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Lessons learned from Zappos on what it takes to build high performance cultures[☆]

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Tony Hsieh, the CEO of Zappos, was determined to build Zappos with the belief that if you get the culture right, most everything else will fall into place. The culture that he built is a unique one. Imagine working in an environment where employees are recruited and trained for the culture, employees from top to bottom are encouraged to have fun, work hard, and support one another, and there is a sense of family, friends, and community at work. Also imagine an environment where employees are focused and productive, but also enjoy a relaxed environment with free lunch, snacks, and ice cream, the freedom to decorate their work stations in creative ways, and there are parades and numerous other forms of celebrations. Add the fact that employees are empowered to make creative decisions and to “wow” customers by going the extra mile and you have a glimpse of the Zappos culture.

The Zappos culture might sound interesting and a little zany, but not practical, except that Zappos has grown at an exceptional rate from \$8 million to over \$1 Billion in sales in just 8 years. Employee turnover has been at about 7% in an industry where turnover averages over 150%. Over 75% of orders are from repeat customers. Fortune Magazine has consistently ranked Zappos in the 100 Best Companies to Work For. Because of its reputation, Zappos receives hundreds of applications for every open position. For example, in the call center, the applications are capped at 200 which often occurs within a few hours of the job posting.

This article is not about how to replicate the Zappos culture and hope to reap similar results. That would be difficult to do because it is a unique culture and successful ones require a fit between leadership styles at the top, the mission and strategies of the organization, and what the people in the organization will respond to. The article is

about what Zappos did to step-by-step build its culture, and the valuable lessons that can be learned about what it takes to build, change, and sustain a strong culture.

THE IMPORTANCE OF CULTURE AND WHY ZAPPOS OFFERS VALUABLE INSIGHTS ABOUT BUILDING STRONG CULTURES

While many formal definitions exist, organizational culture is basically a term used to describe the environment in which people work and the influence it has on how they think, act, and experience work. Cultures can vary significantly between and within organizations. They can bring out the best in people, and unite them around common goals and values. However, they can also be dysfunctional and filled with stress, tension, distrust, low morale, and a lack of support and teamwork.

Research on culture is providing valuable information about the important role it can play in the success or failure of organizations, the ability to attract and retain top level talent, and how it affects employee behavior, performance, and morale. Unfortunately, leaders are often not aware of this research and the many payoffs a healthy culture can have for an organization, and perhaps just as important, the numerous costs incurred from having an unhealthy culture.

Studying Zappos is particularly instructive because even if leaders are aware of the importance of culture, it is unlikely that they have been trained on how to build strong ones. They may erroneously think that by announcing the desired values, placing them on the walls of the organization, passing out coffee mugs with cultural ideals on them, and frequently talking about the importance of culture, that the desired culture will be produced and sustained. However, you will see in the Zappos example that to build a strong culture, it needs to be closely linked to the vision, values, and strategy of the company and that specific actions need to be taken to build

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the desired culture and align organizational systems and practices with it.

BRIEF HISTORY OF ZAPPOS AND THE COMMITMENT TO MAKING CULTURE A KEY TO ITS SUCCESS

Nick Swinmurn, a 26 year old marketing manager started Shoesite.com in 1998 based on the premise of displaying a website where customers could see many brands of shoes from different companies at one time. Swinmurn later changed the company's name to Zappos.com. In 1999, Tony Hsieh and Alfred Lin loaned money to Zappos.com from their venture capital firm Venture Frogs. In 2001 Hsieh became co-CEO with Swinmurn. Eventually Swinmurn left the company and Hsieh became CEO and deliberately began designing an organization around his philosophy of creating a culture that promotes employee happiness, exceptional customer service, and high performance. Creating and sustaining the Zappos culture has not come without challenges. Organization cultures can be resistant to needed change and at the same time can be fragile and altered almost overnight by changes in leadership or major events. For instance, during the 2008 economic downturn, Zappos was highly dependent on banks to finance its large inventory, and with lower sales the banks could withdraw their loans. This and other factors prompted some board members of the venture capital company that had invested in Zappos to push for a greater focus on sales and profits and for Hsieh to spend less time emphasizing his "culture social experiment." This resulted in some employee layoffs and efforts by Hsieh to find potential buyers for Zappos to protect its culture. Amazon emerged as the best buyer and in November of 2009 completed an all-stock deal for the purchase of Zappos valued at \$1.2 billion. Hsieh felt that although the two companies had different business

models and some philosophical differences, both were strongly committed to high quality customer service and long-term growth. He also had written into the contract with Amazon a document formally recognizing the uniqueness of the Zappos culture and Amazon's duty to protect it. Also included was the assurance of a balanced board composed of both Amazon and Zappos executives that would provide the influence to help sustain the Zappos culture.

FIVE DRIVERS USED TO BUILD THE ZAPPOS CULTURE

The Zappos experience indicates that to build a culture that results in a great place to work, exceptional customer service, and impressive organizational performance requires specific drivers. Five Drivers that Zappos uses to shape its culture are shown in the model in Fig. 1. It is particularly important to observe in the model that the drivers are aligned to support one another and to encourage the same behaviors in employees.

These drivers are similar to the steps required to create a strategy-oriented organization advanced by Robert Kaplan and David Norton which involves first articulating the company's strategy into operational terms. Next, actions are taken to align employees to implement the strategy and create a "mindset" where they see the strategy as part of their jobs. Finally, the organization's leadership seeks to make changes necessary to reinforce the strategy.

Committed Leaders

The most important key to building a strong culture at Zappos is to have the CEO and key leaders throughout the organization committed to creating the desired culture (see Table 1). The central importance of leadership is echoed by Mark



Figure 1 Five Drivers of the Zappos Culture

Table 1 Committed Leaders

Practice Area	Examples
Top level support	Support for building a strong culture starts at the top and involves training and involvement at all levels of leadership on how to build and support the culture.
Strategic alignment	The desired culture is intentionally designed to help achieve the Zappos strategy.
Communication	Extensive culture-related communication takes place using a wide variety of multi-directional mechanisms that encourage input from managers, employees, customers, and suppliers.
Culture feedback	Feedback is received on how well the culture is functioning through monthly employee surveys and an annual culture book. Customer and supplier assessments are encouraged through the website and various forms of social media and are responded to quickly by Zappos employees.
Empowerment	Information is broadly shared and employees are empowered to provide suggestions and make decisions that influence key organizational actions.

Ehrhart, Benjamin Schneider, and William Macey, who observed that the desired culture follows when leaders initiate and sustain the conditions that align employee actions with the organization’s strategy.

Tony Hsieh’s zeal for building a strong culture came partially from his previous experience with his first company (Link Exchange) from which he found that even though the company was profitable, he and other employees were not enjoying going to work. He wanted to build a culture at Zappos where employees were energized by their work and their colleagues, and in turn, would passionately deliver high quality customer service. He also believed that culture must support the Zappos organizational strategy which is centered on building a brand that emphasizes: (1) highly personable and exceptional customer service; (2) offering a wide selection of products; and (3) fast, accurate product delivery. For Hsieh, strategy, brand, and culture are closely linked as he stated below:

What’s the best way to build a brand for the long term? In a word: culture. At Zappos, our belief is that if you get the culture right, most of the other stuff—like great customer service, or building a great long-term brand, or passionate employees and customers—will happen naturally on its own. We believe that your company’s culture and your company’s brand are really just two sides of the same coin ... Your culture is your brand.

This perspective parallels that of what former IBM CEO Lou Gerstner referred to as “culture is everything,” meaning that the effective implementation of strategy requires that employees accept and commit to a common course of action. In this view, strategy-focused cultures are seen as institutionalized systems that implicitly direct the intentions of the efforts of all involved. According to prominent scholars John Kotter and James Heskett, this channeling of employee efforts in a unified direction occurs because of the unwritten rules and common understanding about what is important as specified by the organizational culture. Similarly, Karl Weick described strategy as involving what the organization wants to do while culture is the process of attaining the goals. As a result, when strategy and culture are aligned the two processes are indistinguishable.

Leaders throughout Zappos are trained on the importance of culture and are as involved as Hsieh is in supporting and sustaining it. Hsieh also believes that building a strong culture requires open, frequent, and multi-dimensional communications involving meetings, e-mails, the company website, videos, blogs, tweets, Facebook, the YouTube channel,

and a variety of other methods to keep Zappos employees, customers, and suppliers well informed. Perhaps most importantly, this extensive communication is multi-directional as all of these groups are encouraged to contact the company and provide their experiences and feedback.

An additional important practice that Zappos uses for building and sustaining its desired culture is to have multiple mechanisms for monitoring the culture and organizational practices from the perspective of employees, customers, and suppliers and involving all of these stakeholders in making needed changes. These steps represent what Ehrhart and his colleagues term a “culture inquiry” which involves understanding if the culture is hindering the organization’s ability to achieve its strategic goals and to identify what is important or unique about it. In this way culture represents the “accumulated learning” that allows for the adaptation of the organization to its external environment according to organizational psychologist Ed Schein.

Another important role of leaders in Zappos is to empower employees to make important decisions and to be creative in how they approach their jobs. Recently, Hsieh has begun implementing a new management system called *Holacracy* which is designed to decrease the authority of managers and to further empower employees to provide ideas, viewpoints, and concerns. It will be interesting to see if this new approach strengthens or undermines the Zappos culture.

Practiced Core Values

The Zappos culture is expressed and defined through 10 core values which are shown in Table 2. The core values were developed and revised with the active involvement of managers

Table 2 Practiced Core Values

1	Deliver WOW through service.
2	Embrace and drive change.
3	Create fun and a little weirdness.
4	Be adventurous, creative, and open-minded.
5	Pursue growth and learning.
6	Build open and honest relationships with communication.
7	Build a positive team and family spirit.
8	Do more with less.
9	Be passionate and determined.
10	Be humble.

and employees over a number of years and codified in 2010. The core values are taken seriously by leaders and employees and as Hsieh states below, they are used to make every day organizational decisions:

Many companies have core values, but they don't really commit to them. They usually sound more like something you'd read in a press release. Maybe you learn about them on day 1 of orientation, but after that it's just a meaningless plaque on the wall of the lobby. We believe that it's very important to come up with core values that you can commit to. And by commit, we mean that you're willing to hire and fire based on them. If you're willing to do that, then you're well on your way to building a company culture that is in line with the brand you want to build.

The most critical core value that provides a framework for the others is the first one, *Deliver WOW through service* which links directly to the Zappos business strategy of delivering high quality and personable customer service. To WOW is to differentiate yourself, do something above and beyond what is expected, do things in an unconventional and innovative way, and to create some type of emotional impact on the customer. Another core value that sets Zappos apart from other companies is value 3, *Create fun and a little weirdness*. This value seeks to create an organizational environment that is unique and unconventional and that emphasizes fun and humor. The purpose of these values is two-fold: (1) to encourage employees to bring their own unique personality to work; and (2) to create a positive and unconventional environment for employees to enjoy their work and in turn transfer that spirit to customers.

Customer-Focused Strategy

Another driver of the Zappos culture is the customer-focused strategy that is practiced throughout Zappos. Hsieh stated the importance of its customer-oriented culture and how it is closely linked to its strategy:

We just wanted the Zappos approach to be about the very best customer service. Customer service has always been important at Zappos, but making it the focus of our brand would be a bold move, especially for an online company.

Hsieh wrote an article in the *Harvard Business Review* that summarized the seven keys to Zappos customer service (see Table 3 for an adapted version). The open, fun, and free-wheeling culture at Zappos is designed to be closely aligned with these seven keys by energizing and empowering employees to deliver exceptional customer service.

Table 3 Customer-Focused Strategy

- 1 Customer service should be a priority for everyone.
- 2 Enable Service Reps to solve customer issues without involving a supervisor.
- 3 Don't keep customers who are overly demanding or disrespectful to employees.
- 4 Don't restrict Service Reps regarding call time, scripts, or sales pitches.
- 5 Connect directly with customers and make contact information available on every web page.
- 6 See customer service as an investment, not a cost.
- 7 Reinforce the culture by sharing great service stories.

The Zappos call center perhaps best represents how its customer-focused strategy is a driver of its culture, and how employees interact with customers and with one another. Zappos operates a large call center even though it is an Internet company with only around 5% of its orders placed over the phone. The call center operates 24/7 and is staffed so that the average customer wait time is only 20 s. The call center reps are expected to be highly knowledgeable about styles, sizes, and fashion and to act as problem solvers. For example, they are encouraged to help customers find a shoe even if the shoe is not carried by Zappos and to suggest to customers that when in doubt about a shoe purchase, consider ordering multiple sizes or colors and then sending the unused shoes back to Zappos at no expense to the customer.

Most importantly, call center reps are given complete freedom to do whatever they think is necessary to create a "personal emotional connection" (PEC) with customers. To attain PECs, Zappos call center reps are not given scripts or call time limits. Rather, they are encouraged to ask socially engaging questions to connect with customers in a meaningful way. For example, after discovering that a customer's dog was going into surgery, one rep created and mailed a hand-crafted card of encouragement.

There are many legendary customer service stories at Zappos that are intended to reinforce its culture, including one about a record setting 10-h phone call to a single customer. It is not uncommon for representatives to send thank you notes, birthday cards, or flowers or do other meaningful and creative things to serve customers and create customer loyalty. To some companies this may sound like a waste of time. However, for Zappos, each encounter with a customer is about creating relationships and emotional rapport that in turn generates long-term customer loyalty.

Using the customer-focused strategy as a driver of culture impacts employee behavior throughout Zappos. For instance, the marketing staff actively engages with customers by seeking their comments and feedback through many social media and communications options. IT employees freely interact with customers in soliciting ideas for creating a fast, responsive, and accurate website.

HR Practices Aligned to Support the Culture

Another driver Zappos uses to build its culture is to align its HR practices with its core values and the desired culture (see Table 4). For, example, Zappos carefully recruits and prepares employees for culture fit. In evaluating the large number of applicants Zappos receives for each job opening, potential employees are carefully screened not only for their competencies for the job, but also for their fit with the culture. An in-depth process is used to involve HR, managers, and potential co-workers in the selection process.

Once selected, all new employees regardless of position go through an intensive employee orientation process that includes extensive discussions about the importance of culture and the ten core values. They also work in the Call Center to get front line experience in understanding the Zappos customer service focus. To reinforce the continued practice of the core values, during the busy Christmas season all employees, including CEO Hsieh, are expected to work in the call center.

Table 4 HR Practices Aligned to Support the Culture

Practice Area	Examples
Recruitment	The large number of applicants for job positions are carefully screened for fit to: (1) job/ technical competencies; (2) the team or department; and (3) the culture.
Selection of employees	Candidates at all levels are interviewed at multiple levels with potential co-workers often having the final decision. Job candidates who are highly talented but are not a good culture fit are not hired.
Orientation for new employees	New employees go through an intensive 4-week orientation program that includes training on the Zappos culture and customer service as well as 2 weeks working in the call center. New employees are offered \$3,000 (including also their hourly wage earned while in training) to leave Zappos.com if they feel the company is not a good fit.
Training & pay	Extensive ongoing training is provided to improve employee skills. Employees can take courses and become certified for higher level skills in their job area, resulting in base pay increases and promotions.
Performance evaluation	Call Center customer service representatives are not rated on productivity metrics, but instead on quality of customer service. Extensive 360-degree Feedback is obtained through coworkers on employee commitment to the Zappos values and culture.
Benefits	The company offers comprehensive health, dental, vision, and life insurance, and wellness programs.

Zappos also provides numerous training and development opportunities to promote a culture of growth and learning as well as extensive 360-degree feedback that creates insights on how well employees practice the core values. All of this is consistent with Ehrhart and colleagues' view that leaders should seek to create a self-sustaining culture in which employees model and reinforce the behaviors that drive success as well as serve as a model for new workers.

Management Practices Aligned to Support the Culture

A core, underlying theme of the Zappos culture is creating happy employees who will in turn create happy, loyal customers. As illustrated in Table 5, Zappos employs a wide range of management practices designed to drive its culture. For example, work is kept interesting and engaging by creating many fun activities that may seem like costly distractions, but are actually low cost practices designed to energize employees and reduce work stress. These practices also include an open and free-wheeling work environment, individually decorated office space, low cost but desirable perks, and personal development through a life coach.

LESSONS LEARNED ABOUT BUILDING SUCCESSFUL CULTURES

There is much that can be learned from Zappos about what it takes to systematically build a successful culture. The primary underlying theme of these lessons is that building and sustaining a healthy, high performance culture requires substantive, thoughtful, and intentional actions that align with, value, and support it.

- 1. It takes committed and united leaders at all levels to build and sustain a strong culture.** Leaders are the primary shapers of culture. The top-level leader in particular needs to be committed to building a strong culture. However, it also takes the involvement and commitment of all executives as well as leaders throughout the organization to support the culture.
- 2. Culture needs to be defined, aligned with strategy, and practiced.** Culture can be built by design or left to chance. To purposely build culture, it needs to be defined either through core values as Zappos did or through identifying cultural ideals. It is also important for the cultural values and organization strategy to be aligned to

Table 5 Management Practices Aligned to Support the Culture

Practice Area	Examples
Work environment & recognition	A fun and “zany” work environment is provided with many social activities to promote friendships with coworkers, lots of recognition through thank you gifts, trophies, etc., and numerous parties, parades, and celebrations for employee birthdays as well as both individual and company accomplishments.
Office environment	Employees are encouraged to decorate their work stations as they see fit and to wear colorful clothing of their own choosing. All employees are located in cubicles, including CEO Hsieh, to reinforce the philosophy that all employees work together and are treated the same.
Perks	Numerous perks are offered including free or low priced healthy food and beverages and product discounts.
Personal development	A full-time personal life coach is available onsite to help employees set both personal and professional goals and to take steps to fulfill them.

be mutually reinforcing and especially important that the cultural values are well known throughout the organization and utilized in making decisions and getting things done.

3. **It takes well designed and sustained actions to purposely build, change, and sustain a successful culture.** The Zappos culture was created by design with specific drivers used to build and sustain it. Leaders also need to align everything such as decisions, policies, systems, and structures to support the culture and to be consistent with each other. This means that leaders need to take the time to know the culture and to carefully plan actions that will build and maintain it and involve employees appropriately in the process, especially when making changes. These efforts take time, resources, and a belief in the importance of culture.
4. **Hire and train for culture from top to bottom.** Hiring and training for culture at all levels, especially in regards to top level leaders, is very important. This requires a well-designed recruitment, selection, orientation, and training process. The long-term benefits are well worth the effort as new employees are much more likely to work productively and consistently with the culture early on and turnover is likely to be much lower than industry averages.
5. **Develop a process for monitoring, improving, and sustaining the culture.** It is very important to attain timely feedback on the organization's culture. Even the best leaders can get out of touch with how employees and customers perceive an organization's culture if they don't have ways to keep in close touch with what is going on. Therefore, organizations need to have planned ways to survey or receive feedback from employees, customers, suppliers, and other key stakeholders and to involve them in making improvements and sustaining the culture.
6. **It pays to build healthy cultures and costs when you don't.** The payoffs of building healthy cultures are well documented. One of the most compelling advantages is the competitive advantage that it can potentially provide. According to strategy scholar Jay Barney, culture can create a sustained competitive advantage when it meets the following conditions: (1) it is valuable (it contributes in some way to efficiency or effectiveness); (2) it is rare; and (3) it is difficult to imitate. Furthermore, leaders should also consider the significant cost of not investing in building and sustaining healthy cultures. Internally, performance, morale, teamwork, and the ability to attract and retain employees are all likely to suffer. Externally, an unhealthy culture can affect sales, service, and customer loyalty and thus put revenue at risk.

7. **Pay attention to and manage potential cultural threats.** Leaders need to be aware of potential culture-changing threats and develop plans for managing them before they take their toll. There is always the possibility of unanticipated circumstances and events taking place such as budget cuts, rapid market changes, economic downturns, natural disasters, and changes in ownership or leadership that can change cultures if they are not effectively managed. When potential threats occur, leaders need to involve and engage the appropriate people in finding ways to mitigate the possible threats or even use the threat to rally people together to strengthen the culture or make needed changes.
8. **Educate boards on the importance of culture.** The need to educate boards, or those responsible for hiring the top-level executive, on the importance of culture could not be emphasized enough. Boards can damage or destroy a strong culture that took years to build by making one decision—*hiring a new CEO who isn't a fit with the existing culture or who doesn't understand how to build a strong one*. There are definitely cases where a new leader with a new approach is needed to change the culture. Where this is the case, there is an even greater need for the board to understand culture and how to effectively change it. Their decision and the process used by the CEO to change the culture could be critical to the future success of the organization.

CONCLUSION

It is clear from research on culture that it plays a significant role in the success or failure of organizations. You would think that as important as culture is that it would be a high priority for leaders to be well trained on its importance and on how to build and maintain it. However, this is often not the case. Zappos represents a unique situation where a leader made culture a top priority and pursued a purposeful process to build it. In fact, Tony Hsieh bet his career and resources on a philosophy that a culture that values employee happiness, customer satisfaction, and a high level of performance would produce the best results. While the results have indeed been impressive, perhaps the greatest contribution of the Zappos experiment has been the emphasis it has placed on the need to purposely and thoughtfully build (step-by-step), change, and sustain a high performance culture and assure that it is designed to support the organization's strategy.



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