Interpreting the Success of Zappos.com, Four Seasons, and Nordstrom: Customer Centricity Is But One-Third of the Job

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Can organizations that are noted for outstanding customer service rely solely on their remarkable customer-centricity to achieve success? An analysis incorporating Internet-based surveys, traditional measures of customer satisfaction and financial performance, and an examination of the practices at three exceptionally successful customer-focused companies—Zappos.com, Four Seasons, and Nordstrom—shows that an emphasis on employee satisfaction and productivity also play key roles in organizational excellence. Management practices at these firms illustrate the validity of the Cube One framework, which posits that a combination of customer-, employee-, and productivity-directed practices drives organizational performance. © 2012 Wiley Periodicals, Inc.

In broad terms, successful organizations are need-satisfying places. They are able simultaneously to achieve the primary objectives of three sets of participants: customers, employees, and the sources of funding. Customers, of course, provide revenues and will continue to do so (remaining loyal to the enterprise) if they obtain products and services with desired features that are fairly priced. Employees, possessing the requisite knowledge and skills to convert inputs to outputs, will remain loyal to the enterprise if they believe that they are treated well in multiple respects. And the sources of funding (for example, investors, lenders, donors, and taxpayers) will continue their financial support, provided that the organization uses resources efficiently to ensure productivity.

All three are central to the Cube One framework, which focuses on examining practices that are enacted, rather than policies that are espoused, and is equally applicable to the nonprofit as well as the for-profit sectors (see **Exhibit 1**). As Tsoukas and Chia succinctly put it (emphasis in original), "Organizations do not simply work; they *are made* to work" (2002, p. 577).

The Cube One framework conceptualizes the three sets of practices as locatable in three-dimensional space so that an organization can be rated as being at a high, middle, or low level in each dimension. Organizations that enact high levels of customer-, employee-, and productivity-directed practices are classified in Cube One; organizations that are low with regard to enacting these three sets of practices are in Cube 27. Exhibit 1 provides a schematic of the Cube One framework. The rationale, or causal mechanism, accounting for the relationship between the Cube One framework and organizational performance is provided in **Exhibit 2** (page 22). In brief, the three sets of practices lead to employee satisfaction, customer satisfaction, and organizational efficiency, which are the three immediate antecedents of organizational performance.

Previously, three types of evidence have been examined with regard to assessing the validity and utility of the Cube One framework: survey data, market capitalization data, and in-depth case studies. One of two prior case studies examined managerial practices adopted at two Internet search companies,

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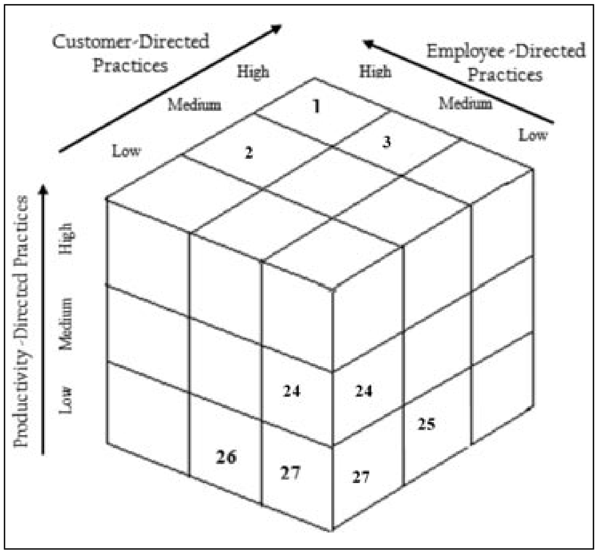
Exhibit 1. Schematic Representation of the Cube One Framework



Google and AltaVista. It found that the remarkable success at Google is not accidental; rather, it has been engineered via practices that are strongly supportive of customer satisfaction, employee satisfaction, and productivity (Kopelman & Chiou, 2010). Indeed, some of Google's practices, such as allowing employees to spend 20 percent of their work time on projects of their own choosing, have received considerable attention.

In the second detailed case study, the Cube One framework was used to interpret the extraordinary turnaround at Continental Airlines. The research showed that although the top executives who literally took the company from "worst in the airline industry to first" explained their achievements by invoking such ambiguous concepts as "flying to win," a more generalizable and parsimonious explanation could be provided by the Cube One framework (Kopelman & Chiou, 2011).

The present research examines practices employed by three exceptionally successful customer-centric companies: Zappos.com, Four Seasons, and Nordstrom, each being paired with appropriate comparison organizations. Indeed, all three focal companies have made customer service their strategic competitive advantage—their "brand," as it is often described. The main objective here, however, is to demonstrate that although the focal companies are indisputably dedicated to customer satisfaction, they also enact practices that highly promote employee satisfaction and productivity. In short, customer-centricity constitutes but one-third of their effort and reason for their success. This claim is supported in research by Basuki and Henderson (2003) on companies that were exceptionally dedicated to customer satisfaction as a general management philosophy but had below-average financial returns.

The case analyses of Zappos.com, Four Seasons, and Nordstrom that follow have the same format. After a brief history of the company, evidence of success is provided based on an examination of the financial results of the focal and comparison companies. Then customer-directed practices are reviewed, along with evidence of customer satisfaction using Internet-based customer satisfaction data as well as traditional independent data sources, such as American Customer Satisfaction Index ratings. Next, for each focal company, a sampling of employee-direct practices is reviewed, along with Internet-based evidence. Then, enterprise-directed productivity-enhancing practices are reviewed, along with evidence of the efficient use of resources.

Zappos.com: Focusing on the WOW Factor

The initial pitch that the aspiring online shoe entrepreneur made to potential investor Tony Hsieh in 1999 was underwhelming. Upon selling his initial start-up, Link Exchange, to Microsoft, Hsieh had cofounded Venture Frogs, a venture capital firm, to make first-round investments in start-ups. But he was quite skeptical about the prospects for an online shoe company: Who would want to purchase shoes

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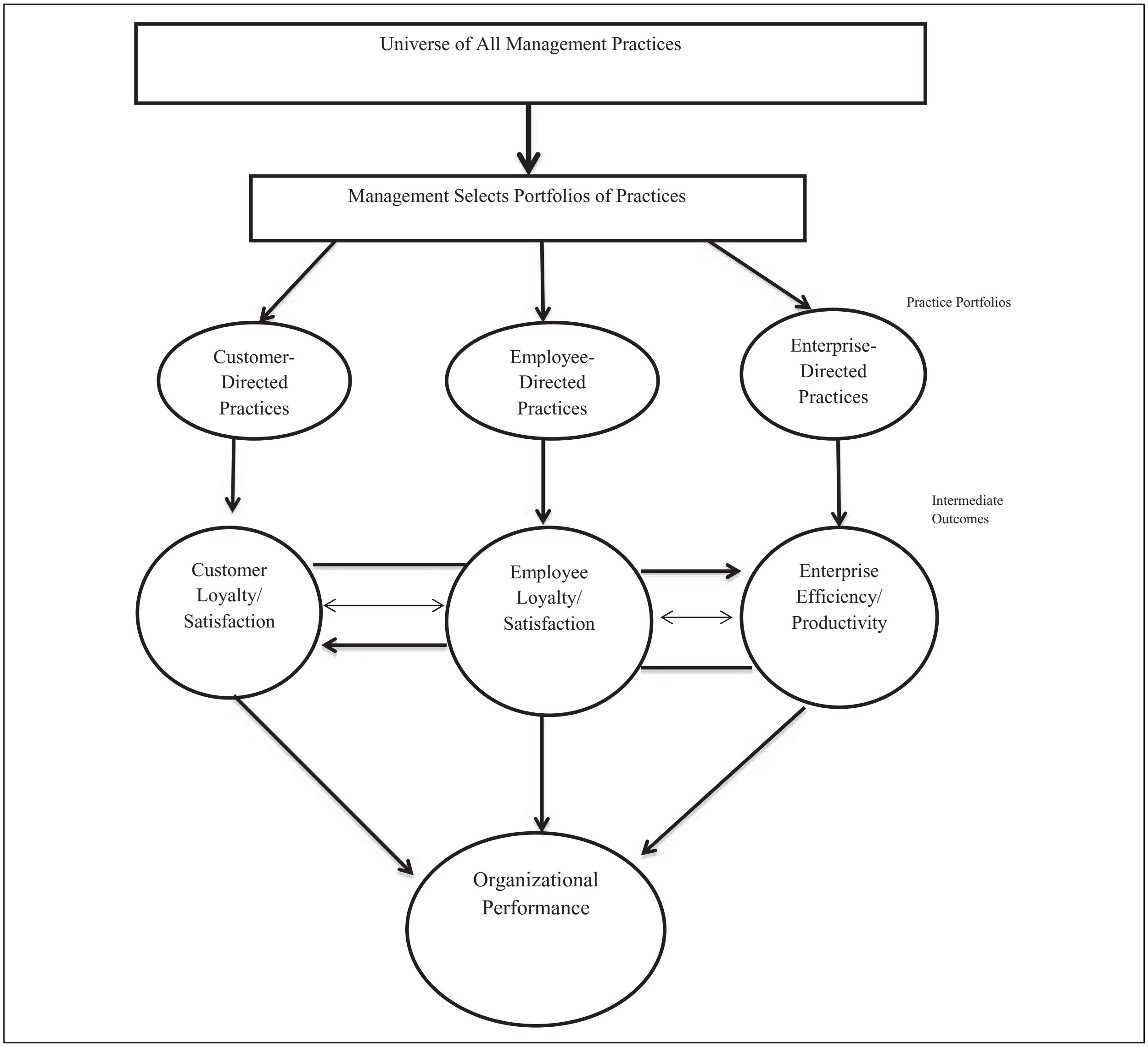
Exhibit 2. Mechanism for Cube One Framework: Practices and Organizational Performance



online without the opportunity to try them on? But the passion of Nick Swinmurn, the originator of the idea, was infectious, and soon Hsieh and his Venture Frogs investment fund were meeting with Swinmurn to explore the potential viability of an online shoe company. Venture Frogs became an angel investor, took a hands-off approach, and hoped that the start-up would attract the attention of larger investment companies.

But the initial investment that Angel Frogs made in the company (later named Zappos) did not pan out; there was no interest among large investment companies. Increasingly sharing Swinmurn's enthusiasm, Hsieh made additional investments, became hands-on regarding the daily functioning of the company, and took on the role of CEO in 2000. By 2002, he had invested almost all his personal assets in the firm (referred to from here on as Zappos).

Despite Hsieh's direct involvement, the company made some serious mistakes—most notably, outsourcing the order fulfillment function—and for several years was perilously close to extinction. Gradually, however, the company developed a viable strategy and gained loyal customers, enthusiastic employees, and positive cash flow.

Between 2000 and 2008, revenues at Zappos rose from $1.6 million to more than $1 billion, an annualized compounded rate of increase of approximately 125 percent. Zappos was sold to Amazon early in 2009 (after the stock market had collapsed), with the price at the transaction's closing of $1.2 billion. By comparison, in 2000, revenues at Shoebuy.com, another online shoe seller, were $1.8 million, and rose to approximately $90 million in 2006, when the company was purchased for $60 million. At Zappos, sales had topped $500 million by 2006.

As the details that follow clearly demonstrate, Zappos is a customer-centric organization. It also, however, is highly concerned with employee satisfaction and productivity. Hence, Zappos can be classified in Cube One.

Customer-Directed Practices at Zappos

Zappos employees identified the firm's most fundamental core value as being "Deliver WOW through service." Hsieh defines WOW service in terms of doing "something that's above and beyond what's expected . . . and [which has] an emotional impact on the receiver. We are not an average company, our service is not average, and we don't want our people to be average. We expect every employee to deliver WOW" (Hsieh, 2010, p. 160).

Customer satisfaction is the ultimate goal of Zappos, and, according to Tony Hsieh, this requires providing the best customer service possible. Zappos describes this philosophy as branding through customer service. Therefore, the company does not shy away from contact with customers but actively encourages customers to reach out to it. Zappos's customer-service hotline appears on the top of every Zappos webpage, proclaiming 24/7 customer service via telephone; in contrast, many online vendors list their customer service number at the bottom of a single page or bury it in difficult-to-find locations. Zappos's 365-day return policy is also among the best in the retail industry, far superior to Piperlime.com's 45-day policy and Shoebuy.com's 60-day policy. Both of Zappos's primary selling points, 24/7 customer service and a 365-day return policy, are emblazoned on the company's packaging, reminding customers that Zappos customer service is always available.

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Other customer-directed practices include free shipping on both sent and returned items; *not* measuring customer service call times, so representatives are not pressured to get off the phone; and encouraging representatives to satisfy customers, even if it means directing them to a competitor. Perhaps the most illustrious customer-directed practice is the offer that Zappos makes to all newly trained employees after five weeks: Zappos offers to pay $4,000, plus wages earned, if they quit on the spot—the premise being that Zappos wants to retain only employees who are loyal and confident.

Clearly, Zappos is dedicated toward the ideal of superb customer service—or as Hsieh has put it,

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Exhibit 3. Customer Satisfaction Ratings at ResellerRatings.com: Comparison of Ratings for Zappos.com and Shoebuy.com

Dimension	Zappos	Shoebuy.com
Product and Service Pricing	6.98	5.37
Shipping and Packaging	6.88	3.14
Customer Service	8.27	0.76
Return/Replacement Policy	8.19	1.15
Chance of Future Purchase	7.23	2.11
Lifetime Rating	9.29	3.87

Note: All data were obtained from ResellerRatings.com, and accessed on November 19, 2011. The first five ratings pertain to the most recent six-month period; the lifetime ratings are for all reviews for Zappos ($n = 230$) and Shoebuy.com ($n = 175$).

delivering happiness. **Exhibit 3**, which shows ratings provided by users of Zappos and Shoebuy.com, clearly demonstrates Zappos's lead in delivering customer satisfaction.

Employee-Directed Practices at Zappos

Open communication channels are an important component of the Zappos culture. One example is the monthly newsletter, *Ask Anything,* in which employees' anonymous questions are compiled and then answered in an e-mail sent throughout the entire company. Questionnaires also are frequently administered to assess employee attitudes. And when there is important news to be shared, Hsieh communicates directly to all employees via e-mail.

With regard to employee growth and development, Zappos has a vision of providing training and mentorship that will permit an entry-level employee to achieve a senior leadership position within five to seven years. In this regard, Zappos offers an extensive curriculum of more than 30 courses, such as Leadership Essentials and Science of Happiness 101.

Although starting salaries are generally not above market, Zappos does provide full health insurance coverage and profit sharing. Occasionally, Zappos surprises employees with added benefits, such as when the company granted a 10-percent cash bonus to all employees early in 2008, in recognition of a good year in 2007.

Perhaps the most unique employee-directed practice is the encouragement of employees to have fun on the job. Zappos's core values specifically include:

- Create fun and a little weirdness.
- Be adventurous, creative, and open-minded.
- Build a positive team and family experience.

In keeping with these values, hiring practices include asking such interview questions as "If you had magic powers, what would they be?" Zappos also seeks to hire people who would enjoy "hanging out" after work with their colleagues. Such unorthodox methods help achieve dual objectives: that employees fit in with their jobs, as well as with the company's culture.

Consistent with the firm's aim to hire people-oriented individuals, Zappos also encourages employees to respond spontaneously and warmly to customers, forming a personal emotional connection (PEC) with them. One Zappos employee, for example, sent flowers to the funeral of a customer's husband, an action that was taken without first checking with a supervisor. This gesture purportedly earned the company 30 loyal customers.

Employee satisfaction ratings on the Internet site Glassdoor.com are much higher for Zappos than they are for Shoebuy.com and Onlineshoes.com. Because of the small number of comments regarding the latter two Internet shoe companies, employee satisfaction scores are compared to those at Foot Locker (see **Exhibit 4**).

Productivity-Directed Practices at Zappos

Notwithstanding its fun-loving culture, Zappos has enacted practices that increase productivity. For instance, during the difficult formative years Zappos laid off about 50 percent of its employees and required those who remained to either take significant

Exhibit 4. Employee Satisfaction Ratings at Glassdoor.com: Comparison of Zappos and Foot Locker

Dimension	Zappos	Foot Locker	Significance
Career Opportunities	3.93	2.80	$p < .001$
Communication	4.18	3.10	$p < .001$
Compensation and Benefits	3.98	2.97	$p < .001$
Employee Morale	4.55	3.09	$p < .001$
Fairness and Respect	4.11	2.90	$p < .001$
Recognition and Feedback	4.09	3.41	$p = .014$
Senior Leadership	4.34	3.22	$p < .001$
Work/Life Balance	4.20	3.01	$p < .001$
Composite Score (8 items above)	33.39	24.49	$p < .001$
Overall Rating (separate item)	4.23	3.07	$p < .001$

Note: Each dimension score is based on two items. For example, the Recognition and Feedback dimension consists of responses to: "Feedback you receive about your job performance" and "Recognition and praise you receive when you do a good job." The one-item overall rating was worded as follows: "Overall, how satisfied are you with [focal company] as a place to work?"
Source: GlassDoor.com.

pay cuts or work for free in exchange for stock. Again in 2008 (only a few months after giving all employees a bonus for a good 2007), Zappos laid off 8 percent of the staff because growth had slowed.

Early on, the company initiated a very creative way to achieve efficiencies. Because the company's buyers were able to handle only about 50 brands each, and Zappos could not afford to hire the number of buyers needed to address the thousands of brands, the company let vendors have total access to all inventory, sales, and profitability data. Provided with complete visibility of the business, vendors were able to write suggested orders for buyers to approve. A side benefit of this level of trust was that vendors helped Zappos inventory hot-selling items, which increased profits and productivity.

Zappos's inventory management system is another driving force behind the company's success. Eschewing the usual brick-and-mortar system of stacking shoes with the same brand close to each other—a practice that requires time and effort to sort through shoes, and prevents optimal utilization of warehouse shelf space—Zappos tracks each pair of shoes. This permits random storage within its warehouse. The rationale behind this system is that it does not matter where shoes are physically placed; the inventory control system can instantaneously locate all shoes in the warehouse. This smooth, automated inventory flow system allows Zappos to fulfill orders expeditiously.

Four Seasons: Striving for Exceptional Quality

Isadore Sharp, a Canadian architect and builder, was working with his contractor father in 1960 when he designed a motel for a family friend. This experience inspired him to design, build, and operate the Four Seasons Motor Hotel in Toronto in 1961 as a destination for business travelers. Over the next decade, Sharp opened three Four Seasons hotels. Opening a luxury facility in London in 1970 proved to be a key moment for the company. This property pioneered in providing many quintessentially Four Seasons luxury services, setting the stage for its future direction. By the end of the 1970s, Four Seasons owned ten hotels across Canada, had management contracts in San Francisco and Chicago, and owned its own branded hotel in Washington, DC. The company began shifting its business model to focus solely on hotel management, as opposed to owning land and buildings.

The 1980s brought significant expansion of Four Seasons, led by the opening of flagship hotels in a dozen US cities. The company went public in 1986, and by the end of the decade, Four Seasons was established as a North American leader in hospitality. During the 1990s and the 2000s, the company expanded its portfolio with an emphasis on global growth, particularly in Europe and Asia. In 2007, Four Seasons was returned to private ownership with three owners: Bill Gates of Microsoft, Prince Al-Waleed bin Talal of Saudi Arabia, and Isadore Sharp and his family.

One way to gauge the success of a company is to look at its market capitalization in relation to revenues. When Four Seasons was taken private in 2007, the acquisition price was $3.8 billion—almost 15 times its 2006 revenues of $253 million. In 2006, Marriott Hotels (which owned Ritz-Carlton) had revenues of $12.2 billion and a capitalized market value of $17.7 billion, or 1.46 times its revenues. Arguably, the price paid for Four Seasons was too high, but the more than tenfold difference in market capitalization to revenues speaks to the success of the organization.

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As the analysis that follows explains, Four Seasons is an extraordinarily customer-centric company. Yet, it is also very concerned about the way employees are treated because, as has often been noted with regard to service businesses, a company cannot realistically expect employees to treat customers better than they are being treated. Finally, because Four Seasons is committed to achieving a high return on its properties, it has been highly productive with respect to all resources. It clearly can be classified in Cube One.

Customer-Directed Practices at Four Seasons

The corporate strategy of Four Season rests on four pillars:

1. Operate only midsize hotels of exceptional quality—that is, the best in their location.
2. Make uncompromising service the distinguishing and most significant competitive edge.
3. Create a culture of respect and trust that grants employees the discretion to solve problems.
4. Create a brand name synonymous with exceptional quality.

Sharp put it as follows: "We are going to win on quality. Quality is far and away the chief factor in competitiveness" (Sharp, 2009, p. 91). To this end, the company seeks to differentiate itself through four key customer-directed categories: property and other tangibles, room features and amenities, hotel offerings, and service by staff.

Property and Other Tangibles. Four Seasons has properties that are physically appealing, if not breathtaking, and it ensures that internal features are world-class and distinctive.

Room Features and Amenities. Four Seasons has long sought to distinguish itself through room features and amenities. Initially, this meant providing rooms that were uniformly spacious and quiet, and had beds outfitted with the most comfortable mattresses and finest linens. Over time, many Four Seasons offerings have become standard practices in the luxury segment of the hotel industry, such as lighted bathroom mirrors and armoire-enclosed televisions.

Hotel Offerings. Four Seasons continuously upgrades its service offerings. For instance, the company was the first to provide concierge service nationwide in the United States, and that includes securing hard-to-get restaurant reservations, tickets for shows and sporting events, and even meetings with local dignitaries. Further, Four Seasons was the first hotel to offer four-star restaurants replete with celebrity chefs and healthful food options, and it pioneered on-site high-end fitness clubs, spas, and golf courses.

Service by Staff. According to Sharp, the unifying goal of Four Seasons is to provide service superior to that of any competitor, surpassing the highest expectations of the most discerning customers. To this end, the company has implemented specific service standards for all operations. For instance, at check-in the receptionist is required to:

- greet the guest by name, smile, make eye contact, and speak clearly and in a friendly manner;
- offer a "welcome back" to returning guests; and
- complete the check-in within four minutes.

Standards like these govern employee behavior in a variety of contexts and provide employees with a customer service road map.

For Four Seasons, exceptional service means attending to the smallest details regarding the customer experience. An important tool is a companywide guest history database. Four Seasons notes highly detailed guest preferences, such as the direction of windows or whether soft drinks should be in bottles or cans. When the vice president of a national organization checked into a room at the Four Seasons Ottawa, for example, she found a flower arrangement in her favorite colors.

Four Seasons has protocols not only for the provision of customer service, but also for dealing with service lapses. The daily "Glitch Report" is discussed among hotel employees each morning. During this meeting, customer service mistakes from the previous day are reviewed and necessary corrections delineated. This meeting also serves as a forum for discussing the special needs of newly arriving guests.

Four Seasons employees are encouraged to take the initiative to make real-time decisions that enhance the customer experience. In one legendary case, a Four Seasons employee scrambled to track down a tuxedo on very short notice for a guest attending a black-tie-only event, lending the guest an employee's tuxedo. In another instance, a Four Seasons receptionist remained on the telephone for more than 30 minutes to help a guest make an important meeting under difficult driving conditions.

Recruitment, training, and termination practices support customer service. Believing that skills can be taught but not attitudes, Four Seasons uses behavior-based interviews to identify individuals who are comfortable serving others and have a positive attitude. All new employees must go through a highly formalized training program that lasts 12 weeks. It includes 30 hours of classroom training followed by formal testing, as well as experiential activities run by senior Four Seasons managers. The company quickly parts ways with employees, and managers in particular, who are disrespectful to guests or coworkers.

Exhibit 5. Customer Satisfaction Ratings at TripAdvisor.com: Comparison of Four Seasons and Ritz-Carlton

Region	Four Seasons	Ritz-Carlton	*p* value
East	4.38	4.26	<.05
South	4.43	4.11	<.001
Midwest	4.50	4.47	ns
West	4.64	4.18	<.001
Overall Ratings	4.58	4.19	<.001

Note: East hotels: Boston, New York City, and Philadelphia; South hotels: Atlanta and Miami; Midwest hotels: Chicago and St. Louis; West hotels: Los Angeles, Austin, Dallas, and Hawaii. Overall sample sizes for Four Seasons and Ritz-Carlton are $n = 4{,}622$ and $n = 3{,}957$, respectively.
Source: TripAdvisor.com.

Data on customer satisfaction at 16 Four Seasons and 16 Ritz-Carlton hotels have been analyzed using the customer satisfaction ratings provided by more than 8,000 hotel guests on Tripadvisor.com. The findings are presented in **Exhibit 5**. Although the differences in ratings may not seem sizable (with 5 being the maximum score), they are statistically significant in three out of four regions. Across all four regions, customer satisfaction ratings at Four Seasons exceeded those at Ritz-Carlton with a significance level of $p < .001$.

Employee-Directed Practices

In keeping with its written code of values, labeled the "Golden Rule" and backed by concrete action, Four Seasons aims to treat employees in a respectful and supportive manner.

Concern With Employee Comfort. Upon taking over the management of a hotel, Four Seasons usually starts by upgrading employee facilities. At the four-year-old Atlanta hotel acquired in 1997, the company immediately painted and cleaned employee areas. During the first staff meeting, the general manager promised employees, “As we clean and fix some guest areas, we’ll continue to upgrade staff facilities as well.” When employees at a Four Seasons hotel in London expressed dissatisfaction with employee areas, new floors, lockers, and showers were promptly installed. In yet another instance, Four Seasons upgraded the staff cafeteria at a Singapore property to look and feel like a freestanding restaurant.

Going to Great Lengths to Protect Jobs. Four Seasons has been extremely reluctant to lay off employees during downturns and has a history of being flexible and creative to maintain employment. In the recessions of 1981–1982 and 1991–1992, the company initiated job sharing and flextime to enable all employees to keep their jobs. During the post-9/11 downturn, employees voted to work four-day instead of five-day weeks to preserve jobs. To prevent layoffs, some employees voluntarily took unpaid leaves of absences; others used accrued vacation time.

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Attractive Pay and Benefits. Four Seasons offers attractive pay and benefits packages, including generous stock option and health plans. Employees receive free meals in the company cafeteria and accrue six nights of free stays annually (after one year of employment) for themselves and their families at any Four Seasons property. Four Seasons automatically contributes 3 percent of an employee’s salary to a 401(k) plan, and another 3 to 5 percent in profit sharing. Salaries are between the 75th and 90th percentile—which the company defines as the “magic level” needed to attract the best staff. Moreover, the company offers flexible workweeks and compressed schedules. In light of the pay practices at Four Seasons, it would be expected that employees would be particularly satisfied with their compensation and benefits. Internet-based ratings of employee satisfaction show this to be the case.

Two-Way Communications. Four Seasons regularly uses questionnaires to solicit feedback on ways to improve both the employee and customer experience. Top management communicates directly with all employees, particularly during times of crisis. After 9/11, CEO Sharp wrote two letters to employees outlining the company’s response to the disaster and its evolving strategy.

A Minimum of Hierarchical Distinctions. The company has a flat organizational structure and avoids practices that might be seen as divisive. There are no separate cafeterias based on title, and an open-door policy provides access to executives. There is also a program for departments to elect a nonsupervisory representative to meet with the hotel general manager monthly. During these meetings, the participants discuss ideas on how the hotel might improve systems and respond more effectively to customer likes and dislikes.

In light of the way that the staff members at Four Seasons are treated, it is not surprising that annual turnover among full-time employees is less than one-third the industry average. **Exhibit 6** presents comprehensive employee satisfaction data for Four Seasons and Ritz-Carlton. None of the differences are significant, which suggests that Ritz-Carlton also treats its employees quite well. When compared to Hilton, however, Four Seasons has significantly higher employee satisfaction ratings on all dimensions (see **Exhibit 7**). It should be noted, however, that Hilton properties are generally considered three- or four-star hotels, not five-star hotels like those managed by Four Seasons.

Exhibit 6. Employee Satisfaction Ratings at Glassdoor.com: Comparison of Four Seasons and Ritz-Carlton

Dimension	Four Seasons	Ritz-Carlton
Career Opportunities	3.48	3.56
Communication	3.53	3.55
Compensation and Benefits	3.63	3.48
Employee Morale	3.71	3.86
Fairness and Respect	3.10	3.16
Recognition and Feedback	3.26	3.41
Senior Leadership	3.37	3.36
Work/Life Balance	3.00	3.16
Composite Score (8 items above)	27.09	27.55
Overall Rating (separate item)	3.60	3.57

Note: Each dimension score is based on two items. For example, the Career Opportunities dimension consists of responses to "Your opportunities for professional growth" and "Your opportunities for career advancement." The one-item overall rating was worded as follows: "Overall, how satisfied are you with [focal company] as a place to work?"
Source: GlassDoor.com.

Exhibit 7. Employee Satisfaction Ratings at Glassdoor.com: Comparison of Four Seasons and Hilton

Dimension	Four Seasons	Hilton	Significance
Career Opportunities	3.48	2.89	$p < .05$
Communication	3.53	2.83	$p < .001$
Compensation and Benefits	3.63	2.95	$p < .001$
Employee Morale	3.71	3.10	$p < .01$
Fairness and Respect	3.10	2.61	$p < .05$
Recognition and Feedback	3.26	2.89	ns ($p = .064$)
Senior Leadership	3.37	2.67	$p < .01$
Work/Life Balance	3.00	3.32	ns ($p = .053$)
Composite Score	27.24	23.91	$p < .01$
Overall Rating	3.60	2.89	$p < .01$

Note: Each dimension score is based on two items. For example, the Fairness and Respect dimension consists of responses to "Fairness in how promotions are given and people are treated" and "The level of respect shown by management toward employees." The one-item overall rating was worded as follows: "Overall, how satisfied are you with [focal company] as a place to work?"
Source: GlassDoor.com.

Productivity-Directed Practices at Four Seasons

As concerned as Four Seasons is with providing guests with the utmost in luxury, it is also concerned with doing so in a highly profitable manner. The company's strong financial results are a testament to this commitment. When Four Seasons was a public company, its specific financial objectives included an average return on capital that was 10 percent greater than the corporation's cost of capital, and compounded annual earnings per share growth of 20 percent.

Improvements in operating profit margins are seen as a key driver in growing earnings and returns. Margin improvements have been predicated on the practice of maintaining industry-high room rates and avoiding price discounts, even in the face of economic downturns, such as those experienced post-9/11. The company's pricing discipline has resulted in achieving industry-leading revenue per available room, which in 2005 for US properties was more than 30 percent higher than that of Ritz-Carlton.

Four Seasons achieves efficiency, in part, by being very mindful of staffing ratios. After acquiring the Regent hotel chain, Four Seasons trimmed the number of employees to get the employee-to-guest ratio in line with that of other Four Seasons properties.

From a broader perspective, it is notable that the Four Seasons business model yields a high return on invested capital. Primarily a management company, not a developer or an owner, Four Seasons minimizes its initial capital investment. The company's rule has been to invest no more in a project than management fees will earn during the first five years. Also, the company's standard management contract runs for 30 years, with an option for another 30 years, thereby minimizing risk, aligning incentives, and ensuring a stable recurring revenue stream. In contrast, the average initial term of hotel management contracts is 13 years in the Americas, 12 years in the Asia Pacific region, and 15 years in Europe.

Nordstrom: Engineering a Remarkable Sales Team

Arriving in Minnesota from Sweden in 1887 with five dollars in his pocket, John Nordstrom worked his way west to Alaska in 1897 in search of gold. Unlike countless others, Nordstrom succeeded in his quest and became $13,000 richer. In 1899, he invested all his money in a shoe store in Seattle with Carl Wallin, a shoemaker he had met in Alaska. Their store, Wallin & Nordstrom, opened for business in 1901, marking the beginning of the retail legend of Nordstrom, Inc.

Nordstrom's business philosophy always has focused on unrivaled service, selection, quality, and value. The company successfully built a loyal customer base, and in 1923 a second Nordstrom store opened in Seattle. By 1960, the Seattle flagship store, stocked with more than 100,000 pairs of shoes, was the largest shoe store in the United States, and Nordstrom was the largest independent shoe chain in the country.

The company went public in 1971, with sales passing the $100 million mark shortly thereafter. By the 1980s, Nordstrom's sales topped $1 billion, and by 2000, the company operated 77 full-line Nordstrom stores and 38 Nordstrom Racks. From 2000 to 2010, Nordstrom's profits increased substantially, notwithstanding the economic turmoil between 2008 and 2010. In fact, throughout these years, Nordstrom kept all its stores open, and even opened new stores in 2009 while competitors' stores were closing. By the year 2011, there were 116 Nordstrom stores and 95 Nordstrom Rack stores.

Between 2001 and 2010, Nordstrom's profits increased nearly five-fold, with the company earning cumulative profits during this period of $4.3 billion. In comparison, between 2001 and 2010, another high-end department store chain, Saks Fifth Avenue, saw profits increase by 22 percent and achieved cumulative profits during the period of (only) $200 million. From 2001 to 2010, the changes in market capitalizations of Nordstrom and Saks were +188 percent and –32 percent, respectively.

Nordstrom is widely acclaimed for its consistently high customer satisfaction. Yet, customer-directed practices are, arguably, not sufficient to explain Nordstrom's remarkable financial success. Nordstrom has consistently enacted practices that promote high levels of employee satisfaction and loyalty and high levels of productivity. The Cube One framework provides a parsimonious method to explain Nordstrom's extraordinary success.

Nordstrom has consistently enacted practices that promote high levels of employee satisfaction and loyalty and high levels of productivity.

Customer-Directed Practices at Nordstrom

In large measure, Nordstrom's success is attributable to the company's customer-driven philosophy. Over the years, Nordstrom's customer service has become legendary: sales clerks are known to pay shoppers' parking tickets, warm up customers' cars, lend money to cash-strapped customers, iron new purchases so that they can be worn the same day, and send tailors to customers' homes (Spector & McCarthy, 2005; Wood, 2008). Perhaps the most well-known Nordstrom story concerns an employee who granted a full refund to a customer for a pair of tires previously bought at the store's location before it was a Nordstrom (Mooney, 2008).

How does Nordstrom engineer such remarkable salesperson behaviors? One key component is the employee-selection process: Nordstrom wants to hire only friendly people, striving to "hire the smile and train the skill." Chairman Bruce Nordstrom asserts that it is not difficult to teach nice people how to sell, but it is almost impossible to teach salespeople how to be nice.

The selection process includes phone interviews, multiple one-on-one interviews, personality tests, background checks, and group interviews. During interviews, a common task is to assemble an outfit for a specified situation.

Another important component behind Nordstrom's excellent customer service is employee empowerment. Newly hired salespeople are given a card, entitled the Nordstrom Rule Book, that states: "Use your good judgment in all situations. There will be no additional rules." Nordstrom empowers salespeople to make business decisions, and management backs these decisions. In one instance, a salesperson gave $2,000 worth of replacement merchandise to a customer who had mishandled purchased garments; and he did this without asking for anyone's permission because he knew that Nordstrom trusted his judgment. The compensation system for salespeople also fosters excellent customer service. Sales commissions average 6.75 percent of sales, and in some departments (such as lingerie), commission rates go up to 9 percent. Consequently, salespeople will show multiple sets of styles and colors of a particular item, even if they have the one requested in stock.

According to customer satisfaction data from the American Customer Satisfaction Index, Nordstrom was the most highly rated department store from 1995 to 2000 and in second place (one point behind Target) in 2001. No measurements were taken of Nordstrom from 2002 through 2006; however, when measurements resumed in 2007, Nordstrom was rated the highest in customer satisfaction and remained first from 2007 through 2010.

Employee-Directed Practices at Nordstrom

Nordstrom offers extremely competitive pay and profit sharing. In 2003, one of the company's most profitable years, each employee who worked at least 1,000 hours received a profit-sharing bonus three times that of the previous year. According to a 2007 US Department of Labor Bureau of Labor Statistics study covering nearly 4.5 million retail salespersons, the average wage for retail salespeople was $11.79 per hour. At Nordstrom, the average salesperson's pay in 2007 was above $18 per hour.

To strengthen collegial relationships among employees, Nordstrom encourages all salespeople to participate in its mentoring system. New employees also are encouraged to find their own sales techniques, because success at Nordstrom is defined as what works for each employee. Many top Nordstrom salespeople say that mentors are everywhere, and almost all top sales performers become mentors to new hires. The focus on growth and development also applies to managers. The company's New Manager Development Program helps new department managers transition from being individual contributors to team leaders. Thus, the culture of mentoring and long-term learning encourages personal growth and engagement, contributing to employee satisfaction.

To strengthen collegial relationships among employees, Nordstrom encourages all salespeople to participate in its mentoring system.

Glassdoor.com provides employee satisfaction data for eight criteria: recognition and feedback, fairness and respect, compensation and benefits, communication, senior leadership, employee morale, work/life balance, and career opportunities. In light of the emphasis that Nordstrom has placed on internal promotions and generous incentive pay plans, it would be expected that employees should report especially high satisfaction scores with respect to these two domains. Mean satisfaction scores for each domain are provided in **Exhibit 8** (page 32). For comparison purposes, corresponding data also are provided for one of Nordstrom's strongest competitors, Dillard's. The difference in satisfaction with compensation and benefits was significant between companies, but not on a within-company basis (3.62 for compensation and benefits versus 3.46 on the other facets).

Productivity-Directed Practices at Nordstrom

Nordstrom's financial success reflects high levels of productivity. The company has consistently boasted the highest sales-per-square-foot in the industry, nearly twice that of other department stores. Because

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Exhibit 8. Employee Satisfaction Ratings at GlassDoor.com: Comparison of Nordstrom and Dillard's

Dimension	Nordstrom	Dillard's	Significance
Career Opportunities	3.48	2.43	$p < .001$
Communication	3.68	2.45	$p < .001$
Compensation and Benefits	3.62	2.89	$p < .001$
Employee Morale	3.83	2.50	$p < .001$
Fairness and Respect	3.17	2.22	$p < .001$
Recognition and Feedback	3.62	2.78	$p < .001$
Senior Leadership	3.25	2.52	$p = .002$
Work/Life Balance	3.22	2.76	$p = .052$
Composite Score (sum of 8 items)	27.87	20.56	$p < .001$
Overall Rating (single item)	3.57	2.42	$p < .001$

Note: Each dimension score is based on two items. For example, the Work/Life Balance dimension consists of responses to "Management support in permitting time off when you think it's necessary" and "Employer support in balancing between work life and personal life." The one-item overall rating was worded as follows: "Overall, how satisfied are you with [focal company] as a place to work?"
Source: GlassDoor.com.

a large portion of a salesperson's salary comes from commission, this motivates energetic work behaviors. Further, managers are usually promoted from within the ranks of salespeople, further enhancing the motivation to sell.

Another way that Nordstrom motivates employees is via publicly posted feedback on individual performance. Nordstrom posts a semi-monthly sales-per-hour chart in a back room of the store for everyone in the department to see. Because everyone has access to the sales information of every other employee, salespeople are motivated not just by extrinsic rewards, but also by intrinsic feelings of achievement and social satisfaction (preferring to be at the top of the chart rather than the bottom).

Top-performing salespeople at Nordstrom are given the title of "Pacesetters," which means that they meet or surpass an annual goal for net sales volume. Pacesetters are given a certificate of merit at an event held in their honor, special business cards decorated with the Pacesetter label, and a 33-percent merchandise discount credit card for one year. "When you have star salespeople, they ought to get paid like stars because they earn it," said Bruce Nordstrom (Spector & McCarthy, 2005, p. 118). Nordstrom also gives out All-Star and Customer Service All-Star Awards at the recognition meeting. Because the All-Star Award is a surprise, families are contacted ahead of time and invited to attend the award ceremony.

Employees who regularly fail to exceed their draw receive personal training from their department manager. If it appears that a career in sales is not suited to that person, he or she is assigned to a nonsales job or is let go. Thus, Nordstrom not only focuses on rewarding star performers, but also monitors the performance of all employees, identifying and addressing potential performance problems. Nordstrom strives to keep the best salespeople and to motivate all to be better performers.

Instead of simply dividing store space by brand, Nordstrom differentiates itself from competitors by breaking store space into "lifestyle sections"—for instance, the "individualist" section displays mid-priced contemporary goods, while the "narrative" corner offers all kinds of classic styles with brands that are less costly. This approach to merchandising space makes it easier for shoppers to find outfits that go well together, and customers are exposed to additional items that they might purchase. Nordstrom salespeople also have an electronic view of the chain's entire inventory, providing every salesperson access to the complete inventory at all times. This inventory system allows Nordstrom to minimize the incidence of stock outs.

Customers, Employees, *and* Productivity Count

The focal customer-centric companies all have achieved remarkable financial success. Zappos was purchased at a multiple of revenues that was twice that of Shoebuy.com, despite the fact that Zappos was purchased after the stock market "cratered" and Shoebuy.com was sold as the market reached its peak. Four Seasons was purchased at a multiple of revenues that was approximately ten times the valuation of Marriott, which owned Ritz-Carlton. And Nordstrom, despite having lower revenues than Saks Fifth Avenue, achieved cumulative profits in the 2001–2010 decade that were 20 times the amount earned by Saks.

The focal companies also consistently achieved higher levels of customer satisfaction than the comparison companies, and employee satisfaction was generally higher. Zappos and Nordstrom had higher levels of employee satisfaction than their respective comparison companies did, but this was not the case with regard to Four Seasons and Ritz-Carlton, which had comparable levels of employee satisfaction.

The level of employee satisfaction appears to be consistent with management practices. For instance, Four Seasons deliberately pays wages at 75 to 90 percent of the pay range, and satisfaction with compensation and benefits exceeded satisfaction with seven other satisfaction indicators (see Exhibit 6). As would be expected given the nature of the hospitality business (open 24/7, including holidays), Four Seasons employees reported the lowest level of satisfaction with work/family balance, the score being significantly lower than the scores reflecting satisfaction with the seven other dimensions.

As noted earlier, past research by Basuki and Henderson has found that an inordinately high customer-driven philosophy does not necessarily translate to optimal financial results. Rather, as theorized by the Cube One framework, customer-centricity is a necessary but not solely sufficient condition for financial success. Customer-directed practices constitute but one-third of the formula for organizational achievement.

This review of the practices at three leading companies indicates that they devote considerable attention to achieving high levels of employee satisfaction and productivity. In broad terms, the present research combines perspectives that are usually not examined in concert. Analyses are often delimited by disciplines. Employee-directed practices are usually the province of human resource management; customer-directed practices generally relate to total quality management and marketing; and productivity-directed practices are traditionally addressed by research in such fields as production management, industrial and organizational psychology, and corporate finance.

This review of the practices at three leading companies indicates that they devote considerable attention to achieving high levels of employee satisfaction and productivity. In broad terms, the present research combines perspectives that are usually not examined in concert.

As in any research undertaking, there is usually no shortage of areas that might be improved. In the present study, independent sources of information were obtained for all three focal companies, but descriptions of management practices rely partly on Hsieh's book about Zappos and Sharp's book on Four Seasons. Because these founders' accounts may emphasize intended policies as distinct from enacted practices (that is, the formal organization rather than the informal organization), there is the inherent risk of bias.

The customer satisfaction data provided at ResellerRatings.com did not permit calculation of statistical significance, but differences between Zappos and its online competitors were so large that standard deviations were virtually unnecessary. Customer ratings at Tripadvisor.com did not ask for respondents to respond with reference to the price paid for their hotel room. This information seems to have been inherently incorporated in the ratings provided, as in some cities relatively inexpensive hotels had the highest ratings. With regard to Four Seasons and Ritz-Carlton, evaluations were provided from 8,500 individuals.

From an applied perspective, the Cube One framework might be used to guide organizations' practice portfolios. Management can survey employees and customers regarding practices, and develop diagnostic information that could be monitored over time, possibly also while examining externally collected data. In conclusion, as organizations attempt to satisfy the interests of their three key sets of stakeholders—customers, employees, and funding sources—they must carefully examine pertinent data that demonstrates whether they are, indeed, taking the requisite steps toward meeting the challenge of achieving organizational excellence.

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