

Saturn was one of the most radical innovations in work organization of the last several decades, but it was not alone. So let's take a look at a number of companies that are proof of concept that you can compete with what we call high road strategies, with good jobs that provide good returns to shareholders, by using what we call human capital, that is, essentially workers, skills, and their social networks to drive innovation, good jobs, and high performance for the organization.

Let's start with one that I think almost everyone knows, Southwest Airlines. This is an airline that was created in the 1970s, and it's been an anomaly to our friends on Wall Street. Southwest has been one of the most profitable airlines in the United States over the last 30 years. Yet at the same time, it breaks a lot of rules.

First of all, it's been roundly criticized by Wall Street for not expanding fast enough, not growing fast enough, but using its retained earnings to share them more equitably with their employees than growing the airline.

Secondly, it's highly unionized airline. Wall Street thinks unions are a drag. Third, it has the best customer service of any airline in the country, and it builds that customer service by engaging employees in successful ways. And it has continued to be successful even after the retirement of its charismatic founder, the CEO Herb Kelleher. We're now on the fourth CEO at Southwest, and it continues to do well.

And so Southwest does get good ratings from its employees. And now, even, it gets good ratings from Wall Street.

So this is from a Glassdoor survey where employees can voluntarily offer their assessment of their companies and their CEO. And you can see that Southwest is ranked number one in the country in terms of a place to work.

So we can do this. We can make companies, design companies that are successful for employees by listening to them, by engaging them, by engaging in the teamwork that Southwest provides, as well as producing high quality services and highly profitable companies.

But Southwest is not alone. Let's dig a little bit deeper and understand what the difference is between a high road and a low road company. Let's do that by first looking at Walmart, and then comparing it to another company called Costco.

As you know, Walmart is the largest employer in the United States. It has over 1.2 million, quote, "associates." They like to use the term associates to describe their employees. Walmart has been successful financially. Yet Walmart has the tightest controls on its employees. It gets its financial success by having, as you know, a motto of low prices all the time.

How does it get those low prices? By having very low wage rates, by controlling employees, by having high

turnover so employees don't become more expensive. It has no unions, and in fact, it fights unions tooth and nail to make sure it stays non-union. So here's a company that works for shareholders but is very tough on its employees.

But then compare that to Costco. Costco competes with some of Walmart's stores that are called Sam Club. And Costco has a very different model. It emphasizes product quality, it emphasizes customer service, it pays wages that are higher than Walmart. It allows employees to unionize if that's what they choose to do. So some of their stores are unionized and some are not. It has a very long tenure of its employees because they learn about the business and they become more productive over time.

And so here we have two alternatives. We have a high road employer called Costco. We have a low road employer called Walmart. Both can be reasonably successful financially, but only one can be successful financially and provide good jobs and good opportunities for its employees.

And in fact, this chart shows that Costco has outperformed Walmart on financial grounds in recent years. And so there are two ways to compete. There's a low road. There's a high road.

Let's review. Just how do you get these high road practices? How can you build companies that are successful for both investors, for employees, and for customers? Well, it starts by selecting employees both for technical skills and for teamwork skills so that they're ready to work together effectively with their colleagues.

Secondly, it requires continuous training and investment of front line workers as well middle managers and supervisors. It requires us to work together to build a culture of trust at the workplace, to engage employees, and to get them to want to cooperate with each other to get the jobs done.

It requires compensation systems that align the incentives so that employees share in the income and the productivity that they help to produce by profit sharing or various kinds of incentive systems. It requires, if unionized, to have labor management partnerships where labor and management work together, and the union leaders are taken into the confidence of management representatives to get the job done together.

And these principles apply to organizations not just in the US, but all around the world. Recall that we mentioned earlier companies like Semco in Brazil, where employees help design their own jobs and work in partnership with management to improve operations, and sometimes to create new businesses.

Or Ikea in Sweden. Or let's take the classic example of Toyota in Japan or in its plants all around the world. In fact, Toyota's model of so-called lean production is the source of many of the ideas and practices that need to be fitted together in high road firms to achieve world class productivity, quality, and good jobs.

We're going to see in another video my colleague Zeynep Ton talking about a grocery chain here in the Northeastern part of the United States that has been very successful in building a company that works for shareholders as well as customers and employees. And in fact, the employees and managers revolted to save the company from a change in strategy in the summer of 2014. So let's get on with the task of building these high road, good jobs companies, or, if you're not in a top management position at the moment, demanding that your employer follow these principles wherever you happen to live and work.

That's the challenge you face, not only in creating these, but spreading these to become the norm across American industry.