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Asoles: The war over retention

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Abstract

In 2016, Deloitte's human capital trends reported that 86% of C-suite executives identified employee engagement and retention as very important. Employee retention has been a key challenge for human resource professionals because it is a financial drain and hampers productivity. It therefore becomes important to look at highly effective retention strategies to enable high productivity in the workplace. Traditional strategies of promotions, higher salaries etc. need to be exchanged for strategies that are more in touch with intangibles that no other competitor of your company can provide. With changing times and a younger demographic becoming a part of the workforce it is necessary for companies to challenge traditional policies to combat attrition and retain their key talent. By taking the case of Asoles, an online player in the focusing on footwear this case study uses the SAPLAP methodology to explore the various strategies used by the organization to ensure employee retention in the organization. Though struggling at first with profitability, with the involvement of their current CEO and his unique employee orientation, Asoles has become a runaway success with its strategies. These strategies have given the company the added benefit of goodwill in the industry, strong customer retention and great valuations. They have been on the cover of some of the most prominent magazines in the US and have been the subject to a major buyout worth over 200 million dollars. These strategies are not without their own their share of backlash with the organisation facing attrition due to the same strategies meant to engage employees at the workplace. Through this case study readers can identify existing winning strategies that are working for the company and even come up with strategies along similar lines to enable employees to become a principle focus of the company.

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Introduction

Today Human resource is being identified today as a key strategic function to plug the gap of shortage of talent in the organization. (Taylor, 2014) One of the key functions has been the retention of human capital. Human capital is the sum of the skills and knowledge gained by human beings because of deliberate investment made on them. (Schultz, 1961)

In 2016, Deloitte's human capital trends reported that 86% of C-suite executives identified employee engagement and retention as very important (Deloitte Touche Tohmatsu Limited, 2016), up from the 2014 report where only 74% of executives felt that way. (Scott, 2015) Management recognizes this affliction, only too well. The investment made in people is precious, since its loss in the form of attrition or people leaving the organization can be very expensive and a drain on a company's financial resources. (Steel, Griffeth, Hom, & Lyons, 2002)

Studies have shown that a loss of 10 or more professionals is easily over 1 million $ internally when accounting for the termination and productivity costs along with other factors (Fitz-enz, 1997) It has been estimated that American firms lose as much as $11 billion annually due to attrition when considering the costs. (Kristen M. Watrous, 2006) Take for instance that the Air Force in America needs to spend up to $6 million to train its pilots. (Steel, Griffeth, Hom, & Lyons, 2002) It is clear from various studies that attrition also negatively affects other intangibles essentials to organizational effectiveness such as productivity which adds to the already established financial drain of attrition. (Price, 1989; Abassi & Hollman, 2000).

While performance appraisals and salary rewarding performance may seem like an adequate strategy to retain employees, research has shown that low performers tend to have attrition rates than low performers. More surprisingly both high performers and low performers have a higher attrition rate than employees who are average performers. (Steel, Griffeth, Hom, & Lyons, 2002)

It therefore becomes important to look at highly effective retention strategies to plug a hole in the financial drain of attrition and to enable high productivity in the workplace. We look at a company Asoles, which deals in selling fashion accessories such as shoes. Though fictional, this company's practices are inspired from the best practices of modern online start-ups.

It was this data from the report that Carlos, owner of Sunban (an e-commerce company) which has recently purchased Asoles was meditating on. He entered the 10:00 am meeting stuck in that frame of mind. He sat with two factions on both sides, clearly divided about the decision that was the prime agenda for the day.

"I think what they are doing is a waste of money honestly." Said Samantha, the CFO of Sunban in her usual blunt outburst. She tended to be reserved but the past week had seen her get unusually animated while discussing the issue.

"Look Carlos, what they are doing has been working for them so far. I think it is a trend setting organisation and we should fully support it. In fact, we might just want to let them infect us with their culture!" the CHRO John argues.

"I am sure John that these measures are very progressive, however we must act rationally. Carlos, I am sure you agree with me." Samantha argued.

Carlos was quite amused with how passionate his team members were over this. It had never taken this long for the team to come to a consensus and it seemed like it was not happening any time soon.

"People, please calm yourselves. I called this meeting to revisit the problem in detail and to come to a consensus over what to do with Asoles. If you open your files, it will contain a breakdown of everything."

SAPLAP approach

The Asoles case has been analysed using the SAPLAP method. SAPLAP is an approach to understanding case studies which was pioneered by Mr. Sushil, a professor from IIT Delhi in his seminal paper SAPLAP models of inquiry (Sushil, 2000) SAPLAP breaks down any problem into two parts, the SAP is problem specific and delves into the Situation, Actors and the Process of the organization. The next three are the learnings which can be dissected from the case study namely, the learnings, actions employed by the various actors and the result or performance. This technique is versatile and can be used for any situation, problem, action employed etc. Though this method was created specifically for understanding case studies pertaining to the supply chain management, however, it has been used extensively in other fields as well. (Mangla, Kumar, & Barua, 2014; Arshinder, Kanda, & Deshmukh, 2007; Palaniswamy, 2001)

Situation

It's imperative to understand how Asoles came into being before we can understand it's unique orientation. It began when an art history major from Northwest College got frustrated trying to find the high heels that his girlfriend wanted. Rick Goldberg in the late 1990's had worked with Carzxchange, a website which allowed people from around North Dakota to rent and buy cars. Inspired by business model and realizing the massive potential that the new phenomena called the internet in terms of business held he worked he founded a company which eventually became the talk of the town for its HR practices and was the subject of many academic discussions.

It all started in 1998 when Rick took his girlfriend to a local mall to find a pair of heels for a trip they both were taking. While one shop had the heels, she wanted but not in the size she wanted, the other had shoes of the right size but not the one she wanted.

This one hour journey for a pair of black heels led to an epiphany, why not start a website which sells footwear online? After working as a contractor for Silicon graphics and gathering about $ 100,000 and friends to start his company, Rick initially named his start up Shoe&U.com. Afterwards, he changed it to Asoles since another company already owned that name.

Though it was growing in the area and was increasing in sales, Rick began also looking for investors around this time. At this same time a company called Investor Toad was looking around to invest in companies.

Tobus Shane

Tobus Shane was a multi-millionaire at 24. He has sold his start up Datamangz to Nanozoft for 157 million dollars. He then started Investor Toad with a few other friends and went about trying to invest on the next big internet idea. At a chance meeting in a bar Rick met Tobus who had so far not been able to find a proper company with an exciting business idea. Though initially reluctant, Tobus got on board and not only invested in the company but became an eventual joint CEO. One of Tobus's principle focuses was always employees. This comes from his experience in his previous start up. When he was starting out, he hired friends and their friends, knowing and being comfortable with those he was working with. However, as the company got bigger, he began hiring people from outside. The culture of the organization grew toxic through poor people management and largely ineffective HR policies. Very soon he lost the motivation to work in the company he founded. The Nanozoft sale came as a relief to him. However, the experience stayed with him and this led him to make people one of the primary focuses in the company.

The situation in 1999, when Tobus decided to get more hands-on with the organization was that they were not reaching profitability. They had so far been making losses though sales were slowly picking up. While Rick could create a supply chain network which had largely reduced the time of delivery and helped expand operations across the country, the firm was seeing employees leaving the organization after just a mere six months to work in other start-ups that were willing to pay more. Due to their innovative business model and supply chain network, employees had to be trained for at least a week to fully understand the work they were involved in. The attrition had caused an estimated loss of nearly $ 4 million dollars for the company.

Actors

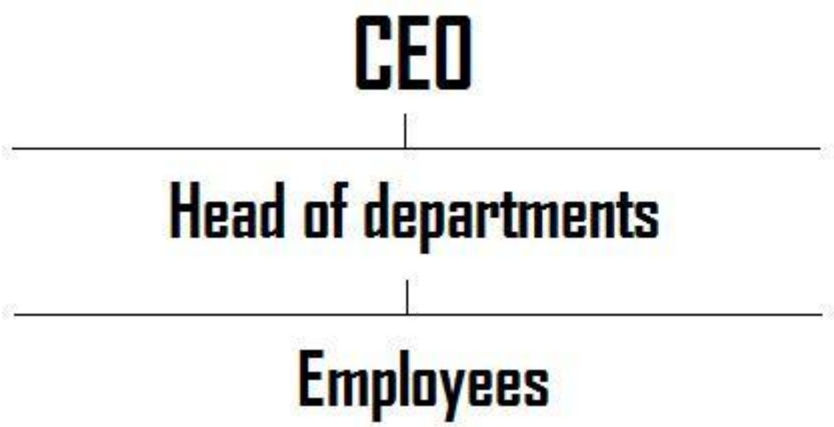
Tobus Shane: CEO of the company

Rick Goldberg: CEO of the company

Employees of Asoles (All functions at all levels)

Process

Rick having had very little experience with having run a company had made operations and marketing his principle concern at the cost of how employees were being handled in the company. The organizational structure was very informal with Rick being the CEO, all company functions being labelled as departments with one person heading it and many employees working under them. A simple diagrammatic view is:



There were no clear job roles established and an informal work culture was established. People were hired on a referral basis with simple interviews of the candidate taken by the head of the department used to select employees.

Learnings

When Tobus took over the company, he wanted to avoid making the same mistakes he made in his first firm. He considered the company's HR management and found:

1. Attrition rates were a high 32% at all levels.
2. Organizational effectiveness had fallen and could not justify the number of people that had been employed. Rick had planned to cut down the workforce by 10% to improve operational costs.
3. Exit interviews revealed that 37% of employees had left the firm because they had been offered a better job in some other firm, 12% left the firm because they did not feel as if their inputs were being valued in the firm while the rest could not give a concrete answer.

Actions

$ 3,500 Bonus

In September 2004, Asoles initiated a recruitment policy that was way ahead of its time and differed from what any other firm in the world had ever done. Each candidate who applies for a company needs to pass through several selection tests after which they are offered a job, a prospective title. In Asoles, each candidate works for a gruelling two months, wherein he is immersed in their culture. After these two months, they are presented with what is called “the golden bullet”. The candidates that pass through, are offered along with their pay a $3,500 bonus to quit their current job. Now, this does sound cynical and to a point makes one wonder how exactly does the HR department stop individuals from coming in, working for two months and in addition to being paid for their services, leave with a $ 3,500 bonus.

Despite this practice, Asoles has managed to keep up retain more than 95% of their employees, implying only 5% of the candidates go for the bonus. For an organization, this is especially difficult since not every individual is supposed to like the culture they work in. There are a lot of other variables that determine whether a candidate takes up that job or he leaves it. (Thomas N. Martin, 1979)This indicates the strong USP that Asoles has in its culture that makes people stay even when they can leave with a huge bonus in their pockets.

This policy not only finds people who are job fit and creates a place where people want to work in; it also has deep impact over the long-term functioning of the company. Over the long period, a lot of companies tend to spend a huge amount of money in training their employees for meeting the changes in the industry standards as well as that of the organization and it causes great drainage of their wealth when these employees cut corners while doing their jobs. For Asoles, this is a different case altogether. It enjoys a 15% attrition rate, much below the industry’s which is 30% and has its employees content and happy. Asoles’ ability to harness such loyalty is to a large extent a result a result of their $ 3,500 bonus scheme. How?

Declining the bonus to join Asoles creates commitment in those employees who stay back because they left the chance to keep a huge bonus and took the job instead. They therefore have a more compelling reason to choose Asoles which ultimately leads to them being in the organization for a longer period. This ensures that in the long run Asoles does not need to worry about its employees leaving because of money and they do not lose valuable trained employees to attrition. This combination of commitment, job fit and purposeful existence creates extremely high loyalty which was shown by the fact that more that 80% of the employees shifted from the Henderson, Nevada to Downtown Las Vegas when Asoles shifted headquarters.

Bringing the "Woah factor" to make work fun:

The Asoles culture has a strong foothold among its employees. A culture of going the extra step to deliver a Woah! experience. Asoles encourages employees to keep innovating to avoid monotony in their everyday jobs. For e.g. In one of the most famous Asoles stories of Woah experience, A customer had ordered for a pair of shoes for her grandmother, however her grandmother passed away just before the delivery.

The sales rep sent a big bouquet of flowers to a customer for her grandmother's funeral. It is these stories that make Asoles legendary. Employees in their call centres can go the extra step and no script is provided to them. Hey can be themselves and when they are on their calls, they are no longer Asoles employees, they are there to help everyone whoever calls them to have a better day. With over one thousand calls in one day, they keep their pleasant demeaner and it is almost unheard of to have a Asoles person who does not make your day with their service.

In an interview, Tobus made it very clear. "Service was going to be our number one differentiator" says Tobus. "We try to make sure that every point of contact is memorable for our customers. We also understand that this is possible only if our employees feel like they feel they need to work towards making the customer's experience pleasant. So, we decided to do away with scripts or anything of that sort."

Holacracy

In a study performed by Peter Lok and John Crawford studying cross national variation in culture and motivation by taking a sample of managers who were Australian and Hong Kongers found that the one thing common to both samples was that there was an Initiating organizational structure had a negative impact on their performance. (Lok & Crawford, 2004) This is even though in a 2004 study of global cultural differences using the GLOBE model, these two countries had a significant difference in their scores across multiple parameters. (House, Hanges, Javidan, Dorfman, & Gupta, 2004)

A report by TINYpulse, an organization working on employee engagement studying more than 500 organizations and over 2 lakh employees found that close to half the employees were unhappy with their direct supervisor, 21% feeling strongly valued at work with 70% employees not feeling like they are completely fulfilling their job role. (TINYpulse, 2016)

Intending to streamline the processes that involved decision making, creating greater autonomy and purpose orientation for its employees, in 2013 Asoles adopted holacracy. Holacracy is an organization with no titles, implying there is no manager, senior manager, vice president or any position of authority and it severs a lot of power from its CEO. Holacracy was first introduced by Brian Robertson in 2007 who himself strived towards an organization which worked much more efficiently and increased both quality and quantity of an employee's contribution to the organization.

Another big reason for imbibing holacracy into Asoles, is its growing need to get rid of all forms of bureaucratic hindrances that increased decision time making. It was also observed that many a times, brilliant ideas were subdued by egoistic superiors. An employee of Asoles, states how much of his ideas were considered impractical and not worth considering before the shift towards holacracy and how, now that the change has completed, his ideas are now being heard and implemented.

This however, does not imply that the change towards holacracy was a piece of cake. When Tobus Shane made the decision to transition his company, to help his employees, understand what exactly it meant, he wrote a 3500-word article clearly explaining the new vision for the organizational structure and its implications. In addition, he also stated how the employees who were not comfortable with this change will be paid \$2000 in addition to their salary to leave. The article serves as a written documentation of what will be expected out of the employees but even so countless meetings spanning numerous hours each took place to make people comfortable with the change. New ways to perform tasks were established, for example, the concept of departmentalization was scrapped to create circles. The circles acted as projects where in any person can connect himself to any circle at a period. This meant that there were now no actual specialized departments for marketing or production. Now they all were employees of Asoles who could work as they please in any circle or project that fascinated them. This facilitated greater creativity since it also released people from traditional ways of approaching the subject. In the pursuit of holacracy, more than 30% of its employees left Asoles, also taking the bonus with them causing financial loss along with depleting the company with respect to their workforce and experience.

With the adoption of holacracy, there were no managers or bureaucratic superiors, there only were project managers in circles. A project manager is the one who comes up with the idea as well as the one convinces others to join his project, this way no one forces anyone to do anything. An interesting point to note here is that not every run-in-the-mill company is able to adopt holacracy, in the way Asoles has done it. This is so, because even though companies establish norms about expected behaviour, they don't emphasize it well. This causes unwanted traits, such as greed and ego to overshadow the core values. Enron, for e.g. was for a decade (before 2006) considered to be a company with high integrity. In 2006, the façade was undone when two of its top-level employees were charged with contempt of conspiracy, insider trading and fraud.

The reason why their employees need not require supervision and instruction doing their work is again deep rooted in their culture. A tremendously strong culture, such as that of Asoles already instils those values, keeping in mind, how the work should be done. With this established all an Asolesian must do is find a circle that fascinates him/her and choose a position that suits her requirements. Further, employees who were too uncomfortable, were already offered the "Golden bullet" which further sieved employees who want to work in a Holacracy.

Culture

Culture is one of the most essential catalysts that must be calibrated in the right way to push stable business success. Long-term success depends on the culture that is therefore promoted in the organisation. (Parr, 2014)

Asoles conceived and improved the idea of work life innovation. The first one being that of its Zen values.

Normally a company to create their core defining values, tend to have the top few executives come together to form norms. These norms tend to be numerous and in the end, not all of them are practiced rigorously. This causes their culture to be poorly organized and creates dysfunction overtime. Asoles solved this problem when CEO, Tobus instead of going with the orthodox, did something different yet again. He believed that creating long books of numerous rules were ineffective. He sent out an email to all his employees, asking them to suggest what exactly should be the core values in the company they work in. After generalising, these 10 suggestions came to be.

1. Deliver Woah! Through Service
2. Embracing transformation and driving it
3. Making the workplace quirky and eccentric
4. Being risk taking, innovative and broad minded
5. Continuous improvement and growth
6. Transparency in the relationship and communication
7. Building a community within the organisation
8. With less do much more
9. Be Driven and energetic
10. Modesty is the key

Culture innovated through this methodology makes people, who are the most important element in an organization committed. This further ensured that each employee was truly aware of the values he had to work with. Since Asoles was founded on these values and were later confirmed by every employee, there was deeper conformity across all employees.

Performance

Literature concludes that H.R. policies when aligned with the strategic goals of the company help improve the sustained competitive advantage of that company. (Huselid, 1995) This rings more than true for Asoles could to capture public imagination, the market and everything else along the way.

Asoles has seen exponential growth. It has grown from nothing in 1998 to around 33 million dollars in the span of four years. In 2009, they hit the 1-billion-dollar mark and established themselves as a very profitable organization in their space, even making it to the cover of Orbes Magazine (a very reputable magazine). In 2010, they were bought by Sunban for over 200 million dollars.

Asoles today boasts of more than 75% retention rates which is very rare online or even offline for that matter. This method is very cost efficient since research has shown that getting a new customer is five times more expensive than retaining a pre-existing customer. It has also been shown that increasing customer retention by even 5% can yield in increase in profit by 25% to even 95%. (Barnes & Noble, 1995) Evidence for the same can be gathered from above.

Over 20,000 applications come to Asoles for only 200 jobs. The exit statistics at present for voluntary retirement is 13% while for involuntary retirement is 8%. In its call centres, while around the world attrition averages around 150% Asoles has managed to keep the levels near 38%. The holacracy model in turn inspired the industry to look at innovative practices. In fact, Median a website started by one of the co-founders of the famous website Birdblu (blogging website) has decided to follow the same model in their organization.

While Holacracy proved to be a bold step forward towards empowering employees, it too had its share of shortcomings.

People's roles

Asoles is a company that invests heavily into finding employees for the right job fit. Less than 200 employees are taken in each year from over 2000 applications. Employing people based on their job fit has been shown to ensure higher productivity (Caldwell & III, 1990) but with the advent of holacracy, a lot got changed. In Asoles' holacracy structure there are concentric circles wherein the Asoleans join projects that interest them. Through these circles, they spend their people points. If they are not able to find circles that interest them, there is a place called the beach where they get counselling to find the perfect circle for them or to help them adjust better in their own circle. If they are still not able to adjust in the circle, they get fired.

In the process of trying to implement radical structural changes, many employees who felt confused by this change and were unable to adapt to it quit. Within a quarter of this new initiative, over 20% of the employees left voluntarily with almost 14% leaving without taking their package. This caused Asoles to drop by four positions on Glass window's annual list of top places to work which is based on employee feedback. In fact many Orbes magazine even ran two issues dedicated to discussing the crisis with the heading "One wonders if Asoles are really people centric anymore"

A management crisis

The new structure in Asoles flattened out the authority of the managers. Managers who were responsible for the current state of Asoles, were stripped of their titles. Though many coped well with this change (even acting as advocates during business conferences for holocracy), some managers who could mobilise employees quit to join more “traditional organisations”. This loss of leadership („Brain drain‟ as per Tobus Shane‟s recent press conference) led to a loss of more than 14$ million. It is a known fact now that most prospective employees are now looking beyond Asoles to put their talent to use.

Vision for change (one too many)

When Tobus Shane introduced the concept of holacracy, he didn’t just introduce a new system, he also set a new goal, of becoming a teal organisation. This last phase put emphasis on self-management. This new goal came as a huge shock for the Asolesian staff, which was yet to recover from the turbulence caused by holacracy. In a tweet that went viral two weeks after Tobus put forth his vision in the form of a two page memo that was circulated in the company a disgruntled employee tweeted “1st holocracy and den teal. Shane feeling like #WizardofOz.”

Transition

In the recent purchase by Sunban, executives from both sides of the table recognised the need for Asoles to upgrade its servers, something that thankfully its parent company was a market leader in. During this radical shift into holacracy, Asoles was also were already in process of transferring their database to Super Cloud, the cloud service provided by Sunban. This process is a cumbersome exercise which is taking up a lot of the company’s energies. Coupled with the company’s own change of its internal compass, employees are currently looking for clarity.

This had effects in other best practises, as more people began taking the 3,500$ golden bullet which started hurting the company’s balance sheet. The chaos was also impacting the Woah culture of the organisation with cracks of sub-par quality service coming from customer feedback since the last three months.

Problem

There was a flutter of activity once the team had gone through the entire report. Carlos allowed them to discuss among themselves for about half an hour. However, twenty minutes into the discussion, Samantha approached Carlos and frankly admitted to him “This is going nowhere. We need you to take a call on this.” All eyes were trained on Carlos on both sides of the table for him to take a final call. What should Carlos do?

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