles are what comprise the scorecard and are the guiding elements in identifying democratic practices within organizations.

Critical Success Factors

One of the criteria of a democratic company is that it's also a leader in its respective industry. My initial hypothesis was that a democratic culture and organizational design were often *the* factor that contributed to making these companies more successful than their less democratically organized competitors. I still believe that hypothesis is correct, yet it is important to note that a democratic structure and guiding philosophy *alone* will not guarantee success. The purpose of this section of the paper is to explore the necessary elements that must also be present within a company in order to support and reinforce a democratic organizational design.

Although a democratic culture and organizational design can propel a company to experience tremendous levels of success, the organization must be healthy and competent in areas beyond its culture and design. The *Business Health Matrix* in Illustration 1.0, shows the four main areas businesses must concentrate on in order to be successful and sustainable over the long term. Many companies focus on only one or two of these areas – mainly the financial health of a company and its management processes – before they focus on the corporate culture.

FINANCIAL	PRODUCTS & SERVICES
MANAGEMENT PROCESSES	CULTURE & DESIGN
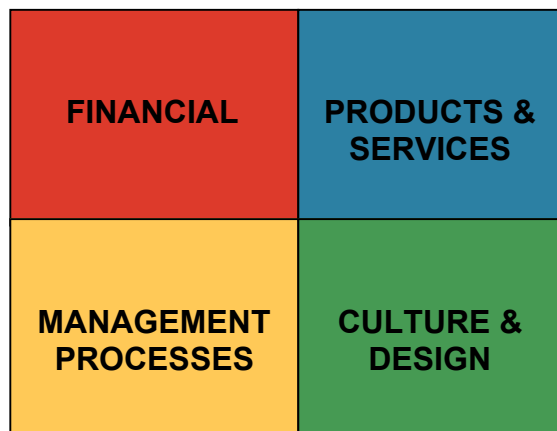
Illustration 1.0
Business Health Matrix

The FINANCIAL quadrant represents the financial health of a company.

The PRODUCTS AND SERVICES quadrant represents the health of the goods and/or services the company provides.

The MANAGEMENT PROCESSES quadrant represents the health and competency of management and the management of business process and resources.

The CULTURE & DESIGN quadrant represents the heath of the organization's culture and design.

The companies highlighted here understand that culture is one part of an entire business system that must be healthy. To that end, it is important to note that beyond a democratic culture and design all of the companies selected demonstrated overall business fitness in the following areas:

1. Profitability
2. Steady Growth Rates
3. A Conservative Balance Sheet
4. Outstanding Stock Performance (when applicable)
5. Market Dominance
6. Highly Productive Work Forces
7. Low Turnover
8. No or Low Furloughs
9. High Customer Service Ratings
10. Outstanding Safety Records (when applicable)

All four companies demonstrate a commitment to financial discipline. A commitment to the bottom line acts as a balancing and enforcement mechanism – almost like the rule of law -- alerting the organization through financial indices if the democratic culture is not producing the desired results. Comments Semco's CEO, "[I]t's financial solidity that gets rid of what I call the boarding school issues. But if financial solidity isn't there, all we have is a kind of Woodstock association of co-operatives for peace, and I don't believe in that."[6] Semler goes on to explain how a commitment to financial health holds the entire organization in check:

> We are very, very rigorous about the numbers. We want them in on the fourth
> day of the month so we can get them back out on the fifth. And because
> we're so strict with the financial controls, we can be extremely lax about
> everything else. Employees can paint the walls any color they like. They can
> come to work whenever they decide. They can wear whatever clothing makes
> them comfortable. They can do whatever the hell they want. It's up to them to
> see the connection between productivity and profit and to act on it.[7]

The difference is that whereas most companies use their *financial* situation to dictate their culture, these four companies use their *culture* to determine how to effect or respond to their financial condition. For example, if the company isn't making enough money to continue employing everyone, these companies would choose to encourage employees to take a voluntary pay-cut, freeze their CEO's salary or spin off part of the organization into new entrepreneurial divisions instead of firing people. A shared commitment to people is what comes first. However, their mantra is not 'people over profits.' Instead, democratic companies understand that to be successful it's people AND profits, with a deep understanding of how a democratic culture allows them to achieve their personal and financial goals simultaneously.

As I studied these companies, I noticed that there are several critical success factors specifically as they relate to designing and building democratic organizations. They include:

Operationalizing the Whole System of Principles, Not Just a Part – It's easy for a company to think it's democratic if it implements two or three of the democratic principles. However, that's like trying to have a body operate normally minus a few organs. Each one of the principles plays an invaluable role in the system; therefore, all 17 principles of the democratic system *must* be practiced in order for a company to be functioning democratically.

Support of Top Leadership – Another critical success factor of democratic organization is that there is no-nonsense backing from top levels of leadership regarding the development and maintenance of a democratic culture. Front-line employees will take their cues from upper leadership to see how serious they are about employee involvement and empowerment. Senior leadership must be champions of democracy.

Support at all Levels -- Although a democratic culture must have encouragement from the top it must also be supported at all levels by those throughout the organization.

Built on Authenticity – The desire to build democracy within an organization must be motivated out of a real and *genuine* desire to create an environment that supports individual initiatives and self-expression versus manipulation or ulterior motives.

Continual Evolution of Practices – All practices must be constantly evaluated and changed as the company grows, using the principles as a dynamic framework. The expectation is that as the company grows and matures, their practices will also evolve. A democratic practice can't be mandated. That defeats the purpose and will create a mechanistic, rather than living, organizational system.

Timing is Key – Whether a company is transitioning to a more democratic culture or continuing to evolve into new practices, the speed at which the principles are realized will vary from organization to organization. It's important to be sensitive to the rate of implementation.

Degree of Practice – As an organization implements democratic practices they will soon discover that each person within the organization has a varying level of need regarding the degree to which a principle is practiced. For example, the CEO of a company may not believe that practicing transparency in the form of an open book policy is necessary to him because he already has access to the books. Transparency already exists in his world. That is why it's important to consider how the principles can and should be practiced at all levels and to the degree appropriate for each individual's needs.

Democracy is Personal –Democracy is a personal and interpersonal way of interacting and building relationships with people each and every day. The companies that don't understand this will fail to succeed at implementing and building a democratic culture.

A Way of Thinking – Before democracy can be practiced, it is *first* a way of thinking about human beings and their right to live a fulfilled and self-actualized life. Tyrannical and dictatorial thought-patterns cannot build creative democratic cultures. The way one thinks must first be democratized before thinking can evolve into actions.

All of the companies studied here have a remarkable understanding of how their culture contributes to their overall success. Unlike other companies where culture is an after-thought once the company has achieved a desired level of financial achievement, The Container Store, SAS Institute, Southwest Airlines and Semco view their culture as a *deliberate* element in helping them attain financial success. These companies understand that building a democratic corporate culture is a very deliberate process that ultimately leads to a tremendous competitive advantage. They also understand how a negative or weak corporate culture can cause their demise. Whereas so many companies have cultures formed out of fear and frustration, these companies have developed cultures built on freedom and *fun*.

What motivates these companies and their top leaders to develop democratic cultures? As I conducted research on the selected companies there emerged an overriding motivational theme – *a commitment to the triumph of the human spirit*. They believe that people are good, capable of extraordinary possibilities and are meant to be free. The CEOs all take a no-nonsense approach to running their business and interacting with their people. They're direct, honest, and consistent. The companies as a whole are motivated out of sincerity, genuineness, compassion and a 'Golden Rule' ethic, which permeates all levels of the organization.

The selected companies understand that relationships and interpersonal processes take priority. In today's economy, organizations must be able to move at lightening-fast speeds without riding roughshod over their employees and customers. These companies all believe that if you focus on the people first – and do it right –the money will follow. These are the critical success factors to building a world-class democratic company.

17 Shattered Myths of Democratic Companies

Over the years, as I've talked with business executives about the idea of organizational democracy, I've found that there are several misperceptions about what democracy is and is not capable of achieving. Often democracy is seen as a system that must be implemented when a company is initially formed, includes a tedious process of voting and consensus-building and is only workable with a small group of people. My research revealed that these are just a few of the myths that must be debunked if we are to see the possibilities of organizational democracy. Some of the myths are addressed below:

Myth 1: Democratic companies have to be built from the ground up.

Reality: Three of the four companies selected did begin with a proclivity towards creating an open, participatory and equitable environment. However Semco was the exception, transitioning to democracy from a top-down, authoritarian system some 20 years after the company was founded. Today, it is perhaps the most multidimensional and effective model of workplace democracy in the world.

Myth 2: Democratic companies are flat.

Reality: The companies selected here are not completely flat. In fact, the fewest layers of management were three. Democratic companies tend to focus more on being decentralized than flat.

Myth 3: Democratic companies have to be small if they are going to work.

Reality: Democracy works well for organizations of all sizes and often especially well for larger organizations. The companies highlighted here had no fewer than 1,300 employees as many as 31,000.

Myth 4:   Democratic companies don't have a leader.

Reality: One of the primary goals of a democratic company is to cultivate leadership. Democratic companies function based on an understanding that each person is a leader in the area of expertise they bring to the company.

Myth 5: Democratic companies do (or do not) have unions.

Reality: Democratic companies sometimes do have unions. However, when a democratic company does have a union they've found it's rare that the union ever needs to strike. If there is a strike, it's often settled quickly and unceremoniously.

Myth 6: Democracy is an American concept that only works in American companies.

Reality: Democracy is a *universal* concept because it is based on a set of universal and timeless principles. The principles are then contextualized into practices that work best for any company around the world.

Myth 7: Democratic companies are slower and take longer to build.

Reality: Democratic companies, by nature of their design, are often very fast and flexible. However, like the parable of the tortoise and the hare, democratic companies may get off to a slow start but often win the race.

Myth 8: Democratic companies share a common set of best practices.

Reality: Although there are some common practices among democratic companies, each organization ultimately develops its own unique and individual way of practicing democracy appropriate to its context, purpose and vision.

Myth 9: Democratic companies are less efficient and profitable.

Reality: Democratic companies are some of the most highly efficient and profitable companies because of democratic practices such as profit-sharing, open books and decentralization. Southwest Airlines, for example, has been profitable for the past 29 consecutive years.

Myth 10: Democratic companies operate on consensus.

Reality: Not one of the selected companies uses consensus as a deliberate practice of democracy. Although often considered a democratic practice, consensus does not allow for individual expression, diversity or choice is therefore not necessarily a democratic practice.

Myth 11: A company is democratic if it practices voting.

Reality: A company may choose to practice the principle of participation through the practice of voting, but voting alone does not guarantee that a company is or is not democratic.

Myth 12: Democratic companies offer their employees lots of perks.

Reality: Perks such as an on-site gym or day care doesn't mean that a company is democratic. Only SAS offers their employees an extensive set of perks whereas Semco believed abolishing perks such as reserved parking spots or an executive dining room were how they developed a more democratic company.

Myth 13: Democratic companies are great places to work, for everyone.

Reality: Only individuals who "fit" well with the core philosophy and demanding standards of a democratic company will enjoy working there. If you go to work for a democratic company you will likely flourish or be miserable.

Myth 14: Democratic companies don't operate as well as command and control companies

Reality: Democratic companies often operate better than command and control companies because of the shared responsibility, distribution of power and mechanisms for instant feedback.

Myth 15: Employees in democratic companies take advantage of the open and flexible system.

Reality: Democratic companies tend to rely on positive peer pressure to keep employees honest. If an employee does take advantage of the system, they are dealt with fairly and individually, rather than clamping down on everyone because of the actions of a few.

Myth 16: A socially responsible company is a democratic company.

Reality: Socially responsible companies focus on a "triple bottom line" in three areas: the environment, the community and the finances. Organizational democracy, on the other hand, focuses on developing the *internal* culture, which can easily ripple into socially-responsible interactions with the community and the environment. However, just because a company considers itself socially-responsible doesn't mean that it's also democratic.

Myth 17: CEOs of democratic companies are pushovers.

Reality: CEOs of democratic companies have a remarkable ability to achieve high standards with flexibility and collaboration, confidence and humility. They create environments which develop other leaders rather than allowing their ego to oppress the leadership potential in others. To that end, they are some of the most visionary and dedicated leaders found in corporations today.

4 Democratic Models

The next section of the paper presents four different models of how the principles of democracy can be practiced within a business setting. The degree to which each of these companies practices democracy is as diverse as the way in which they do it. My goal is to show how the principles are universally adaptable and can be creatively and effectively practiced in a variety of contexts.

Deciding which practice represents or corresponds most clearly with a particular democratic principle was a subjective process. The reader will quickly see overlap among the practices and how one democratic practice naturally ripples out to support or engender the development of other democratic practices within the organization.

For the ease of quick and repeated reference by the reader, the practices are presented in short paragraphs or as bullet points.

General data about the four companies, as well as a brief overview, is captured at the beginning of each section. Each principle is then presented with as many democratic practices of the principles as I could find.

I hope you enjoy learning about how Southwest Airlines, The Container Store, the SAS Institute and Semco are *living* organizational democracy through the practice of Principle-Based Democracy™ in their own unique ways.

The Southwest Model

I think anybody that tried to overthrow our culture would themselves be overthrown.
-- Herb Kelleher, Chairman and CEO Emeritus

At a Glance

Headquarters: Dallas, TX
Founded: 1967
CEO, President and Chairman: James Parker, Colleen Barrett, Herb Kelleher
Number of Employees (2001): 31,580
2001 Sales (millions): $5,555
Voluntary Turnover Full-time Sales People (1997): 6.4%
Public/Private: Public
Top Competitors: United, American and Delta Airlines

The Company

Southwest Airlines is well known for offering lost-cost, generally short flights across the US. It has succeeded largely because the airline forgoes the traditional business model by choosing to skip hub-controlled airports, flying only one model of airplane (the Boeing 737), offering ticketless travel, turning planes around in 10 to 20 minutes and operating its own reservation system. Southwest currently serves about 60 cities in 29 states and operates around 360 planes, providing 90 percent of all low-fare service. It's a business model that's worked well -- the airline has been profitable for 29 consecutive years,[8] grown annually by 64 percent, and it has the best safely record of any airline, earning the industry's prestigious Triple Crown award for on-time performance, baggage handling and fewest customer complaints for five years straight.[9]

Southwest is equally known for its colorful corporate culture and highly participatory work environment. Playfulness is one of the main drivers of the Southwest way of life and part of its brand identity. Southwest has taken something that can seem rather boring and dull – flying – and made it fun. One Southwest customer explains it this way: "I was caught in a six-hour delay on a Southwest flight, and I didn't even mind it, because of this atmosphere they created."[10]

What's interesting about this company is that its super-star CEO, Herb Kelleher, has recently retired and the top leadership responsibilities have been divided between James Parker, now chief executive and vice chairman, and Colleen Barrett, president and chief operating officer. Kelleher remains engaged in the company as chairman of the board. Although there has not been much time to see how Southwest's democratic culture weathers without Kelleher, there are obvious signs

that it's doing just fine without him. In many ways, Southwest Airlines models how democratic organizational design also lends itself to strategic management planning.

Vision and Purpose

As I studied the Southwest culture, I discovered that their vision extends beyond a business strategy to a philosophy that is, in a word, democratic. The employees of Southwest see themselves as egalitarian spirits, crusaders in the business of freedom, democratizing the airline industry so anyone can fly. In fact, their entire business strategy is egalitarian. Roy Spence, the president of GSD&M, one of Southwest's two advertising agencies explains, "What they've done is create democracy in the airline business."[11]

Southwest's vision is to open the skies to ordinary people so they can dream and do things they never thought possible. That's why it's so committed to keeping its costs low. John Denison, Southwest's executive vice president of corporate services says, "The product we deliver is a wonderful contribution to society. We make it possible for people to fly who could never afford to fly in the past."[12]

Instead of displaying their mission statement in one place -- like the lobby -- it's displayed everywhere in the organization, serving as a performance standard and a constant reminder of what Southwest is committed to achieving.[13] Employees looking for direction about customer service also reference the mission statement. The statement has two simple charters: directing employees to express their own individuality while taking care of customers and being lifelong learners who take care of the company and each other. It reads in full:

> *Southwest Airlines is dedicated to the highest quality of Customer Service delivered with a sense of warmth, friendliness, individual pride, and Company Spirit.*
>
> *We are committed to providing our Employees with a stable work environment with equal opportunity for learning and personal growth. Creativity and innovation are encouraged for improving the effectiveness of Southwest Airlines. Above all, Employees will be provided the same concern, respect, and caring attitude within the Organization that they are expected to share externally with every Southwest Customer.[14]*

The mission statement clearly embodies the democratic principles of equality, absence of tyranny, innovation, transparency and collaboration, which creates a solid, clear link between the overall vision of the organization and its purpose.

Dialogue and Listening

Practice: The Cutting Edge Program

E-mail, memos, voicemail, faxes– technology makes it easier for people in companies to talk to each rather than *with* each other in constructive, inquisitive dialogue. Southwest believes that the most substantial and important learning happens through conversation. When employees receive and read the monthly company newsletter, the airline encourages them to dialogue with each other about the information in it. Southwest believes that discussion almost always results in a better understanding of the implications of the information and its relevance to employee's jobs. Dialoguing about information turns ideas into knowledge and actions that can lead to positive results within the organization.[15]

Sometimes at Southwest the most important type of dialogue is between people or groups of people who might not normally have the occasion to talk with each other. This encourages cross-functional communication and reminds people that there are perspectives other than their own. One way Southwest cultivates this interaction is in the Cutting Edge program, developed by Cliff Slaughter, a Southwest captain. The idea is to get a group of Southwest pilots and ramp agents to swap places for a day so they better understand what goes on around the plane while it's at the gate.

The program started in cities where there were communication breakdowns between ramp agents and pilots. At first, the program wasn't very popular, but it gained momentum and eventually helped to build goodwill between the people flying the planes and those on the ground unloading the bags. Pilot Mark Boyter remembers how he developed empathy for his coworkers as a result of the program:

> I remember one time when I was working the ramp in Los Angeles. I was dead tired. I had flown that morning and had a couple of legs in, so I got out of my uniform and jumped into my ramp clothes. That afternoon it was very hot. It was in the 80s—I can't imagine how they do it on a 120-degree day in Phoenix. I was tired and hungry and hadn't had a break. Then I saw this pilot sitting up there in the cockpit eating his frozen yogurt. I was to myself, "Man, I'd like to be up there right now." Then I caught myself. I'm up there every day. Now, I know that pilot has been up since 3:00 in the morning. I know that he's been flying an airplane since 6:00 am. I know it's 3:00 in the afternoon and he hasn't had a chance to get off and have a meal yet today. I know all that, and yet, the yogurt still looks really good to me. Then I thought, 'How can a ramp agent in Los Angeles who works his butt off for two or three years, working double shifts two or three times a week understand this?' It hit me that there's a big gap in understanding.[16]

Dialogue and listening, illustrated by the Cutting Edge program, creates a kind of "cultural exchange," which fuels understanding, empathy, perspective and trust. It also helps employees to understand how all parts of the organization work together to create success.

Participation and Collaboration

Practice: Participate With Your Full Being
From the beginning, Southwest needed every employee working together to make the company a success. Those early years were plagued by lawsuits from competitors trying to keep them grounded. Southwest believed that the only way the airline would ever succeed was if each person invested the best of what they had to offer to make the airline fly. There was no time and no patience for the free-rider; the company needed people who made a contribution.

Southwest employees participated with their determination. These people *believed*. They took a risk and bet their careers, reputations and even paycheck when everyone else thought they were crazy. But they believed that if they worked hard enough and cared enough that together they could build a successful airline. Joe Bardo, senior administrative coordinator, remembers those early days, "It was a dream that started for all of us. We were focused on trying to do the best job we could because we wanted to see the dream come alive."[17]

Those beginning days set a pace that continues at Southwest today. Employees are expected and encouraged to work together, to go beyond their job description and to engage fully in the Southwest experience. Participation isn't limited to a select few or for a limited period of time. Participation, on a moment-by-moment basis by every single employee, is what makes Southwest the company it is today.

Practice: Unions
At Southwest, 85 percent of the workforce is unionized and only once has there even been a strike (one that was short-lived!). In fact, the airline is known for having the best labor relations in the industry.[18]

Equality and Justice

Practice: The Golden Rule

Managers run many organizations with the "I'm-better-than-you" mentality, deriving power by constantly reminding subordinates that they are not their equals and, if they were, then *they* would be the manager. However, managers who attempt to lead from a premise of inequality rather than an egalitarian spirit often find their organizations are less effective and productive over the long haul.

However, the guiding spirit at Southwest is far from one of inequality. Many say that CEO emeritus Kelleher didn't have a patronizing bone in his body. He treated everyone with a sense of equal importance, regardless of job title. His example rippled out into the entire organization, advocating the ethic that you treat others with a sense of equality, doing what you expect and want others to do.

Kelleher modeled a mindset of fairness in hundreds of situations, showing how he passionately and enthusiastically embraced the ideas he expected his employees to embrace. A commitment to equality and justice caused employees to remark, "Herb would never [have] asked us to do anything he [wasn't] willing to do himself."[19]

One example of how an ethic of equality and justice had a profound impact on the company was whenever Kelleher was in union negotiations. His position was always to negotiate with an abundance mentality, treating others as he would like to be treated. So, instead of seeing how much he could squeeze out of people, Kelleher would go into negotiations asking, "What's the most we can give without jeopardizing job security and profitability?" Once, during negotiations, Kelleher told Gary Kearns, president of Southwest Airlines Pilots' Association (SWAPA), that if the negotiated contract was passed or was successful, he'd freeze his own salary and bonus for five years. Clearly, Kelleher believed that what was good for Southwest's pilots was good for the chairman as well.[20]

Empowerment

Practice: Have a Hell of a Lot of Fun

If asked to think of one word that characterizes Southwest Airlines, most people would exclaim, "FUN!" Whether airline attendants are popping out of overheard bins, cracking corny jokes over the intercom or singing on the flights, they have a commitment to having a lot of fun and making sure the passengers do as well. Playfulness is just one more way Southwest has distinguished itself from its competitors.

Jokes, laughter and fun are serious business at Southwest. They believe that playfulness allows one to interact on a more "human" level with others. That's why everyone, at all levels of the organization, are encouraged to be funny, silly and

goofy in their own unique way. Here are just some of the ways Southwest and its employees express unconventionality and fun:[21]

> Painting the airplanes like killer whales or with professional sport team's logos.
> Quirky, funny and self-effacing ads.
> Arm wrestling competitions for the rights to an advertising slogan.
> Spending more time planning parties than writing policies.
> Running recruiting ads that say, "Work at a place where wearing pants is optional."
> Working in play clothes.
> Playing games, doing skits, writing poems.
> Giving hugs and laughing a lot.
> Group cheers.

When employees work in an atmosphere that encourages them to laugh at themselves and have fun, people are more likely to be excited to give more of themselves. And happy employees ultimately translates into happy customers.

Practice: Apply Common Sense, Not Rules

At most companies, policies dictate how employees should respond to customers. Rather then empowering employees, often policies inhibit and limit them. At Southwest, employees are encouraged to use common sense and be flexible, possibly going against company policy when it's in the best interest of the customer.

Consider the time when a captain left the gate with a senior citizen who boarded the wrong plane. The customer was confused and upset, prompting the captain to use common sense, instead of a rulebook, to handle the situation. Normally, Southwest asks a pilot not to go back to the gate with a customer who has boarded the wrong plane. However in this case, the captain was concerned about the individual's well-being. "So he adapted to the situation," recalls Rod Jones, assistant pilot chief. "He came back to the gate, deplaned the customer, pushed back out, and gave us an irregularity report. Even though he broke the rules, he used his judgment and did what he thought was best. And we said, 'Attaboy!'"[22]

Southwest has learned that when employees are trusted to apply common sense to problems, three things occur:

1. They come up with better solutions than the company could have dreamed writing into policy.
2. They can quickly respond to customers' demands.
3. They can direct their energies towards seizing unique market opportunities at a critical moment.[23]

When employees are given the freedom to use common sense and think on their own, they will act responsibility and do more than expected.

Practice: Let Employees Do Whatever it Takes To Get it Done

At many companies, employees are told not only what to do but how to do it. Not at Southwest. Dennis Lardon, who started at Southwest as a ramp agent and is now the director of flight attendants, says: "They allowed employees to do whatever it took to get the job done. They didn't stand over us with a whip and say, 'I want this done this way.'" Employees then feel allowed to act quickly, spontaneously and creatively to do whatever is needed to accomplish the project, rather than waiting around for someone to tell them it is alright to proceed in a certain way.[24] The whole organization becomes more adaptive when employees adopt a "whatever it takes" mentality.

Practice: A University for People

The University for People is a multitiered learning facility staffed by the Employee Learning and Development Department. Its goal: to equip employees with the tools and mindsets they need to practice Southwest's unique brand of leadership. The university offers a full range of courses -- teaching people how to lead with integrity, run a profitable airline, practice the principles of stewardship, care for customers and live the company's core values. In addition to the training courses, the faculty serve as internal consultants to ongoing work groups within the organization. Because Southwest knows that its growth rests on the growth of its people, it considers the university to be a critical part of employee empowerment.[25]

Practice: Everything's Possible

Sometimes when you don't know any better, you learn that everything really is possible. This is the ethos that propels and empowers Southwest employees. It's a feeling that permeates the company and helps make seemingly impossible things, *possible*.

Southwest's signature ten-minute turn is an example of how believing anything's possible led to one of its greatest competitive advantages. In the beginning when Southwest was up against its biggest competitors, ground operations manager Bill Franklin realized that Southwest could cut back its schedule and save money if ground crews kept their three planes' en route stops to 10 minutes or less. The total time at the terminal – from pulling into the gate, unloading and loading passengers and pushing back again – had to happen in 10 minutes.

Most everyone in the airline industry thought it couldn't be done. But in 1973 when Franklin asked station manager Dennis Lardon, "Can we turn a plane in ten minutes?" Lardon's response was, "Of course we can!" Lardon recalls, "Most of us, not having an airline background, had no idea that we couldn't do this, so we just did it." Eventually, the 10-minute turn helped the company achieve the best on-time performance in the industry.[26]

One of Southwest's singular greatest advantages was having so many people who didn't know what could and couldn't be done. Karson Druckamiller, an original

maintenance crewmember, remembers, "We cleaned aircraft, we changed oil, we changed tires. We did it because that's what it took back then. Some things we did because we didn't know it couldn't be done."[27] The attitude that "everything's possible" still permeates the company today.

Ownership

Practice: Profit-Sharing and Stock Ownership

In 1973, Southwest became the first airline to launch a profit-sharing plan for employees and was the only airline in the world that provided stock ownership without asking for wage concessions. The company invests 10 percent of pre-tax operating income in the profit-sharing plan. In 1996, that translated to almost $60 million. Of the total amount of profit-sharing, 25 percent is used to purchase Southwest stock.[28] Kelleher remarked in 2000, "Profit-sharing. . . is an expense we'd like to see as big as possible so our people get a greater reward."[29] Today, employees own 13 percent of the company.[30]

Perhaps it goes without saying that profit-sharing only serves as a benefit when a company is profitable. Southwest, however, has been profitable every year since 1973 – 29 consecutive years. In the five years ending December 31, 1995, the company's stock price had increased 300 percent. Profit-sharing and stock ownership has had a profound impact on its people, making millionaires of many rank-and-file employees, not just executives. For example, a thousand dollars of Southwest stock bought in 1973 is worth approximately $1.5 million today.[31] Tammy Romo, director of investor relations, explains, "Profit-sharing aligns the employees' interests with the interests of the company. Our people are more conscious about protecting the company's assets and accomplishing its goals because their well-being is tied to the company's well-being."[32]

But ownership isn't just about having a piece of paper that says, "I own stock" or even incentives like profit-sharing or stock options. Ownership is about aligning the interests of everyone behind a shared vision. Comments Gary Barron, executive vice president of operations, "Our people think like owners and have for a long time."[33] At Southwest, everyone's well-being is tied to the to the company because, after all, the people at Southwest *are* the company.

Practice: Owning Idealism
Yes, Southwest employees own stock and they take part in profit-sharing, another form of ownership, but they also own something far less tangible but equally, if not more important – the principles for which the airline stands. They've bought into the principles that drive the airline such that when there's a piece of legislation advocating higher landing fees, for example, it's not just an affront to their profitability, it's an affront to their idealism and their vision.[34] Southwest's vice president of governmental affairs, Ron Ricks, explains, "If you accept the notion of what Southwest Airlines stands for in terms of this crusade, then you are going to

have a visceral reaction to things that adversely affects your customers."[35] It's Southwest employees' ownership of the principles that drive the company and contribute to its determined spirit.

Practice: Think and Act Like an Owner

Southwest believes it's crucial to have its employees think like owners. Individuals who choose to think like an owner have a unique perspective on their work. An owner asks questions like, "If this were my company, how would I handle that customer? Would I buy that piece of equipment? How would I treat my employees? Would I attend that meeting, establish a committee or make that trip?" Ownership, in the form of stock or even profit-sharing, can be effective. But even more powerful is an ownership mentality. Consider a comparison of a non-owner mentality versus an owner mentality in Table 5.0:[36]

Non-Owner Mentality	**Owner Mentality**
Non-owners worry about how their actions are perceived by superiors and others.	Owners focus on the business results of their actions, regardless of who's watching.
Non-owners are focused on pursuing self-interest and protecting their functional area.	Owners transcend functional boundaries, placing merit on whether it contributes to the ultimate objective of delivering value.
Non-owners tend to follow the rules, even if they're irrelevant.	Owners bend, stretch and even break the rules if they don't support the organization's purpose.
Non-owners pay attention only to that which affects them.	Owners pay attention to the details that others fail to notice.
Non-owners take action only when asked.	Owners take action before they are asked.
Non-owners rarely venture outside their job description.	Owners constantly transcend a job description to do everything from picking up a piece of trash that others have been ignoring to making an extra phone call to help a customer.

Table 5.0

When people think and act like owners within an organization, ownership becomes an influential and powerful catalyst for organizational change.

One of the most often asked questions in management is, "How do we get employees to assume ownership?" Southwest believes there are several key things you can do to inspire employees to take on ownership:[37]

> Hire entrepreneurial self-starters
> Give everyone a stake
> Think about everybody's stake
> Let every employee make a difference
> Engage employee hearts and minds
> Lay out the guiding principles
> Communicate, communicate and then communicate some more
> Use integrity to fuel trust
> Use trust to inspire ownership

Captain Jim Yeaton shares an example of how the opportunity to step up and take ownership led to a profound impact on the bottomline. At Southwest, the pilots see the cockpits as their offices and they recognize how the hundreds of decisions they make affect not only the well-being of the company but also their profit-sharing. Captain Yeaton comments, "This is the first job I've had where the company actually encourages the pilots to get involved, to think … I was as at Eastern Airlines before this, and fuel burn was irrelevant to us. It should have been a factor, but it wasn't because the relationship between management and pilots wasn't very good. There were a lot of opportunities to save money over there, but it didn't happen because people didn't care."[38]

Yeaton remembers when jet fuel prices skyrocketed during Operation Desert Storm in 1991. Then CEO Kelleher wrote all the pilots a memo stating that fuel prices were going sky-high and they had to cut back. "In one week," Yeaton recalls, "Costs went down like that. Now let me contrast that with the consultant who wanted to set up an incentive program, whereby pilot's pay would be increased to the extent they conserved fuel. I kept telling the guy we didn't need to do that. Our pilots did it on their own.[39]

This incident illustrates the impact an ownership mentality can have on an organization. Ownership creates some of the most productive and highly motivated workforces in the world. It inspires loyalty and naturally attracts other people who are interested in becoming part of a company that allows its people to assume ownership. When people come to a job with this kind of enthusiasm, they naturally look for ways to take on ownership of a project or a task. When people are confident that they will play a critical role in shaping the future of a company, they are willing to take on greater ownership of the organization and its progress.

Accountability

Practice: Use Accountability and Responsibility to Build Strengths
Many companies use accountability and responsibility as a restrictive concept, almost as a form of punishment for employees rather than as a chance to develop

latent talents within their people. At Southwest, it believes in giving people large areas of responsibility and holding them accountable. Compared to other companies, Southwest will do everything in its power to support the employee in rising to the occasion, whatever the responsibility. They're not afraid to give people with relatively little experience big, *really* big, responsibilities because they believe it will help people grow and ultimately helping the *company* grow.

For example, when Southwest Airlines built its new corporate headquarters at Love Field in Dallas in 1990 the main challenge was how to make a 225,000 square-foot box aesthetically pleasing. With the FAA requiring that the building height be low since it was so close to the runway, a number of architects commissioned to bring beauty to the building had recommended a round atrium. However, no one at Southwest was really thrilled about the idea. So Southwest decided to take a big responsibility and give someone the opportunity to grow. Enter Robert Dorsey, fresh out of Texas Tech. He was hired to come up with an idea. After getting a sense of the land, Dorsey went home and spent the weekend developing something completely different from any of the designs the company had seen. When he presented it to the executive planning committee, the design received unanimous thumbs up. Dorsey was then charged with the design of the building – a project that normally takes a junior member at an architecture firm years to land. He became the project manager, and, as he continued to demonstrate new skills proportional to his responsibilities, also became an interior design consultant for the project.[40] Southwest gave Dorsey a large amount of responsibility and made his actions accountable to the entire company . But the key was that Southwest supported him throughout the entire process, benefiting both him *and* the company tremendously in the end.

Individual and Collective

Practice: Individual Flair

Southwest's commitment to professionalism is in no way meant to dampen personal style and self-expression. At Southwest, employees are encouraged to be their authentic self, to express who they are in real and creative ways and to influence the uniqueness of Southwest by projecting their individuality.[41] The company applauds individuality. It doesn't require a certain type of personality; instead, they encourage a freedom from inhibition and the chance to feel liberated by meaningful and fun work.

Southwest gives employees the opportunity to let their individuality shine through – and gives them a stage (the airplane) to do it on! If you're a great singer or stand-up comic, or even if you are more quiet and reserved, you're encouraged to freely express your unique talents and gifts. What matters most to this company is that its employees are authentic. However, the airline doesn't want people to act how *they* think they should. Southwest strongly believes that when people try to be something other then they are it creates unnecessary stress that spills over to affect the

customers they serve. So instead, it encourages everyone to express themselves in a genuine way.[42]

Practice: Close the Gap Between the Individual and the Collective

In large organizations, it's particularly easy for employees to feel that their individual contributions don't matter or have very little impact on the organization and its success. But Southwest goes out of its way to help employees understand how their actions, both large and small, make a significant contribution to the airline. It's this commitment to continually helping employees understand just *how* their individual contributions make a difference that differentiates Southwest from its competitors.

One way the company communicates this message of individual importance to everyone, especially to front-line employees, is in its monthly newsletter. For example, it uses the newsletter to educate employees about how many customers the company actually needs in order to make a profit, and how each one of their actions affects the profit margin. The airline encourages employees to think about how their individual behaviors influence customer service by illustrating just how a few people can make a critical difference in helping a customer decide whether to do business with Southwest or not. In one issue, the company used a simple mathematical formula to illustrate how in 1994, only five customers per each flight accounted for the entire year's profit.[43] When employees see bottomline figures and how their behaviors make a significant difference, they are more likely to feel that they matter – as individuals connected to a whole.

Practice: A Cultural Activities Department

Southwest is so serious when it comes to paying attention to the needs of individual employees as well as its corporate community that it's established a cultural activities department staffed by four people working specifically on how to unite individuals with the vision of the company. As the company grows it must find a way to both maintain its community atmosphere and embrace the individuality of new hires. "Our biggest challenge is our growth," said Sunny Stone, manager of Southwest's culture activities department. "[As we hire more people] we are dealing with different cultures."[44] In order to do this, they've taken steps such as:

Developing a team that strives to ensure that new hires at Southwest receive personal attention.

Improving communication among its growing work force by establishing an employee hotline and daily updates on its intranet site.

Assembling a subcommittee tackling the issue of worker burnout.[45]

Regarding the relationship between growth and their unique culture, Stone says, "It's harder to communicate with people. It's harder to get everyone together. But people are more in tune with the fact that we need to keep our culture alive, or we will be just like everyone else. Without our culture, we are not Southwest Airlines."[46]

Practice: Culture Committees

A committee of employees for employees meets four times a year to create ways to maintain the familial environment at Southwest. The committee has spawned events such as "Hokey Days," where committee members give flight attendants a break by cleaning up the airplane for them and "Heroes of the Heart," a company cookout that pays tribute to behind-the-scene employees. They also discuss ways to improve the workplace and share memories of the airline's early years. The committee brings together over 100 employees three times a year in an all-day session dedicated to talking about how to maintain and strengthen Southwest's unique environment.[47]

The culture committee has also evolved into local culture committees in each of the cities the airline serves. Southwest also relies on the local committees, which meet at least once a year, to exchange ideas. Members of local committees serve two-year terms, and teams are formed within each committee focusing on different topics every few years.[48]

Transparency and the Free Flow of Ideas

Practice: Open and Honest Communication

From the first day the airline went into operation, senior executives were completely transparent and open with all employees about what would be expected of them and the difficulties ahead. Although the work environment in the beginning years was less than perfect, open and clear communication contributed to keeping morale high and employees believing that their efforts made a difference. "We had absolute honest communication with employees," co-founder Rollin King remembers. "We told them from the very onset that we were going to be in a fight for survival and that we had to be better then everybody else, and they accepted it."[49]

Former President and CEO Howard Putnam recalls, "When I spoke to new employees, I'd tell them, 'You've chosen Southwest Airlines and you're going to work harder than at any other airline. You're going to get paid about 30 percent less,

but in the long run, when we make this thing work, with your profit-sharing you'll be far ahead of anybody else.' And they are!"[50] Open communication built trust and dedication in those early years, laying a strong foundation of openness that continues throughout the organization today.

Practice: Access to Timely and Relevant Information

One of the best forms of "fuel" for any organization is information that is timely, accurate and relevant. Southwest prides itself on offering information to its employees in real time, providing a current perspective that is useful in daily operations. Southwest has discovered that when you give people information in a creative and engaging way it stimulates people to learn, ask questions and explore topics together. Because of the way Southwest communicates and shares information, employees don't mind being flooded with ideas. In fact they find it quite addictive, satisfying their curiosity (and therefore squelching office gossip) and sharpening their good judgment and common sense.[51]

Southwest communicates openly through its monthly publication, *LUV Lines which is* the corporate newsletter published by a group of people in the Employee Communications Department. *LUV Lines* is used to create knowledge by filling its pages with information that employees look forward to reading. The newsletter contains several sections including:

> "The Learning Edge," which provides employees with new ideas and insights presented through metaphors, to help them do their jobs better.
> "Scenarios," which presents real-life stories in the form of either case studies or anecdotes.
> "Industry News," where employees find information about all of the other major airlines and their financial performance.
> Other segments of the newsletter include, "How Do We Rate," and "Milestones."[52]

No major event – whether acquiring another airline or a port in a new city– is announced publicly without first being announced to the employees. In 1995 alone, the Employee Communications Department took 5,328 photos of Southwest events and published 642 pages of information for employees in *LUV Lines.*[53] They also use a quarterly news video called "As The Plane Turns" sent to all stations to share special events or messages as the company grows.[54] The airline also has an ongoing commitment to educating employees about the company's financial position as well as overall performance.[55]

High levels of transparency and the free flow of ideas and information gives employees the tools they need to make quick and educated decisions, maintain their competitive advantage and market share, and provide customers with outstanding service.

Innovation

Practice: Keep Learning, and Don't Fear Failure

In the beginning days especially, learning and inventiveness was crucial to Southwest's survival. If it hadn't been willing to learn, try new things and make mistakes, it never would have some up with the innovative ideas it now uses to compete with airlines that have more money and resources. Today, Southwest still believes learning is essential to maintaining its competitive advantage. It encourages employees to be curious and inquisitive because when people are, they tend to ask more questions, listen more closely and take a genuine interest in the issues.[56] CEO emeritus Kelleher remembers, "From the beginning we told our people, 'Question it. Challenge it. Remember, decades of conventional wisdom has sometimes led the airline industry into huge losses.'"[57]

Southwest does everything it can to encourage people be innovative, cultivate entrepreneurial flair and a "think-outside-the-box mentality." Here's what guides its philosophy:[58]

> Remove the fear of failure.
> It's alright to make mistakes.
> Forgiveness transforms failure.
> Make work an adventure.
> Play to win.

Real exploration and invention can only happen when employees truly feel encouraged to take risks and make mistakes. However, Southwest employees would respond by saying that the costs of getting burned once in awhile are insignificant compared to the benefits that come from people feeling free to take risks and be creative.[59]

Practice: Use Cost-Cutting to Stimulate Ideas

Southwest started out as the underdog, the airline-for-the-people going up against the established giants. So when you're the underdog, you've got to figure out creative ways to continue to innovate. At Southwest, the impetus for continual innovation and entrepreneurial thinking was a part of their vision and purpose to keep costs as low as possible. From the beginning, employees were encouraged to try new ideas that would sharply cut costs.[60]

Even as the company grows, entrepreneurial thinking is still greatly encouraged. According to former CEO Kelleher, the airline has to continue to innovate despite success because, "If [we] sit on [our] laurels, [we'll] get a thorn in [our] butt."[61]

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Practice: Take A Maverick Approach

Southwest's original management team, known on the inside as the "Over-The-Hill-Gang," was comprised of a handful of seasoned veterans from the airline industry. However, their approach to building Southwest was far from conventional. One of the original founders, Rollin King, says about the team: "Even though they had all been in the airline industry for a long time they were willing to adopt a critical philosophy. It was our one chance to do it right. Let's not be lulled into saying, 'This is the way all the other airlines do it, so let's do it this way.' To the contrary, we all understood that this was our opportunity to decide how to do it our way. Out philosophy was, and still is, we do whatever we have to do to get the job done."[62]

Their maverick philosophy and entrepreneurial approach allowed the airline to produce innovations that eventually became industry benchmarks which still contribute to high levels of productivity today.[63] Some of those innovations include offering continental breakfast in the gate areas instead of on the flight, the 10-minute turnaround of a plane, serving food off trays instead of bulky food and beverage carts, reusable plastic boarding passes and no assigned seating.[64]

Absence of Tyranny

Practice: Simplicity = Confidence

Many organizations load people down with paperwork and procedures that are far from simple, creating a bulwark of unnecessary tasks. Such needless complexity is a form of tyranny that slows down an organization. When downsizing mania spread through corporate America in the mid 1980s and early 1990s, instead of eliminating people to minimize costs, Southwest looked for ways of getting rid of less productive activities. At Southwest, it constantly searches for ways to make procedures simpler and easier. It would rather have its people out getting the job done on the front lines than hulled up with paperwork and tedious tasks. It doesn't take seven signatures to buy a piece of equipment or launch a new initiative at the airline.[65] Eliminating unnecessary steps in a service process, handwriting a note, making a product with fewer superfluous parts, simplifying boarding procedures – all of these simpler activities require fewer people and increase productivity at Southwest.[66] According to General Electric's CEO emeritus, Jack Welch, "Only self-confident people can be simple."[67] Clearly, Southwest is comprised of very confident people.

Practice: Informality

Layers of formality, whether manifested in job titles or hierarchical structure, create congestion of ideas and information and keep employees from making quick, informed decisions. At Southwest, employees pride themselves on their *informal* atmosphere. That doesn't mean that they're not professional, they just don't let the tyranny of formality unnecessarily complicate things. This atmosphere of informality keeps people relaxed and allows for uncomplicated communication and decision-making.

A 1994 *Fortune* magazine article illustrates the positive effect of such constructive informality:

> A Wall Street analyst recalls having lunch one day in the company cafeteria when Kelleher, seated at a table across the room with several female employees, suddenly leapt to his feet, kissed one of the women with gusto, and began leading the entire crowd in a series of cheers. When the analyst asked what was going on, one of the executives at his table explained that Kelleher had, at that moment, negotiated a new contract with Southwest's flight attendants.[68]

Informality also allows the company to stay free of another form of tyranny – the "We've always done it this way" mentality. When people are open and flexible to new ideas, new insights and allow for informal interaction between employees and management, the entire organization stays fluid, adaptive and innovative.

Practice: CEOs are Human Too

At many organizations, the CEO is someone who is considered unapproachable by rank-and-file employees, and is rarely seen. At Southwest, however, senior leadership sees approachability as a reinforcing element to its informal culture. Comments Jim Wimberly, vice president of ground operations about new CEO Jim Parker, "He really does see Southwest as I think a lot of us do. It's a crusade and a way of life that becomes so contagious and infectious that it's very, very difficult to leave. Personality wise, he's just a super person to be around, and I'd say that even if he wasn't going to be the CEO. He's just very easy to talk to…. When you're talking to him, it's like there's nothing else going on in his world other than that conversation that you're having."[69]

Practice: Avoid the Cult of Personality

Among the more obvious forms of tyranny is the personality of the CEO or a senior executive. This can occur in the form of deification of that individual or the level of dependency a company has on a particular personality for its success.

Think of Southwest Airlines and one may immediately think of former CEO Herb Kelleher, the chain-smoking lover of Wild Turkey whisky who had personified the company until summer the of 2001 when he retired and passed his responsibilities

over to Jim Parker and Colleen Bartlett. During the time leading up to the management transition, the media reported a flurry of speculations as to whether the company would survive without Kelleher at the top. Commentators, however, failed to notice one important fact – the employees themselves did not seem concerned that corporate culture would change when Kelleher left.

In other companies, a gauge of success for a larger-than-life CEOs is how fast the company falls apart after they leave. Southwest, however, did an outstanding job creating a sustainable culture that Kelleher personified but didn't own. Rather than creating a cult following, Kelleher created a *culture* -- a culture that he believed (and has so far proven true) would long out-live him. "The airline's culture is not dependent on Herb but on his spirit," said Robert Levering, co-author of *Fortune* magazine's annual "100 Best Companies to Work for in America" survey and president of the Great Place to Work Institute, a workplace research and consulting firm in San Francisco. "His spirit has been communicated and will continue after he is gone."[70]

Practice: Job Security

In all its history, Southwest only once laid off three people in the beginning days during a cash crunch but were quickly rehired.[71] The fact that no one has ever been laid off from the airline is remarkable for such a turbulent industry. Since there is such job security employees can focus on doing their work rather than fearfully wondering how long they will be employed.

Diversity

Practice: Encourage Differing Views

It's easy to think that progress within companies is easier when people share the same point of view. But at Southwest, it understands that diversity of thought is critical to their business. CEO Jim Parker explains, "I find it helpful to encourage people to express differing points of view and bring evidence to support their points of view to the table. It's usually through that constructive conflict of ideas that the better idea will emerge."[72]

Companies that allow for contrary perspectives can avoid a "groupthink" mentality that occurs when there's pressure to agree rather than think independently. Encouraging diversity of thought gives Southwest the advantage of tackling problems from various perspectives, which can result in creative and unexpected solutions.

Choice

Practice: Future Scenario Generation

Often it's easy to think business decisions are made because of inevitable circumstances and events, or by sheer luck. It's easy then to take a reactive, rather than proactive, approach to problems and opportunities. But at Southwest, it believes that choice is one the most important factors in its strategic planning process. The airline prepares for the future by constantly asking the question, "What if…?" The technical name they give this process is Future Scenario Generation. The company's executive planning committee meets periodically to create different scenarios in which the company could potentially find itself. And even though the company may not directly influence which scenario becomes a reality, it recognizes that there are a range of options and being prepared allows it to make wiser choices. Asking the 'what if' questions – What if we opened in this new city? How will the competition respond? What if Chicago builds a new airport? How will that affect our business? -- leads to the creation of multiple plans, allowing for Southwest to prepare for its future in a way that allows it to be maneuverable and respond quickly. In the end, good preparation can look like prophecy in retrospect.[73]

Spirituality

Practice: Create Meaning

It's what so many people are searching for – meaningful work. Southwest works tirelessly to make sure every employee's job is meaningful to them. It believes that there's a tremendous amount of spiritual and emotional gratification that comes from engaging in fulfilling work. And people whose work gives them a sense of meaning tend to be more engaged and invested in the outcome of their effort. Much like an athlete who experiences a "high" after a workout, people who experience this same kind of natural adrenaline each day from engaging their hearts and minds in meaningful work will do whatever it takes to protect the euphoric feeling. And at Southwest, that translates to tremendous bottom-line results.[74] Are Southwest employees motivated by stock options and profit sharing? Of course! But engaging in work that adds value to their lives, their community and their world 5 motivates them and is a fabulously rewarding pay-off.

Love

Practice: All You Need is LUV

In the beginning, love was the theme of Southwest's marketing campaign. Using beautiful, young airline attendants dressed in hot pants (back in the 1970s) its keynote was, "Now there's somebody else up there who loves you."[75] In June 1971, the airline proudly began promoting its service within its "Love Triangle." An ordinary business flight became a love affair. They had "Love Bird" flights at 8 a.m. (flown

predominately by male commuters who were wide-awake and wide-eyed as they were served Bloody Marys by Raquel Welch look-alikes in white, high-heeled go-go boots). Southwest used "love" up to 18 times in its ads, putting a red heart on its logo and serving everything from "Love Bites" (peanuts) to "Love Potion"(drinks) on flights. Bumper stickers read, "We're Spreading Love on Our Flights" and tickets came from Love Machines.[76]

However, love was more than a marketing campaign -- it became the core of the Southwest ethos. Any company that has the ticker symbol LUV takes love pretty darn seriously. Southwest is not shy about the fact that love, yes L-O-V-E, is the key *cultural* component of this company (in addition to its marketing campaign!).

One Southwest customer describes their interaction with Southwest's love ethic this way:

> You've seen the "luv" advertisements on Southwest's collateral, but it goes deeper than that. I saw the "love" first-hand a couple of years ago when I was dropped off at the wrong airport in Houston. Frantic after four days in the muggy, bug-infested metropolis, I ran to the Southwest counter begging for help. Naturally, every flight was crammed to the max for the next two days.
>
> After pleading with the counter personnel, one Southwest employee told me he would see what he could do and would return in short order. He returned with a ticket for the next flight.
>
> I wrote Kelleher and told him how I impressed I was with the employee's caring attitude and performance. I told Kelleher his employee's service was beyond compare that day and suggested the gentleman receive special recognition.
>
> Two weeks later, I received Kelleher's response. The letter started with, "I L-U-V it when I receive a letter like this." In fact, he said he spun around in his chair several times with glee, then quickly passed the recognition matter on to all the appropriate people - with himself as the lead.[77]

Distribution of Power and Decentralization

Practice: Stay Lean and Think Small
Southwest believes that multiple layers of management and bureaucracy exhausts the entrepreneurial spirit, constrains its competitive advantage and slows people down. Bureaucracy creates a mental cycle of dependency, encouraging people to do what they're told and nothing more. Bureaucracy teaches people to transfer responsibility rather than assume it for themselves.

Leanness, however, gives control and responsibility to those closest to the action, encouraging employees to make decisions with confidence and authority. For those reasons, Southwest has only four layers of management between a front-line supervisor and the CEO. A leader's span of control is therefore very broad.[78]

"We've tried to create an environment where people are able to, in effect, bypass even the fairly lean structures that we have so that they don't have to convene a meeting of the sages in order to get something done, " comments former CEO Kelleher. "In many cases, they can just go ahead and do it on their own. They can take individual responsibility for it and know that they will not be crucified if it doesn't work out. Our leanness requires people to be comfortable in making their own decisions and undertaking their own efforts."[79]

Southwest believes that bureaucracy is the result of excessive egos more interested in building personal fiefdoms than helping the company move ahead. Executives try to build personal empires through job titles and positions, assistants and big corporate staffs, which creates inefficiencies and promotes a "My people are here to serve me attitude" that is the antithesis of the Southwest culture.[80]

When bureaucracy classifies people according to position, power and capacity, it's easy for an employee to say, "That's not my job." This undermines adaptability, nimbleness and productivity. When a company is lean, when power is broadly distributed rather than centralized, a company stays more alert, works smarter and acts faster. Also, in a lean organization, substandard performance is easier to identify than in bureaucratic organizations where non-performers can hide more easily.[81]

Naturally, Southwest has a structure. But Kelleher is quick to point out that structure must be subservient to purpose: "The bigger you get, the harder you must continually fight back the bureaucracy and preserve the entrepreneurial spirit. Sure, you need more disciplines and more systems but they're adjuncts. They are not masters; they are servants."[82]

Creating a small-company atmosphere (despite the fact that Southwest has more than 30,000 employees) works best in a company that is lean and constantly focused on minimizing bureaucracy. Southwest encourages face-to-face communication as much as possible, just like one might find in a small company. It focuses on action rather than creating a bureaucracy of thought by saying, "Ok, let's study that idea or while."

An example of how Southwest is able to quickly respond to new ideas and improve because of its "think-small" familial attitude and lack of paralyzing bureaucracy is illustrated in the following example. One day Gary Barron, executive vice president of operations, approached the CEO Kelleher with a plan to completely reorganize the management structure of the airline's $700 million maintenance department. He handed Kelleher a three-page memo about the idea and the CEO read it on the

spot. Kelleher had only one concern, which he immediately discussed with Barron, who shared the same concern and said he was handling it. Kelleher said, "Then it's fine by me," and Barron's idea was set in motion. The whole conversation took about four minutes. Only in a lean and informal organization can decisions be made and quickly set into action.[83]

Practice: Independent Business Units
In an effort to keep power distributed as broadly as possible, stations are organized into independent business units. Stations managers have tremendous responsibility over the unit, including setting the tone, ensuring the airline's culture is promoted and practiced, recruiting and hiring employees, handling scheduling, training and evaluations. Custom service agents then are like department heads. They have the authority to handle baggage problems, canceled or overbooked flights, missed connections and other challenges.[84] Because Southwest is so decentralized, the individual units are able to act quickly to service the needs of the customer rather then engaging in a power struggle against layers of unnecessary bureaucracy.

Reflection and Evaluation

Practice: Get Real-Time Feedback
Southwest's philosophy is that the most relevant feedback is real-time feedback, gathered from customers as well as employees. This is best accomplished when management works along with front-line employees and talks with customers about their ideas as to how the company could improve.

Deborah Franklin, an original flight attendant, commented on Southwest's first CEO Lamar Muse, "[He] was especially interested in what the customers were saying. After each flight he'd ask us what the customers said so we could offer better service for them."[85]

From the beginning of the airline, co-founder Rollin King believed one of his critical responsibilities was to get out among the employees so he could get their feedback. He accomplished this by flying 25 to 30 hours a month. During that time, he would work with employees, check out the stations and talk with customers. He set the standard for management to connect with front-line employees through his example of being out in the field.[86]

Practice: "Milestones" and "Ratings"
Southwest works hard to provide all employees, not just the executives, with two forms of feedback regarding how the airline is performing. During the first quarter, the *LUV Lines* newsletter highlights the previous year's accomplishments in a section called "Milestones." It's difficult for employees, especially in big companies, to know what the company has achieved throughout the year. So at Southwest, they use the milestones section to recap achievements, show the company's progress and build momentum for the next year's goals.[87]

Another section of the newsletter is called, "How Do We Rate." In this section, employees can read monthly statistics kept by the Department of Transportation. These statistics give employees feedback regarding how Southwest's on-time performance, baggage handling and customer complaints ranked against the industry averages and the airline's previous month's performance.[88] Both of these tools are great ways to help employees continue to be both informed and continuously improving.

Conclusion

It may be easy to wonder how Southwest holds everything together when it gives such latitude and freedom to its employees. It's clearly articulated vision and purpose act as the company's unifying theme, keeping every action and every employee in alignment with the overall strategy of the organization. Southwest allows the vision and business purpose to act as the mechanism that keeps all employees motivated to respond from a place of integrity and consistency. If someone acts out of alignment with the overall vision, it's quickly detected because the organization is decentralized and transparent.

Because Southwest's competitive advantage rests with its ability to be fast and flexible, a highly decentralized, democratic corporate model allows it to accomplish its goals while remaining productive, innovative, cost-effective and savvy.

The Container Store Model

Our employees truly are our greatest asset and we strive to create a work environment where they will thrive in their jobs and in their personal lives.

-- Kip Tindell, CEO and president and Garrett Boone, chairman

At a Glance

Headquarters: Dallas, TX
Founded: 1978
President/CEO and Chairman (Founders): Kip Tindell, Garrett Boone
Number of Employees: 2,000
1999 Revenues (millions): $214
% Minorities (non-Caucasian): 27%
% Women: 60%
Voluntary Turnover Full-time Sales People (2000): 28%
Average Industry Turnover for Full-time Sales People (2000): 73.6%
 # New Jobs (1 year): 380
Applicants: 15,570
Entry-level Salary: $20,280 - $26,500
Average Annual Salary for Salespeople: $45,000
Public/Private: Private
Top Competitors: Bed Bath & Beyond, Linens 'n Things, Tupperware

The Company

The Container Store is one of the nation's leading retailer suppliers of storage and organization products. Co-founded by Kip Tindell and Garrett Boone in 1978, the company has grown to 25 retail locations across the county as well as a mail order service and online store. Stores range in size from 22,000 to 29,000 square feet and showcase thousands of products for the closet, kitchen, laundry and office. Employees walk around in blue aprons, helping customers figure out everything from how to reorganize their coat closet to arranging a home office. The company is well known for its outstanding customer service and its employee-centered commitment. In 2000 and 2001, it held the No. 1 spot on *Fortune* magazine's list of the "Best Companies to Work For." In 2002, it held the No. 2 position.

Vision and Purpose

Like other companies highlighted in this paper, The Container Store has a vision that guides the way management does business and the way the company treats its employees. The vision and purpose statements are summarized below:

> To offer customers impeccable customer service and innovative products which save space and, ultimately, save precious time and,
> To adhere to a fundamental set of business values, centered around deliberate merchandising, superior customer service and constant employee input."[89]

Comments one Container Store employee, "We grew up with 'family values,' and it's rare to find a company with the same values, philosophy, and foundation principles. Going to work is like going to a family reunion every day."[90] The Container Store's goal has never been growth for growth's sake. Instead, The Container Store sees growth and success as the inevitable result of their vision and purpose.

Dialogue and Listening

Practice: Talk with Your Customers

The Container Store considers its core competency to be its superior customer service.[91] To that end, their employees spend a considerable amount of time in dialogue with their customers. Remember the last time you walked into a retail store and no one even acknowledged your presence? Not so at The Container Store. For example, I went into one of its stores on busy Saturday morning to look around and checkout their culture for myself. At one point an apron-wearing employee with a big smile casually approached me. He asked if he could help me find something and we began chatting. Rather then just a short and shallow conversation, we began to converse at length about the store and its culture (he did not know at that point that I was working on a paper highlighting the company). I was impressed with his desire to actually talk with and listen to me, not just rush off to help someone else. I felt like he genuinely cared about my experience in the store and how he could help.

Participation and Collaboration

Practice: Team Spirit
A commitment to collaboration and teamwork contributes to sustaining a company's democratic ethos. Employees and managers alike are constantly pitching in to help each other out at The Container Store, whether formally or informally. There's no Lone Ranger mentality there. At The Container Store, employees advance by engaging in the company and helping others to progress. Comments Esteban Uribe, an employee who has been with the company for ten years, "What I love most about working here is the teamwork and the way everyone pulls together to help each other out. I feel lucky to have two families -- one at work and one at home."[92]

Practice: Elect your Teammates
In the spirit of allowing everyone to participate by having input in the decisions that affect them, employees are often asked by their managers to help hire other part-time employees they will work along side.[93] In fact, at The Container Store, employees are often able to participate and make decisions that at other chain stores would be made only by the managers, if they were made at all.[94] The opportunity for everyone to participate and have input in the organization is strongly encouraged and promoted.

Equality

Practice: No One's Better Then Anyone Else
Many companies determine who does what by an unspoken understanding that some employees are more important than others and should therefore only have to do certain tasks. But at The Container Store everyone works equally on everything. Container Store employee Chris Robinson, a 20-year-old working at a Dallas store, puts it this way, "I've worked at companies where the boss sits behind a desk and says, 'Do this, do that,' and I'm like, 'You do it.' Here everyone does everything. It's like a team."[95]

Practice: Vacation for All
Why should full-time employees get all the perks? At The Container Store part-time employees, even those who work as little as 18 hours a week, get a paid vacation.[96] It's just another way that the company communicates its message of respect and equality to all employees.

Empowerment

Practice: Training and Continuous Learning
Rather than offering employees on-site services, pet-friendly policies or stock options, The Container Store promises one thing: It will treat it's employees like humans by investing in their continual development.[97] Employees are constantly being trained. For example, first year full-time employees receive 162 to 235 hours of formal training each year, compared to the industry standard of only seven hours a year. [98] Part-time employees received 150 hours. Training is not generic, rather, it's customized to the individual and the job.[99] There are also "super-sales trainers"-- on-site employees who spend all their time training other employees

Practice: Cheering
Is it empowering? You bet it is! Managers as well as rank-and-file employees all cheer together on a regular basis. Here's an example of a cheer at Christmastime, for one of their product lines called Elfa.

"What are we in the middle of?!"

"Christmas!" everyone yells back.

"What's around the corner?!"

"Elfa!"

"When does it start?!"

"Dec. 24!"

"When does it end?!"

"Jan. 31!"

 "What's it spell?! What's it spell?! What's it spell?!" The response to the cheers is said to be deafening.[100]

Practice: "Foundation Principles"
There's no thick policy book telling employees how they should behave. There are no procedural manuals. Employees are instead encouraged to trust their instincts as long as their actions are in accordance with six "Foundation Principles" which guide the way employees operate and interact with customers. The principles are as follows:[101]

1. Fill the other guy's basket to the brim. Making money then becomes an easy proposition.

2. Man in the desert. (The idea here is offering customers more than just a 'drink of water.' At the Container Store, they say, 'Here's some water, and how about some food? It's the secret to their high sales volume.)

3. One great person equals three good people.

4. Intuition does not come to an unprepared mind.

5. The best selection anywhere plus the best service anywhere plus the best or equal to the best price in the market area.

6. Air of excitement.

Employees at The Container Store are very aware that their focus on customers is so entrenched that employees at other retail stores often mockingly call them the retail world's equivalent of the Eagle Scouts. The Container Store employees, however, view their scoffing as flattery.[102]

Practice: Leave No One in Charge
Managers frequently leave their branch stores to go help train salespeople at another store. The difference is when they leave, they leave nobody else in charge. Consider the example of Danielle Raska, manager of the 19,000 square foot shop in River Oaks, an enclave of Houston. She left for two weeks to train the staff of a new store in Columbus, Ohio. Raska explains, "I don't have any assistant store managers. And I don't have to appoint somebody to be in charge when I'm away."[103]

Raska's attitude is far from lackadaisical. What it represents is an unshakable faith in the people who work at The Container Store and how they are empowered to manage the store and themselves.

Practice: Blow up HR
The Container Store attributes its ability to hire and retain great people to the fact that anyone in the company can do 80 percent of human resource's job. Elizabeth Barrett , vice president of operations, says they view HR as a department that works against their culture. Instead, the company offers extra training to their managers about HR-related issues. In their first week with the company, all new employees, including distribution and office staff, take part on an orientation program designed to teach them how to handle human resources issues as well as the company's products, philosophies and the inter-relation of company positions.[104]

Ownership

Practice: Profit-Sharing

The Container Store also has a profit-sharing plan for its employees. One employee shares her unique perspective on how profit-sharing works in lean:

> We have profit sharing. Of course, we just bought Elfa this year, so we won't get much in profit sharing. We're okay with that, though, because we know that in the next three to five years, it will be great for the company. What's a measly five years?[105]

Profit-sharing gives employees a sense of investment and ownership of the outcome of their hard work.

Accountability

Practice: Accountable to the Customer First

The Container Store believes accountability is taking care of customers -- not managers following salespeople around the store micro-managing to make sure they are.[106] This attitude reflects their philosophy of hiring the best people they can and then trusting them to do great work.

Individual and Collective

Practice: Hire Great Individuals to Build a Great Team

The application process is quite lengthy at The Container Store. The company takes a long-term approach when it comes to staffing the stores. They want people who will stay on for five years, not just a season. To that end, store managers may interview 20 to 30 applicants before finding the right person. An interview for a full-time position usually takes one to two hours.[107] What's worth noting is the level of understanding the company has about how individuals form the collective culture of the organization. Therefore the hiring process, and the process of retaining great talent, is taken very seriously. When Elizabeth Barrett, vice president of operations, was addressing an audience at the Society of Resource Management in San Francisco, a member of the audience said she had far too much to do to devote so much time to the hiring process. Barrett's response? "You have too much to do because you don't do this."[108]

Once the company hires someone, they then work with the individual to help them create their own future within the company by matching the individual and their talents with their career desires.

Practice: Individual Flair, Shared Values

Underneath their blue aprons, most employees wear standard-issue Container Store dress – T-shirts and sporty sneakers. However, the company is not about making everyone into look-alike cookie-cutter employees. As long as an employee performs his job well and shares in the values of the company, individual flair, evidenced in appearance, is just fine. Case in point: 27-year-old employee Hayden Tidwell. Tidwell sports earrings, a Vandyke beard and several tattoos. He eschews The Contain Store clothing for black shirts and black shoes with yellow and red leather flames. However, he deeply shares the values of the company and its commitment to customer service. On one occasion, a non-English speaking customer came into the store and signaled that he needed a box for a painting he was holding. After realizing that none of the boxes they had would fit, Tidwell promptly disappeared into a back storeroom, grabbed some flat cardboard and created a custom-made box. Tidwell represents the individual flair, shared values ethic at The Container Store.[109]

Transparency and the Free Flow of Ideas

Practice: Open Books

The Container Stores works to ensure open communication throughout the entire organization by openly sharing daily store sales reports, company goals and expansion plans.[110] Each day, there is a morning huddle among the teams. At the huddle, managers communicate the sales goals for the day and report on the previous day's goals.[111] The financial ledger is also open to all employees.[112] Employees can check out how well their store is meeting its financial goals on a moment-to-moment basis just by clicking on a screen at the cash register. Openness, and a commitment to keeping information flowing to everyone in the organization, is one of the reasons why The Container Store continues to do so well.

Justice

Practice: Paid for Value-Added, Not Title

It's not unusual to find a small group of salespeople at each branch store making more than their managers.[113] The Container Store believes that you're paid fairly, for the value you bring to the company, not necessarily your job title. It's not a meritocracy and it's not about seniority or politics -- it's about performance and how an employee does their job.

Innovation

Practice: Creativity Sells

Talk about innovation—for employees at The Container Store it's a key part of their job to be as inventive as possible. When a customer comes in the store needing help, it's their job to help the customer figure out how to build a new home office or organize their storage closet. Every customer's needs are different, therefore each solution must be too. Nothing is cookie-cutter; creativity is what gets the job done and sells products.

Absence of Tyranny

Practice: Think Like Gumby

There are many forms of tyranny in corporations, and one more subtle form it appears in is rigidity with regard to how the company operates. At The Container Store, employees are encouraged to "be Gumby," or, to put it in more conventional terms, be flexible and willing to step outside their regular job to help a fellow worker or a customer. An example of Gumby-like thinking applied to the entire organization is illustrated below:

> Company research found that a lot of parents with children at home were passing up on jobs because they couldn't work more than one evening a week or on weekends. As a result, the store developed "Mom and Dad's shifts" which run from 9 a.m. to 2 p.m. This may seem preposterous, but it's worked [and these employees are invited to] come on board full-time once their children are [older].[114]

Thinking like Gumby affects policy but it also affects the way employees interact with customers and with each other.

Diversity and Choice

Practice: Job Rotation in the Distribution Center

All employees who have been with the company for at least a year and are interested in continuing on a long-term career track with the company go through a three-day intensive Continuing Education program. As a part of that program, employees engage in a three-hour job rotation in the Distribution Center. Part of the purpose of the job rotation is to expose employees to the diversity of jobs and duties that take part there and to help broaden their perspective and understanding of the entire company's operations.[115]

Spirituality and Love

Practice: A Living Wage

Many retail employers continue to pay employees a minimum wage. In most cities, that's simply not enough to live on. However, at The Container Store, employees are paid a living wage which is just one of the ways the company is loving to its employees. Compared to the industry average, The Container Store pays its people from 50% to 100% more. [116] An entry level salary is between $20,280 to $26,500 and the average annual salary for sales people is around $45,000. Salaries like these also help attract and retain top talent.

Practice: The Golden Rule

At The Container Store, treating others as you would like to be treated and having an awareness of the needs of others are fundamental practices. One employee, for example, after unloading a 16-wheeler at 5:00 am, grabbed a broom and began sweeping out the truck. He stated cheerfully, "Otherwise, the driver has to do it when he gets back to the distribution center."[117] A Houston store manager recounts another example of an individual employee putting the principle of love into practice in this story:

> In late May, we had some real bad flooding in Houston. A woman came in to buy plastic containers to put all her belongings in. Like many people in Houston, she didn't have flood insurance. When she went to the register to pay, the cashier just gave her everything. I know, you're not supposed to give away the store, right? But we knew that woman would become a lifetime customer for us. [118]

Interacting with others in a way that is generous and loving contributes to building a cohesive corporate culture and loyal customers.

Decentralization and Distribution of Power

Practice: Everyone's Got the Power

Power is distributed to everyone at all levels of The Container Store. Dave Steinberg, an employee, describes it like this:

> When I was a district manager at Noodle Kidoodle, if I wanted to write a gift certificate, I'd have to ask permission. Here, there's no seniority, no politics. If someone comes in and asks to speak to a manager, I say, 'Okay, what can I do for you?'[119]

Because the organization is decentralized, each employee at each store has the power to respond to customers as needed without having to go through layers of bureaucracy and hierarchy.

Reflection and Evaluation

Understanding that feedback is essential to improving performance, employees at the company's Distribution Center in Dallas receive two performance reviews within the first six months of employment, followed by one every six months throughout their career.[120]

Conclusion

A people-centric approach is what guides The Container Store philosophy and what has kept it on Fortune magazine's "Best Companies to Work For" list for the past three years. Comments CEO and Chairman Tindell and Boone, "Considering the events that our nation has experienced this past year, we feel incredibly fortunate to have been able to sustain the success of The Container Store's business, our culture and the principled way in which we conduct ourselves with each other and our customers. We know that creating a great workplace for our employees is a never-ending journey and will continue to raise the bar in making The Container Store an even better place to work." The Container Store model illustrates how organizational democracy can be successfully realized in the retail industry.

The SAS Institute Model

"My vision was to create an environment where creativity could flourish and thrive."
-Jim Goodnight, CEO

At a Glance

Headquarters: Cary, NC
Founded: 1976
President and CEO (Founder): Dr. James (Jim) Goodnight
Executive Vice-President (Founder): John Sall
Number of Employees (both US and internationally in 2000): 8,500
Number of Employees (Cary Headquarters): 3,501
2000 Revenues (millions): $1,120
2001 Profits (millions): $150
% Minorities (non-Caucasian): 13%
 % Women: 52%
Voluntary Turnover (2001): less than 5%
Average Industry Turnover (2001): 20%
 # New Jobs (1 year): 479
Applicants: 32,473
Entry-level Salary (professional): $46,839
Public/Private: Public
Top Competitors: Cognos, Hyperion, Information Builders

The Company

SAS Institute is probably the largest computer software programmer you have never heard of. This quiet company provides statistical analysis system (hence the name SAS) software and services enabling customers to transform business data into intelligence. It produces more than 50 different computer software products, which are used in more than 38,000 business, government and university sites around the world.

The company is a remarkable example of how democratic organization can be realized in a knowledge-based company. Like the other companies highlighted here, SAS has a strong commitment to its people. Comments Jim Davis, senior vice president and chief marketing officer of SAS,   "Commitment to our customers and our employees, plus a dedication to innovation, accountability, approachability and business-solution orientation, have led to significant financial growth each year during our 25-year history."

Vision and Purpose

SAS has a solid vision for its products and a guiding internal philosophy. The company's specific vision is to deliver superior software and services that give people the power to make the right decisions. It wants its software to be the most valued competitive weapon in business decision-making.[121]

But SAS's vision is more than delivering a great product to its clients. It also has a strong internal vision guiding day-to-day operations. It's an employee-focused philosophy based on one simple idea: satisfied employees create satisfied customers.[122] As a result, SAS has won several major awards for their customer service, including the prestigious 2001 Customer Relationship Management (CRM) Excellence Award for the second consecutive year.[123] "I think our history has shown that taking care of employees has made the difference in how employees take care of our customers," comments CEO Jim Goodnight. "With that as our vision, the rest takes care of itself."

Dialogue and Listening

Practice: Create Easy Ways to Connect

In a knowledge-based company, it's crucial that employees talk with each other and share ideas. At SAS, dialogue happens formally but it also happens informally as well, thanks to the work environment the company has created. Everything from the incredible athletic facilities to the cafeteria provides employees with informal ways to come together and have conversation with each other about work and life. This informal dialogue contributes to creating a cohesive feeling among the entire organization.

Participation and Collaboration

Practice: Seek First to Understand

Respect between a boss and an employee quickly corrodes when the boss has no idea what the employee is doing. At SAS, managers actively strive to understand the work they oversee in a supportive, non-micromanaging way. Managers and employees collaborate to agree on deadlines together, and mangers strive to understand what their groups do, averting unrealistic assumptions, timetables and expectations.[124]

Equality

Practice: Individual Offices for Everyone

Instead of senior VPs having corner offices and junior-level executives in cubicles far from natural sunlight, some companies are choosing to have everyone in a cubicle. Not at SAS. They've decided instead that everyone has their own office with their own phone and computer, regardless of rank.[125]

Practice: Managers Work Along Staff

Managers all work alongside their staff members, rather then sitting in offices and dictating orders from afar.[126] Comments SAS employee Larnell Lennon, "My manager is doing what I'm doing. She is in the trenches, writing code. Dr. Goodnight was once in the same group that I'm in. At my last job, my manager was just making sure that everything got done. Here, we all do that."[127]

Empowerment

Practice: Don't Contract Out

Most companies are figuring out ways to contract out more and more of their business to different firms specializing in everything from payroll to human resources. However, counter to the trend, SAS doesn't contract out or use part-time help.[128] Instead, SAS empowers employees to work with internal talent to get a job done, sending a strong message that it believes in the quality and capabilities of the people they've already hired.

Ownership

Practice: Profit-Sharing

SAS also has end-of-year bonuses in the form of profit sharing.[129] Profit-sharing is an excellent financial incentive for employees. To date, SAS does not have employee stock ownership packages, although there is some discussion that the company may offer that form of ownership to employees very soon.

Accountability

Practice: Manage Lightly But Not Casually
Although the atmosphere at SAS is often described by its employees as relaxed, there's nothing lax about its products, its work ethic or its standards. Employees are not micromanaged as a general rule because there is a clear understanding of who is responsible and accountable for what project at all times.[130]

Practice: Documentation
Every product manual that SAS develops to accompany its software includes the names of the testers and developers who actually created or updated the software.[131] (Check out your Microsoft Word manual – can you find the names of a single human being in there?)

Individual and Collective

Practice: Lots of Perks, Health and Fun

At most companies, the perks are only there during the good times. Training, free soda, pizza, and beer are gone when things turn down. Not at SAS where they consider perks – and their people—value added rather than expendable commodities. "Knowledge-based companies need knowledge workers," says Goodnight. "Looking at ... services that keep employees motivated, loyal, and doing their best work as merely an expense and not an investment is, I think, a little shortsighted." At SAS perks include:[132]

- A 500-acre campus
- An on-site health-care facility
- Four subsidized child care centers
- Dry cleaning services
- A subsidized cafeteria
- A hair salon
- A masseuse
- Playing fields for Frisbee or soccer
- A swimming pool
- Aerobics
- A weigh room
- Basketball courts
- A soccer/track stadium
- Tennis courts
- A wrestling room
- Putting greens
- 15%-of-pay contributions to retirement plans
- Flexible work schedules

- Break rooms stocked with snacks and drinks
- A library with more than 11,000 volumes
- No limit to sick days

One would guess that all of these perk cost quite a bit. Yes – and no. According to Stanford University professor Jeffery Pfeffer, all these perks keep morale high and turnover low. He estimates that these "perks" save the company $75 million a year.[133] That figures to about $12,500 per year per employees that can be spent on benefits.[134]

Practice: Life Outside of Work
Although all the perks listed above might make one think that SAS wants its employees to be at its facilities around the clock, they've limited the work week to 35 hours or seven hours a day, for everyone. The gates to SAS close firmly at 6 pm every night. You're expected to be going to live your life outside of work by then. Even CEO Goodnight lives by this maxim of having balance between work and other areas of life.

Practice: Understand Your Connection to the Whole
Applications developer Bob Snyder talks about how understanding the way his individual role on a project impacts everyone else's work increases his sense of personal responsibility. He contrasts this with a feeling of disconnect at his former employer, Texas Instruments. "Here, I know everything I do has an impact on the final product. That gives you a sense of responsibility to get things done right and on time. In the bomb factory, with all its bureaucracy, if you screwed something up, you sent a letter to someone saying, 'I screwed up.' Here, a goof is a deliverable goof."[135]

Justice

Practice: Be Fair
One might wonder what motivates companies like SAS to treat its employees as well as it does. But at SAS the motivation is clear – it's about being fair to both the company and the employee. When SAS was a start-up with a significant number of women working for it, they found that two to three years into their career the women were opting to stay at home with their children rather then figure out how to juggle family and a career. Goodnight and his team knew that loosing such talented female employees meant that they'd be starting from scratch more often then they wanted to. They realized that they couldn't loose their women, so they started to provide day-care in the basement of their then-facility. They started with four or five kids and now have 528 children in day care. They didn't have to pay for the day-care of their employees, but one could argue that SAS realized that it was fair and just for them to support their female employees the best way they could in balancing work and family. And this act of justice has paid off for the company as well. Today at SAS, 51 percent of managers are women.

Innovation

Practice: 30 Percent of Revenue to R&D

About 30 percent of SAS's revenues – not profits – go back into research and development. That's a higher proportion than any other software company its size.[136] There's a strong commitment to continual innovation, with over 1000 programmers conducting research for SAS at offices all over the world.[137]

Absence of Tyranny

Practice: Stand by your Employees

During the economic slowdown of 2001, many companies responded by laying off employees. Employees lived each day in fear that perhaps they would be included in the next round of cuts. Despite the economic slowdown, SAS didn't lay anyone off. SAS's Chairman, Jim Goodnight, commented on the year, "2001 was a difficult year in a lot of respects."

But SAS, however, stood by its employees and customers and they in turn stood by the company. In fact, the company has never had a voluntary turnover rate higher than 5 percent in all its history.[138] As a result, they not only made it through a tough time together but the company became stronger and better positioned for even greater things in the years to come."[139] In fact, while other companies were struggling under the economic downturn, SAS prospered, not only hiring new employees but also boasting revenue growth for the 25th consecutive year. It continues to hire in the areas of sales and research and nearly doubled the size of its US sales force in 2001.[140]

While other companies are telling their employees to be thinking about their next job elsewhere, SAS predicts that most people will have three to four career changes in their life -- and they hope it will all happen at SAS.[141]

Diversity and Choice

Practice: Toby Trent's Long Hair

It's easy to start to think of SAS, or any of these selected companies, as a kind of utopia that makes you surrender your sense of individuality in order to fit into a homogenized and superficial happy-land. It's easy to think, "Sure, it's easy to let people be free as long as there's not a lot of diversity. Similarity will keep things running smoothly." Consider the example of Toby Trent, a SAS technical-support representative for the past 14 years. Although Trent's expression of diversity may seem small, it's telling about SAS and the larger philosophy to which the company

adheres. Trent is a big man with a shaggy beard and long, shaggy hair. His choice of clothing is far from what you'd expect of a SAS employee. He wears shorts, shuns socks and instead sports a pair of $1.98 flip-flops. The point is not so much that Trent can dress as he'd like as much as the fact that SAS is comfortable with diversity at its corporate headquarters. Trent sums it up this way, " [Anywhere else would] make me cut my hair. . . This place is not repressed: You're free to express yourself."[142]

Rather than cogs in a machine or programmed drones, the people at SAS are considered unique and diverse assets to the company. Their varied collection of insights, brains and talent are the source of cohesion, creativity and development for this growth-orientated company.

Spirituality and Love

Practice: Meditation Rooms

How many companies can boast this perk? Yes, SAS has mediation rooms for employees, just one of the ways it acknowledges and provides space for the practice of spirituality.

Decentralization and Distribution of Power

Practice: Wider Rather Than Taller

Since a sense of accountability is so ingrained in each employee at SAS, and the lines of communication and reporting are so simple and clear, there's no need for a formal organization chart. Instead of increasing the levels of hierarchy, SAS tends to grow wider, creating new divisions. In fact, the company is so unabashedly flat that on the main Cary campus everyone from the programmers to the housekeepers are just two or three steps in the brutally flat hierarchy from CEO Jim Goodnight.[143]

Reflection and Evaluation

Practice: The Three-Part Test

Each month, a group meets to discuss and evaluate proposed new benefits. The group asks three questions of each benefit proposed:

1. Does the benefit fit with SAS's culture?
2. Would the benefit serve a significant number of employees?
3. Is it cost accountable (meaning its perceived value is as least as high as its cost?

The proposed perk must pass all three tests before it's implemented. At the time of this writing, one of the current benefits that had just been passed was advice and referrals on retirements and financial planning for college.[144]

Practice: Survey Once a Year
Employees and customers are formally surveyed each year for their feedback on SAS's products, services and corporate environment. The company says that 80 percent of the suggestions that customers and employees make regarding how to improve products are eventually integrated into the software.[145]

Conclusion

The SAS model illustrates how organizational democracy can help a company retain its competitive advantage in a fast-paced, highly competitive industry like computer software programming. SAS considers its culture and environment not just the right thing to do but as a fundamental part of their business strategy. Comments employee David Russo, "To some people [SAS] looks like the Good Ship Lollipop, floating down a stream. It's not. It's part of a soundly designed strategy . . . Jim's idea is that if you hire adults and treat them like adults, then they'll behave like adults." A resounding theme from all of the selected companies.

The Semco Model

We took a moribund company and made it thrive, chiefly by refusing to squander our greatest asset, people.
--Ricardo Semler, CEO

What makes the Semco model so interesting is that it for the first 20 years it was in operation its structure and culture were autocratic and relied heavily on command and control management styles. However, for the past 20 years it has been run *democratically*. Semco is a model of how companies who have not yet evolved into democratic cultures can make the transition with incredible success.

What is also unique about the Semco model of democratic organization is how effectively it works in Brazil -- a country that is still developing, often unstable, and known for economic booms and busts. One could reason that in highly unpredictable environments, command and control corporate structures are even more inadequate for dealing with a dynamic socio-economic climate. Perhaps this is why Semco's adaptive democratic method of organization has been a highly effective model for the company.

At a Glance

Headquarters: Sao Paulo, Brazil
Founded: 1959
President: Ricardo Semler
Number of Employees (2000): 1,300
1997 Revenues (millions): $100 million
Voluntary Turnover Full-time People (2000): less than 1%
Public/Private: Private

The Company

Antonio Curt Semler, an Austrian engineer, founded Semco in 1959 as a manufacturing company that makes everything from pumps for oil tankers to cooling units for air conditioners. In 1980, nearing his 70th birthday, Antonio Semler decided to hand over the reins to his son, Ricardo. At age 21, young Ricardo took over a company that was on the verge of bankruptcy, floundering in inefficiencies, with low productivity and dismal employee moral.[146]

For the first four years as CEO, Semler was quickly caught up in the excitement of running the company. In that short period of time, Semco purchased five new companies and extended its product line. Semler's motto was, ""You either work hard, or you're out,"[147] and he practiced what he preached, literally camping out in his office at times. But despite this flurry of activity, the company was not prospering.

Deliveries were late, authorization forms spent days bouncing within the company's bureaucracy, department were run like fiefdoms and workers in the factory were unmotivated and apathetic.[148]

Semler himself began having dizzy spells and eventually went to visit a doctor. They ran a series of tests and in the end concluded that Selmer had no problems whatsoever except for an advanced case of stress. The doctor then said that he had two choices, either continue with his current pace or change everything about his life. So Semler decided to change.[149]

One of his first steps was to do something out of character for him at that point. He decided to call a general meeting where everyone was invited to lay their frustrations on the table. That meeting was where the foundation for "the most extraordinary company in the world" was laid.[150]

The process of conceiving Semco as a more democratic organization was inspired, in part, by Semler's experience playing in a rock band during his youth. The freedom he experienced in the rock band was highly influential in the changes implemented at Semco over the years. Semler was used to having the freedom to do as he pleased, and the traditional "prison atmosphere," as he called it at Semco, was a culture shock to him.[151] "The transfer to a highly structured world with classic systems just didn't make sense to me," he says. "Why do people have to wear business suits? Why do they have to come in at 8:00 am in the morning instead of 8:05 am? There were no good answers." So Selmer decided to rebel. "Thousands of rules work fine for an army or a prison system, but not for a business. And certainly not for a business that wants people to think, innovate and act as human beings."[152]

Bit by bit, Ricardo Semler dismantled the company's very rigid and conservative structure for a more democratic system. The core of Semler's philosophy was introducing real democracy to the workplace. "What we are seeing," he says, "is the crumbling of the 1908 Henry Ford assembly line." Semler believes the main challenge afflicting firms such as IBM and Microsoft is "autocracy." America, Britain and Brazil are all very proud of their democratic values in civic life, but we are still constricted by a system that doesn't allow democracy into business or into the workplace.[153]

However, there was a lot of resistance in the early days as Semco transitioned from a top-down culture to a more egalitarian one. Laura Leme, one of Semco's few head office staff, explains the initial culture shock when the system was introduced. "There was resistance from both above and below," she remembers. "Brazilian society is extremely authoritarian. People at the bottom didn't want the responsibility, and many managers just couldn't get used to having their orders challenged. From October 1985 to January 1987 a third of the management left; then relations improved."[154]

In addition to internal resistance, there was resistance to running an ethical, company from the Latin culture. Running an ethical business in Latin American, where corruption is the norm, is no small undertaking. There's a saying in Latin America, "You can turn a successful business or be ethical." But Semler and Semco have refused to pay bribes over the past 20 years, taking a stand that business can be conducted in Brazil and elsewhere without blind obedience to anachronistic rules and traditions such as corruption. Semco's ethical stand has often resulted in trucks being stopped at state boarders for inspections, approvals and certificates taking an extra long time, and shipments being held up at airports and docks.[155] But, Semler says, "It's the price of doing business honestly."[156]

The results of the democratization process, captured in financial success, are difficult to ignore. Only ten years after transitioning from an autocratic structure to a democratic one, the company achieved over 900 percent growth and increased their industrial ranking from 56th to 4th, despite severe economic slumps in Brazil.[157] And in 1997, revenues were over $100 million, up from $35 million in 1990. Profits were $8.2 million.[158]

Sales went from $11,000 per employee in 1979 (under Antonio Semler's leadership) to $135,000 per employee in the early 1990s under Ricardo Semler's democratic leadership style and organizational design. This was more than four times the average figure for Semco's competitors. After making a transition to a more democratic work structure, Semco's productivity increased twofold in just ten years and held steady despite the various economic recessions in Brazil during that time.[159]

From 1990 to 2000, Semco also had steady growth, quadrupling revenues and expanding from 450 to 1,300 employees.[160] Semco has always been a manufacturing business but recently they've diversified into higher-margin services such as property management and e-business Internet initiatives. In1999, almost 75 percent of their business was in services.[161] In addition, the company is completely free of debt.[162] Semco has also created an organization that is able to transform itself continuously from the inside out without having to engage in drafting formal strategic plans and top-down directives.[163] Comments Semler, "At Semco, we have little control, less organization and virtually no discipline. Does it make me feel that I have given up power and governance? You bet it does. But I probably sleep better at night than the manufacturer who runs his business with an iron hand and whose employees leave their trouble in his lap every night."[164]

Today, Ricardo Semler is an internationally famous advocate for a school of management that believes people and companies perform best when they are free.[165] Semler has also twice been named Brazil's Business Leader of the year in 1990 and 1992.[166] Nearly 2,000 executives have made the pilgrimage to Sao Paulo to see how the company operates.[167]

"I don't know what would have happened if I had kept on managing the company in the old way," confesses Semler. "Perhaps we would have been just as successful. Perhaps I would be dead. I just know that this way of working is exciting and rewarding. I can't ask for anything more."[168]

The practices below show how Semco puts the principles of democracy into operation in its unique manufacturing environment.

Vision and Purpose

Semco believes that an articulation of a company's vision or values, as it is or wants to be, can be found in the moment you look at it – as well as in the next moment and the next rather than having a formal statement. In other words, you know the purpose and vision of the company by its actions. Semco believes having a written vision or purpose statement is too static, almost like taking a snapshot of one possible direction and then trying to hold the company to it.[169] Snapshots, according to the people at Semco, are static devices that don't reflect the ever-changing environment of an organization. According to Semler, "Semco has no corporate credo, for example, and no mission statement . . . No one can impose corporate consciousness from above. It moves and shifts with every day and every worker. Like planning, vision at its best is dynamic and dispersed."[170]

Although there is no formal written statement, there is a visionary ethos that acts as true north for Semco – *discipline*. Although it's not framed in one neat sentence that hangs in the front offices at Semco's headquarters in Sao Paulo, it's clear that the vision of this company is to have discipline in all they do, relying on their own community marketplace of jobs and responsibilities to achieve on-time performance and delivery of high-quality products.[171] Perhaps at Semco it doesn't matter what you do and what you make as long as a spirit of discipline in your performance and deliverables guides you.

Dialogue and Listening

Practice: Open Meetings to Promote Dialogue

One way Semco promotes on-going dialogue is by having its meetings open to anyone who wants to join in.[172] The meetings are not monologues by a few talking-heads. Instead, they're interactive, exploratory dialogue sessions designed to help employees understand an issue or a project better so more effective actions can ensue. Anyone can call a meeting for dialogue and conversation about an idea at any time. The person or people who know the most about the subject being discussed chairs the meeting, rather than the person who has a higher declared rank or income within the organization.[173]

There's a natural self-selection process that occurs when meetings are open. Those who have a vested interest and something to contribute attend and talk with each other. People who really don't care or have nothing to contribute don't come to the meeting. And since everyone at Semco is busy doing their own thing, employees don't have to worry about people coming to a meeting just to meddle in another team's business. Open meetings allow for dialogue and idea exchanges among everyone at Semco, with no unnecessary barriers.

Participation and Collaboration

Practice: Partner Promiscuously

Semco has discovered that collaboration, though partnerships, is one of the best ways to explore and launch a new business idea. "[I]t's pure arrogance to assume you can do everything on your own," comments Semler. "I'm proud to say that we partner promiscuously at Semco."[174] Almost every new business they start begins with an alliance, a mutually beneficial arrangement that gives them access to software, draws on the experience and wisdom of the other organization, brings in new capabilities and shares risk. Semco believes the art of collaborating provides a foundation for experimentation and expansion.[175]

Practice: Vote for Your Boss and on Major Decisions

Can you imagine the revolution in corporations around the world if employees were actually allowed to elect their bosses? At Semco, the transition to a democratic structure has resulted in, at times, a radical power shift. Today, bosses at Semco are elected by employees and then evaluated (explored more under the principles of evaluation and reflection section). Bosses who don't perform well can and are elected "out of office."[176] Semler confides that it takes guts for managers to open themselves up for a bad evaluation, and the possibility of losing their position as a manager. "It took a lot of courage for managers to face the risk of getting a poor evaluation from their staff."[177] The opportunity for employees to participate in the company by electing their bosses is just another way that Semco reinforces a message of treating their people like adults, capable of choosing the people they

need to work with to get a job done well. "The interesting thing is that, when given the chance to decide, employees make decisions that are as good or better than those of management," believes Semler. "They judge their bosses fairly, and they know what is needed to make the company run."[178]

Employees are also asked to vote on major decisions that affect the entire company. For example, in the early 1990s when they wanted to relocate a plant, Semco closed down operations for a day and loaded everyone into a bus to check out three possible sites.[179] The employees ended up choosing a site that management didn't think was best, but because they wanted it, management went with it. In the end, they were all happy with the decision.[180] Commenting on the experience, Semler said, "We accepted the employees' decision because we believe that in the long run, letting people participate in the decisions that affect their lives will have a positive effect on employee motivation and morale."[181]

Practice: Don't Settle Down
One of the principles that guide employee relations at Semco is that of participation. The company freely admits that it operates based on everyone's participation and involvement. They encourage employees to share their opinions, seek opportunities for advancement and always say what they believe. Semco's mantra is -- don't be passive; say what you think; don't just be one more person in the company.[182] Semler believes, "It's time to really involve employees. The era of using people as production tools is coming to an end. Participation is infinitely more complex to practice than conventional corporate unilaterism, just as democracy is much more cumbersome than dictatorship. But there will be few companies that can afford to ignore either of them."[183]

Practice: All Work is Teamwork
At its core, Semco is a manufacturing company, but you won't find a traditional assembly line there. Instead, when Semco democratized it decided to organize employees into ad-hoc teams so they could collaborate on a project from start to finish. Desks and work stations are arranged in informal ways, often looking messy and unorganized although it's anything but that. There are no formal departments; instead, everyone is in a team for the duration of time it takes to assemble completed products or until a new team is formed.[184]

Equality

Practice: Don't be a Nanny

Most organizations function on the premise of inequality, often played out in power structures that are, by design, paternalistic rather than peer-to-peer. Semco, however, refuses to be a nanny. Selmer believes that most companies, "suffer from boarding-school syndrome."[185] He believes that most employers treat their employees like children, telling them where to be, what to do, at what time to complete a task, who they should talk to and so on. Semler explains, "[I]f you treat people like immature wards of the state, that's exactly how they'll behave. They'll never think for themselves or try new things or take chances. They'll just do what they're told, and they probably won't do it with much spirit."[186]

So instead of a parent-child relationship, Semco treats it's people like equals. This translates into action in several ways: no set work hours, no assigned offices or desks, no dress codes. Semco treats people like adults and expects them to act like adults.[187]

Practice: No Perks Based on Rank

The transition was hard. In fact, it took about ten years. But finally, managers at Semco, accustomed to their privileged parking spots, gave them up in an effort to be more in alignment with changing culture of Semco.[188] Other perks have been transitioned out as well, such as the executive dining room.

Practice: Free Your Secretary

At Semco there are no secretaries or receptionists. Those positions have been abolished and the people in those positions given more rewarding jobs and the opportunity to progress.[189] Now, everyone does their own copying, faxing, travel plans and other clerical duties.

Empowerment

Practice: You Decide

Many companies are asking how to empower employees most effectively. Semler comments on the relationship between decision-making, change and empowerment:

> How do you get a sizable organization to change without telling it -- or even asking it -- to change? It's actually easy -- but only if you're willing to give up control. People, I've found, will act in their best interests, and by extension in their organizations' best interests, if they're given complete freedom. It's only when you rein them in, when you tell them what to do and how to think, that they become inflexible, bureaucratic, and stagnant. Forcing change is the surest way to frustrate change.[190]

It sounds basic, but so many companies spend their time telling people how to behave that employees are not free to do what they truly need to do to get a job done well. At Semco, the practice of empowering people is as simple as letting them make decisions about what impacts their experience within the company. Here's some examples of how they do this:

> Employees decide when to take holidays and how much vacation they need.[191]
> Employees spend whatever money they think necessary on business trips.[192]
> Employees set their own hours and productivity targets.[193]

Ultimately, what Semco cares about is *performance*. "An employee who spends two days a week at the beach but still produces real value for customers and coworkers is a better employee than one who works ten-hour days but creates little value," explains Semler.[194]

Practice: Extreme Common Sense

Semco's ominous volumes, which in the past dictated employee policy, have now been reduced to a 20-page book called a "Survival Manual."[195] This booklet, filled mostly with cartoons, contains no policies but rather one overarching rule of thumb – use common sense. "[T]he policy is that there should be very few policies at all," Semler says.[196] He explains that what they practice is "extreme" common sense – extreme because they actually do it.[197] Instead of employees spending time pouring over manuals telling them how to behave, Semco's approach of using common sense creates a practice of empowerment that is refreshingly simple. Semler explains in a *Harvard Business Review* article a short time after taking the helm as CEO, "Common sense is a riskier tactic because it requires personal responsibility."[198]

Ownership

Practice: Profit-Sharing and Stock

They have it at Semco too, the option for all employees to take part in profit sharing and stock options.[199] Employees enjoy a profit-sharing program in which they share about 25 percent of total company profit. And since Semler took over Semco, in the period from 1980 to 1994 for example, profits increased fivefold and productivity sevenfold.[200] Comments Semler, "[T]hough there is a widespread view that profit sharing is some kind of socialist infection, it seems to me that few motivational tools are more capitalist."[201]

Accountability

Practice: Get Rehired Every Six Months

It's got to be one of the ultimate measures used to hold people accountable and responsible for their actions – having to get rehired every six months. But at Semco, that's how it works. Every six months, employees and managers alike are asked to justify their existence *to each other* and prove that they should remain on the payroll. Those who don't come up to par are moved sideways, downwards or out of the organization.[202] But rather than being confrontational, the practice is a tool that encourages employees to add value by continually learning, innovating and contributing. And if employees aren't handling their responsibilities and being accountable to what's expected of them by the team, they're asked to leave. The opportunity to get rehired based on performance every six months also provides unique opportunities to increase levels of compensation or change *how* an employee's paid, depending on the project. In effect, the practice allows each employee to take responsibility for their own destiny, rather than in other companies where people often feel like a victim of the system.[203]

Practice: Spread Out Responsibility

Semco uses practices such as profit sharing, job rotation, satellite business units and bi-annual evaluations to spread out responsibility among everyone. Ultimately, Semco believes that responsibility belongs to the person who claims it.[204]

Individual and Collective

Practice: Know How You Make a Difference

One of the most fascinating results of the organizational design of Semco is that is allows each person to know how they individually contribute to making the entire organization operate. Because the atmosphere is open and participatory, with immediate feedback on performance and productivity, employees know that they are invaluable to achieving the company's collective goals.[205] Semler comments, "Everybody knows what they are doing here, why they are here and how they are contributing to the final result."[206]

Practice: Unions

One has to question how necessary unions are in a democratic company, but at Semco employees are free to unionize. The one thing Semco will not tolerate is the persecution of those in unions. There have been a few strikes at Semco over its history, but all strikes have been settled without violence and in a relatively short period of time.[207]

Practice: Sabbaticals

Semco believes in promoting each employee's individual growth and learning process. To that end, employees can take what Semler calls a "hepatitis leave," or

sabbatical, to recharge. He calls it a "hepatitis leave" because he wants employees to "do what you would do if you had hepatitis and couldn't come to work for a month or so." The sabbatical is a time when employees can take as long as a few weeks to a few months off every year or two from their usual duties to read books, learn new skills or even redesign their jobs.[208]

Transparency and the Free Flow of Ideas

Practice: Open Books and Compensation Information

Absolutely everyone within the organization – from the janitors to the top managers, have access to the company's books. They keep only one set of books and they're open for inspection and auditing by employees and their unions.[209] Beyond just having open books, Semco actually has classes to teach employees how to read and interpret the balance sheet, a key skill in an organization where employees are empowered to create their own budgets.[210]

Each month, employees receive a balance sheet, a cash-flow statement and a profit-and-loss statement for his or her division. The total report contains about 70 lines of information, more, Semler admits, then they even use to run the company (but they don't want employees to think they're holding back information!).[211]

When Semco first started sharing financial information, several of the executives were alarmed, afraid that employees would want to know how much the executives were paid. Eventually, they did ask, and this gradually led to a practice of making transparent what everyone is paid. Semler believes that if people are embarrassed by their salaries then it probably means they aren't really earning them. Confidential systems, he believes, are for people who can't look in the mirror and say, "I deserve what I get."[212]

"In short, we try to undercut and so eliminate the process of filtering and negotiating information that goes on in so many corporations," says Semler.[213]

Justice

Practice: Don't Punish All for Actions of a Few

At most companies if someone fails to do something or takes advantage of the company in some way, a new policy is passed and everyone is restricted, or even punished, for the actions of one or two people. This approach is far from fair – or even just. It's easy to think at a company like Semco, where everyone is basically free to do as they please, that the company would be taken advantage of from time to time. And Semler confesses some employees do take advantage of their freedoms. But instead of punishing everyone for the actions of a few, they deal with the actions individually.[214] Explains Semler, "We've had a few employees take wholesale advantage of our open stockrooms and trusting atmosphere, but we were

lucky enough to find and prosecute them without putting in place a lot of insulting watchdog procedures for the nine out of ten who are honest."[215]

At Semco, they believe their employees are responsible adults and never assume they will take advantage of the company and it's lack of rules. Functioning under the assumption they can trust their employees allows the company to act justly in situations that deviate from the norm.

Innovation

Practice: The Nucleus of Technological Innovation (NTI)

Back in the mid-1980s, three Semco engineers proposed a new idea to spur innovation and entrepreneurship. They wanted to take people who were familiar with the Semco culture and it's products and created a space where their only responsibilities were to invent new products, improve old ones, uncover inefficiencies, refine marketing strategies, and dream up the next big idea. They'd set the agenda and change their minds when they wanted. However, they would also report twice a year to senior management on their work. At that point, senior management would decide if they wanted to keep the group going or not.[216]

Not surprisingly, the three people who initially proposed the idea were the first to staff the Nucleus of Technological Innovation (NTI) and were willing to take a sharp cut in salary with the expectation that they would make up for it by sharing in the royalties from their inventions, innovations and improvements. Semco would cushion them from disaster and give them the support of a well-established and well-equipped manufacturing organization.[217]

Within six months, NTI had 18 projects underway and within the next few years had so many inventions and refinements in production that not only were they individually prospering but Semco couldn't imagine not being able to tap into their skills of constant innovation and reform.[218]

By 1990, Semco began to feel like it wanted to NTI the entire company. This desire eventually gave way to the satellite business units (described under the principles of decentralization and distribution of power).

Practice: Experiment Wildly

How widly? How about stepping outside what's generally considered an area of expertise to take advantage of a potentially profitable opportunity? That's exactly what they do at Semco, and it's this kind of experimentation that contributes to the company's steady growth and motivated work force. Comments Semler, "As companies around the world desperately look for ways to free the talent in each person and spur idea flow, [we] use freedom to accomplish the goal."[219]

Here's an example of how Semco's willingness to try radical ideas without preconceived views created a huge moneymaker:

Back in 1990 one of the things they did was manufacture cooling towers for large commercial buildings. After Semco's employees heard repeatedly from customers about the high costs of maintaining the towers, they proposed an out-of-the-box idea – getting into the business of managing cooling-tower maintenance.   Financially, they reasoned, they'd charge the customer 20 percent of whatever savings they generated for them and give Semco 80 percent of the revenues. The remaining 20 percent would go to them. They gave it a shot and it was a success.

But there's more. As customers became more and more happy with the new maintenance services, they requested maintenance of other properties as well. Semco employees then decided to call Rockefeller Group's Cushman & Wakefield division, one of the largest real estate and property management companies in the US, and propose a joint venture in Brazil. The Cushman people said no, real estate was more lucrative. Semco people weren't as enthusiastic about real estate; they saw the demand in property management. Reluctantly, Cushman agreed. Semco anted up an initial investment of $2,000, just enough to pay the lawyers and set up a charter and then turned their people loose to take their ideas and make the business happen. Five years later, the joint venture was a $30 million business and the most profitable property-management business within Cushman & Wakefield.[220]

Semler explains, "The reason it has been so successful is that our people came into it fresh, with no preconceived strategies, and they were willing to experiment wildly."[221] Most companies would do a lot of soul-searching before making such a drastic change. They'd put together spreadsheets and run numbers, hold strategy meetings and do a lot of planning and forecasting. But at Semco they don't do any of that. They encourage people to follow their instincts and use common sense.[222]

Practice: Make it as Easy as Possible to Put Ideas Into Action

Bureaucratic systems and complicated review processes are one of the best ways to kill individual initiative. Semco strives to make it as easy as possible for employees to suggest new ideas and then receive fast and clear decisions. They also make all decisions open to everyone. An executive board, comprised of representatives from all major business units, reviews all proposals. All employees are welcome to attend the review process. In fact, there are always two seats on the board reserved for the first two employees who arrive at the meeting. Proposals must meet two main criteria before they are approved:[223]

> 1. The business idea must be a premium provider of its product or service and,
> 2. The product or service has to be complex, requiring engineering skills and presenting high barriers to entry.

If a proposal meets the criteria it gets launched within Semco. If a proposal fails to meet the criteria but is backed by a minority investor Semco will often still back it.[224] The entire process encourages and promotes new idea generation through fast turn-around and open and collaborative decision-making.

Practice: Thinkodrome

In each plant at Semco, there's a large room full of desks and computers where everyone in the company can come and have a space to be creative, gather for brainstorming sessions, ask questions and solve problems. It's a quiet, but active place. Semco believes they survive in large part due to places like Thinkodrome where employees can gather and look at everything the organization is doing and how it can do it better, faster or cheaper. The Thinkodrome not only encourages inventive conversations to occur, it also provides the space to do it in.[225]

Absence of Tyranny

Practice: Avoid Defining Your Business Identity

Contrary to conventional business wisdom, Semco refuses to define what business it's in. They reason that by outlining what the company is dedicated to can obscure possible opportunities beyond the scope of a defined corporate identity. Classification can result in limited, narrow thinking, a form of tyranny that suppresses creativity. [226] Semler explains, "I own a $160 million South American company named Semco, and I have no idea what business it's in. I know what Semco does -- we make things, we provide services, we host Internet communities -- but I don't know what Semco is. Nor do I want to know. For the 20 years I've been with the company, I've steadfastly resisted any attempt to define its business. The reason is simple: once you say what business you're in, you put your employees into a mental straitjacket. You place boundaries around their thinking and, worst of all, you hand them a ready-made excuse for ignoring new opportunities: "We're not in that

business." So rather than dictate Semco's identity from on high, I've let our employees shape it through their individual efforts, interests, and initiatives. "[227]

Practice: Forget About the Top Line

The myth that growth equals success is another form of tyranny that dictates directives to corporations around the globe. But Semco believes that the ultimate measure of success is how *long* a business survives -- not how big it gets. To that end, they've decided to not set revenue targets; instead, they allow each one of their businesses to find their natural size – the size that it can maintain profitably and still keep customers happy -- rather than being modeled into a form that's far from optimal. Semco reasons that it's just fine if the top line stays the same or even shrinks as long as the bottom line remains healthy. Rather than continuing to push the top line higher beyond its natural size, Semco encourages employees to branch out and start new businesses rather than building up.[228]

Practice: Job Security

Although there's a process most employees must go through every six months to reapply for their job (explored under the principles of evaluation and reflection), anyone who has been with Semco for at least three years or has reached the age of 50 has special protection and can only be let go after a long series of approvals. Semco does have a layoff policy, but it helps to increase the feeling of security among employees to have this option. And any person who has the possibility of being laid off has the choice to try another position before they are completely let go.[229]

Practice: CEO's View Doesn't Reign Supreme

In most organizations, the CEO's perspective or recommendations are what goes. Not so at Semco. One of the things Semler, who is the majority owner of the company, prides himself on is that most of the business ideas at Semco are not his. In many ways, he hardly "runs" the company at all. He has no formal office (a huge difference from most CEO's with a grand corner office) and works mostly from home. From time to time he'll lobby for an idea, but management decisions are taken to a "committee of counselors" where his ideas are often vetoed. (There's another committee that handles decisions on the shop floor level.) For example, he once wanted to take the *Financial Times* on a factory tour but the committee wouldn't let him, having stopped all press visits a couple years prior so that employees could focus on their work better.[230]

Practice: Choose Your Own Title

When someone is recruited to join Semco they're given a blank card on which to write their own job title. Many, however, opt for no title at all. In an organization that is more flat then hierarchical and operates on informality, job titles simply get in the way and can cause confusion. However, if someone wants to choose a job title they can. One operating manager decided to give himself the title, "Royal Pharaoh in Charge of Operations."[231]

Practice: Six CEOs

Rather then having one traditional CEO and a group of VP's, Semco has six "counselors" who rotate the CEO chair every six months.[232] The results are cutting edge performance and unique product ideas.

They also have six-month budgeting cycles that are opposite the CEO cycles. The budget cycles are January to June and July to December, but the CEO cycles begin in March and September.[233] In this way they avoid one of the most common forms of tyranny in corporations – nailing financial responsibility to a single person. Explains Semler, "Our CEOs don't wear themselves out trying to meet quarterly financial goals, and there's no one person to blame if the company goes down the drain. When financial performance is one person's problem, then everyone else can relax. In our system, no one can relax. You get to pass on the baton, but it comes back again two-and-a-half years later."[234]

Diversity

Practice: Job Rotation

Semco practically insists that everyone rotates jobs every two to five years to prevent boredom and to give people a different perspective on various aspects of the company.[235] The change encourages people to learn new skills, keeping work interesting and employees more valuable to the organization. It also spreads around diverse personalities and perspectives, techniques and backgrounds, ultimately injecting new ideas and vision throughout the organization. Job rotation also discourages empire building and gives people a different perspective on various dimensions of the company. [236]

Practice: Let Tribes Exist

Semler believes that we've always lived in tribes, whether they're ethnic, religious, vocational or political, and these tribes have always served as anchors. Therefore, we must design organizations in such a way that allows tribes to co-exist rather than trying to fully integrate everyone into some unattainable ideal of harmony.[237] Semler explains the need for diversity: "Up until now, it has been easy enough for the First World to keep its distance from the Third World and view the southern hemisphere as very far away. But technology is drawing everyone and everyplace close."[238] Diversity, believes Semler, creates a competitive advantage and allows companies to survive in modern times. "By all means, establish and promote a common goal, but recognize diversity and let people determine their own ways of achieving it."[239]

Choice

Practice: The Lost in Space Program

Imagine actually having the opportunity to choose your job within a company. That's exactly what they do at Semco, allowing people to decide where in the organization they'll work, what they'll do and, eventually in a team, decide who their leaders will be. The Lost In Space program, as it's aptly named, is for all entry-level new hires. While in the program, they spend six months to a year literally floating around the company. They check out businesses with the company, meet with people and try out jobs. A "godfather" looks after them. After they try out at least 12 different areas or units and find a place they believe fits with their goals and personality, that's where they can choose to stay.[240] Apparently, the systems is working well, since turnover is less than one percent, despite the fact that Semco is targeted heavily by headhunters.[241]

Practice: Choose How You Want to Be Paid

In most companies, people are paid one way only – with a salary. Some lucky individuals may also have stock options, and the very fortunate may be paid through a profit-sharing arrangement. But at Semco, employees are given the choice of *eleven* different ways to be paid, including:[242]

1. A fixed salary
2. Bonuses
3. Profit-sharing
4. Commission
5. Royalties on sales
6. Royalties on profits
7. Commission on gross margin
8. Stock or stock options
9. IPO/sale warrants that an executive cashes in when a business unit goes public or is sold
10. Self-set annual review/compensation in which an executive is paid for meeting self-set goals
11. Commission on difference between actual and three-year-value of company

Asks Selmer, ""Why debate salary? We all want to make as much as possible."[243] Employees are provided with the information they need to figure out their own pay, such as what the market currently pays, how much their colleagues earn inside the company and what the company is making. When deciding pay rates, everyone knows that in six months a department may decide it no longer wants to buy their work if their services are priced too high.[244]

Employees then choose from the above options in different ways with many different combinations possible. "We've found that by being flexible about rewards, we encourage our employees to innovate and take risks," comments Semler. "In the end, people understand it's in their best interest to choose compensation packages that maximize both their own pay and the company's returns."[245]

Spirituality and Love

Practice: Happy About Monday Morning

A common theme among the selected companies practicing spirituality is how they deliberately try to ensure their employees are doing work that engages both their heart and their head by doing work that has impact beyond the bottom line. Semler explains how meaning contributes to motivation: "People go to work because they are looking to do something with their life. I have never met anyone who goes to work for the money. In the same way I have never met any businessman who is in business to make money."[246] He continues, "Everything else - quality, profit growth - will fall into place if enough people are interested in coming to work on Monday morning."[247]

Decentralization and Distribution of Power

Practice: Satellite Business Program

This democratic practice, like others discussed in the Semco model, was born out of sheer desperation. In 1990, when the Brazilian economy took a turn towards chaos, traditional means of cutting expenses was not enough. Semco employees had already taken a voluntary cut in their salary and they realized that the only solution was to cut permanent staff and contract out more work. But instead of contracting work to strangers, Semco gave the contracts to its own workers, complete with generous severance and an offer to lease Semco's equipment, on or off site, and defer lease payments for two years.[248] The satellite program, as it came to be known, was painful to transition to at first, with more then half of the then 500 employees spinning off. However, to date, there are about 50 satellite companies and only one satellite has ever failed.[249]

Spinning off more satellites, instead of growing the organization taller, is now a normal occurrence at Semco. The satellite businesses are units comprised of no more then 10 people.[250] Semco supports these entrepreneurial ventures by allowing everyone in a satellite program to use Semco's machinery and factories.[251] In fact, two-thirds of the people who work on the company's premises are self-employed or work on contract for another company, but they're allowed to use Semco's equipment and phones just the same.[252] Their payment from Semco takes on a variety of forms, such as royalties, commissions, contract payment, profit sharing – whatever both the individual and the company can live with.[253]

The advantages to this method of distributing power and remaining as flat as possible are reflected in the financial success of the organization. The satellite program allows Semco to cut inventory costs (by spreading out raw materials and spare parts among new suppliers), cut payroll and take advantage of subcontracting with people who already know Semco and its customers. Plus, Semco benefits from their entrepreneurial motivation.[254] Semler explains, "[The satellite businesses] have obvious advantages for Semco. We have reduced our payroll and cut costs, yet enjoy the advantage of subcontractors who know our business and the idiosyncrasies of our company and our customers."[255]

"Perhaps employees might have done better as completely independent entrepreneurs, but as members of the satellite program," Semler comments, "Semco cushions them against disaster and gives them the support of an established and well-equipped [plant]."[256]

What are the results of all this decentralization at Semco? Doesn't there need to be some sense of control and centralization in order to get the complex projects Semco's employees take on done on time and with high-quality? Semler offers an example of just how effective the satellite programs are, "We delivered our last cookie factory with all its 16,000 components right on time. One of our competitors, a company with tight controls and hierarchies, delivered a similar factory to the same client a year and two months late."[257]

Practice: Bureaucratic Striptease

When Selmer took over Semco from his father in 1980, its pyramid structure had twelve layers of management. According to Semler, "Structure creates hierarchy, and hierarchy creates constraint. We have not utterly abandoned all control, but the old pyramidal hierarchy is simply unable to make leaps of insight, technology, and innovation. Within their own industries, pyramidal hierarchies can generate only incremental change."[258] Gradually, Semco was reconfigured into a series of three concentric circles.[259] The three circles have just four titles – counselors, partners, associates and coordinators.[260] The "Counselor" level includes Semler and handles general strategies and policies. The "Partners," a slightly larger circle, includes Semco's seven business units. "Associates" and "Coordinators" comprise everyone else, with all kinds of triangular configurations among the circles.[261]

Reflection and Evaluation

Practice: Every Six Months Shut Down and Evaluate

Every six months everything stops at Semco in order for everyone to go through a rigorous budgeting and planning process, reevaluating each business unit to see if it should continue. The main question they ask is, "If this business didn't exist today, would we launch it?" If the answer is no, they quickly move their talent, money and resources elsewhere.[262]

They also use the evaluation period to take a fresh look at the organization as a whole, requiring everyone from the top leaders to the line employees to resign (in theory) and be rehired. All managers are evaluated anonymously and all ratings are posted publicly.[263] Every employee also receives a questionnaire to fill out about what they think about their boss.[264] Characteristics are graded on a score from zero to 100. [265] Semco encourages people to be frank and honest, not just on the form, but also in the discussions that follow the written evaluation process.

Employees are also questioned about company credibility including asking what would make them want to go on strike or to quit.[266] The questionnaire is called, "What Does the Company Think?" and its results are published for everyone to see.

Conclusion

Semco is a remarkable model of how a company can completely transform itself from an authoritarian, command and control company to a democratic one, and the financial success that can ensue. And Semco is also a model of how organizational democracy is applicable in a manufacturing environment. Comments Semler, "If my 20 years at Semco have taught me anything, it's that successful businesses do not have to fit into one tight little mold. You can build a great company without fixed plans. You can have an efficient organization without rules and controls. You can be unbuttoned and creative without sacrificing profit. You can lead without wielding power. All it takes is faith in people."[267]

Democratic Lessons

The essence of a democratic company comes in the translation process of the core democratic principles into practices. The principles are woven into the very fabric of the organization at every level, stimulating progress and guiding strategies, management procedures, tactics, job design, building layouts and interactions with customers. A commitment to creating a democratic environment can ultimately compel an organization to reach beyond the corporate boundary to influence its surrounding community. A democratic company creates a total environment that envelops employees, sending reinforcing and consistent messages so clear that it's virtually impossible to misunderstand the company's culture and ambitions.

There are ten key lessons that emerged from my study of these companies, lessons that support the alignment of the entire organization around shared democratic principles. They're lessons for any CEO, manager, entrepreneur or consultant interested in building a democratic company.

Lesson One: Don't Manage People
Rarely in all my research did the selected companies discuss how to manage their people better or how to become better at micro-managing. Instead, management was considered a verb, something you did to resources, not to people. Instead, the focus was on leadership and leading people to discover their own greatness and potential.

Lesson Two: Choose to Grow Slowly
Despite the potential and opportunity to grow fast, all of these companies were extremely conservative about how they developed and expanded. In an era where success is measured by how fast a company shoots to the top, these four companies chose instead to make slower, more deliberate moves, ensuring that each person and each part of the organization was keeping up.

Lesson Three: Treat People Like Adults
It's been mentioned throughout the paper in various ways that much of what democracy is about is the Golden Rule and treating people like capable, trustworthy, intelligent human beings. These companies never lost sight of their humanity in the midst of their prosperity and achievement. The companies all treated their employees like responsible adults and expected them to behave like adults – and they did!

Lesson Four: Give People a Reason To Care
All four companies all gave their employees a reason to care, whether in the form of a financial incentive (like profit sharing), or a spiritual incentive, like doing meaningful work that engages their minds, talents and heart.

Lesson Five: A Shared Vision and Purpose is the Glue
A shared vision that was widely, clearly and repeatedly shared throughout the entire organization acted like the hub which kept all the different parts of the organization connected and acting in alignment.

Lesson Six: All Work is Teamwork
In each of these companies there was a huge emphasis on teamwork, whether an employee was actually working in a formal team or working independently. Even employees who worked on more independent projects understood how, why and to what degree their work benefited the entire organizational team.

Lesson Seven: Openness Opens the Way
All of these companies were extremely open with their employees about information, especially financial information. They reasoned that the more people knew the less they would speculate and the more information they'd have to make intelligent and insightful decisions.

Lesson Eight: Keep Learning
Each company promoted learning and training for everyone. I frequently read about how the senior leadership team was comprised of ferocious learners, reading everything they could from a diversity of disciplines.

Lesson Nine: Small Is Beautiful
Although everything about these companies — from their vision to their revenues — is big, there was an acute awareness that smallness, expressed in a familial atmosphere, smaller divisions, and a sense of informality, was the vital balance to growing an unwanted 'bigness' attitude.

Lesson Ten: Fear is the Worse Tyrant of All
These companies all fought against the tyranny of fear, the tyranny of ego, the tyranny of misinformation, the tyranny of job insecurity and the tyranny of unfulfilling work. They worked hard to make sure people weren't afraid when they came into and left work each day.

Outcomes of a Democratic Corporate Culture

What can CEOs and managers expect as a result of a more democratic culture and organizational design? According to my research, some of the projected results could be the following:

> Increases in productivity, profitability, sales and efficiency.
> Improvements in customer service.
> An increased ability to attract and retain top talent.
> Decreases in turnover.
> Increasing levels of trust and communication.
> Increasing flexibility and ability to adapt to both external and internal changes.
> A heightened awareness of a company's surrounding community and opportunities for civic engagement.

Even one of these results should be enough to impel an executive to consider the positive and financially rewarding results of introducing democracy to the workplace.

Leading Democratic Companies

Leading a democratic company and leading it democratically takes consecrated effort, focus and desire. The CEOs of the four selected companies all had a unique understanding that the culture they were developing had to outlast their tenure if the company was to survive. They understood that leading democratic companies is about creating environments that cultivate and encourage the leadership potential in each employee.

When asked if the corporate culture of his company would live on after he retired, Southwest Airlines' then-CEO, Herb Kelleher, responded that the airline's success wasn't simply because of him.[268] Semco's CEO felt similarly. Comments Ricardo Semler, "The main goal I have is to see [Semco] consolidated and apart from myself, with its own work culture. If this were all connected to me, it would be a tremendous failure after all." [269] These leaders understood the role they played in leading and creating democratic cultures, but they also figured out how to build democracy at all levels of the organization so the culture wasn't dependant on their personality alone.

The CEOs also knew how to check their ego at the door. They didn't think they were better than anyone else in the organization, and their actions corresponded with this philosophy. For example, Jim Goodnight of SAS doesn't think he's anything special, reflected in the way he lives his life humbly, without extravagance. He drives his own car and pumps his own gas, enjoys going to the grocery store and says he'd rather save then spend his money.[270]

Leading democratic companies takes a certain set of characteristics, a blend of both masculine and feminine qualities. In the December 2001 special leadership issue of the *Harvard Business Review*, Semler summarizes the style of leadership needed for democratic companies to prosper:

> The person who taught me the most about leadership was Lewis Carroll. He wrote, "If you don't know where you're going, any road will take you there." This phrase is usually interpreted as a mockery of people who are confused or lack a sense of direction, but I always saw it as positive and illuminating – an assertion of a feminine, intuitive intelligence. Managers overrate knowing where they are going, understanding what business they are in, defining their mission. It is a macho, militaristic and self-misleading posture. Giving up control in exchange for freedom, creativity, and inspired adaptation is my preference, and Carroll made this apparent to me.
>
> Bad leadership is personified to me by the Pope, Fidel Castro, Bill Gates and Lee Iacocca, all wonderful figures, brilliant strategists, and historic giants. They created enormous value and transformed the entities they led into some of the most important symbols of our age. But because they couldn't rise above their egos, they failed to create organizations that could flourish in spite of them, not because of them.

Applying the principles of democracy to any company is an evolutionary, reflective, collaborative process. Here are four basic lessons for any business leader wishing to stimulate democratic organization within their company:

1. **Quick – Give it a Try!** If the moment presents itself for a democratic response to a situation rather than an undemocratic one, seize the opportunity. One step towards democracy will ultimately compel the next.

2. **Accept That It's a Process – Mistakes Will Be Made**. Although there is a guiding system of principles, there's no one-size-fits-all formulaic approach to democracy building. And since you can't tell ahead of time what practice will prove favorable, you have to accept mistakes and failure as a part of the evolutionary process. Eventually though, the best practices for your organization will emerge.

3. **Take Small Steps.** Small steps at the beginning can lead to quantum leaps in the future. Just don't be afraid to start small and still expect results.

4. **Give People Room to Adjust to New levels of Accountability and Possibility.** Since many employees are more used to being told what and how to think, the processes of actually feeling empowered to take responsibility for their role within the organization can seem daunting at first. So be sure to give people the space and support they need to adjust to a new realm of democratic possibility.

Afterward

It's easy to conclude that all of these companies automatically knew how they wanted to practice organizational democracy. What's difficult to see in a paper that combines the practices succinctly is how each company's democratic practices evolved and continue to evolve and be refined over time. Semco presents an excellent example of twenty years of democratic evolution. Nothing happened overnight. Even the three other organizations, which began with a proclivity towards organizational democracy, continue to learn better and more effective ways of organizing democratically today.

My hope is to significantly reduce the amount of time it takes for companies to make a democratic transition by gathering creative practices and ideas and presenting them here. Perhaps then companies can democratize with a sense of grace and efficiency, learning from the examples of those companies who have gone before.

Ultimately, however, democracy is a way of thinking, a state of mind, before it ever becomes a framework for organizational design and culture. It is a community of individuals committed to a mind-set of inclusively, respect and equality, which then manifests as a democratic company.

As more and more companies embark on the process of democratically organizing, we cannot help but consider the impact it will have on the communities in which these organizations do business. As two-thirds of the world transitions to democracy, we must also ask how democratic companies can contribute to building a more just and democratic *world*.

About the Author

 Traci Fenton is the Founder and CEO of World Dynamics, Inc., a Washington, DC-based consulting studio pioneering the field of organizational democracy and democratic leadership. World Dynamics has developed the Principle-Based Democracy™ framework for building organizational democracy and complimentary tools such as The Democratic Scorecard™ and The Democratic Leadership Scorecard™.

Traci is currently working on her first book entitled, *The Democratic Company,* which summarizes over six years of research on the principles of democracy and their application to organizational environments. Dozens of business and global leaders have taken note of Traci's work, including *Fast Company* magazine, which has twice selected Traci into the second round of the annual *Fast 50*, the search for the "fastest 50 people and ideas."

Prior to her full-time capacity as CEO of World Dynamics, Traci was a social venture capitalist and co-director of the NASDAQ Stock Market's $40 million educational foundation and a social entrepreneurial consultant for a non-profit organization in the Midwest. She also worked in public relations and advertising for a Fortune 500 company. Traci has been selected on numerous occasions as an emerging leader and frequently addresses audiences around the world on organizational democracy and the art of democratic leadership.

Traci earned her BA in global studies and entrepreneurship from Principia College in Illinois. She earned a master's degree in international development from American University's School of International Service in Washington, D.C.

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