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WHITE PAPER:

The Pathway to Digital Maturity

A KRW Research Institute Point of View

The Pathway to Digital

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The Digital Disruption—The Tidal Wave Changing Behaviors, Businesses, and Lives

We were warned. Many observers of the business climate have told us for a long time that a tidal wave of digital disruption was about to hit. Now it has. The digital revolution is here.

Nearly every day one more opinion piece or a survey of hundreds of C-Suite leaders appears in the global business press. And across all these publications, there is a broad consensus: the digital revolution, fueled by our own behavior change and attitude towards technology, is causing a massive disruption in nearly every business sector. (See Endnotes)

What Exactly is the Digital Revolution?

The advancement of new technologies has been moving furiously. Since Intel's co-founder Gordon Moore observed in the 1960s that Intel chips doubled their computing power roughly every year, people have seen technology advances increase exponentially—and this became known as "Moore's Law." This law has proven valid for the last fifty years. In fact, the small smartphone that nearly everyone carries today has more than a billion times the computing power than the computers used to send men to the moon in 1969. Even the massive super-computers developed by Cray Research in the 1980s had less computing power than the current typical smartphone. This is what happens when technology development is on an exponential curve.

Ray Kurzweil, Director of Engineering at Google and the noted proponent of "singularity," predicts that by 2029 our human biology will have merged with technology. Humans will have so fully embraced technology that we have truly become cyborgs. Yuval Harari, author of *Sapiens* and *Homo Deus*, spoke at the 2018 World Economic Forum and stated that the merger of biology and technology could even result in a new human species.

Digitizing in nearly every field of human endeavor is happening at a dizzying pace. This, then, is the digital revolution.

David Roe of CMSWire said it best:

> "The digital revolution is the transformation of business and organizational activities, processes, competencies and models to enable organizations to use and exploit digital technologies to improve business processes and outcomes."

There is widespread agreement that businesses that avoid addressing digitalization will likely fail to survive. The authors of the MIT Sloan Research Report (Summer, 2016) say:

> ". . . the mounting pressures of a rapidly shifting business landscape are turning

digital from a choice into an imperative. The longer a business waits, the more marginalized it will become."

This opinion is shared by many others.

The purpose of this paper is to describe what we assert is an effective pathway to digital maturity.

Overview

The foundation of a digitally mature organization rests upon a culture that is shaped by the Character Reputation of senior leadership.

The behavior of senior leadership shapes the culture. How do senior leaders react when innovators fail? How psychologically safe is it for talented people to take a risk? How the senior leaders treat the workforce determines the culture.

Changing the corporate culture to one that supports digitization requires new behaviors and skills. These new behaviors and skills combined with enabling digital technology results in new ways of doing things. This often leads to a major revision of the business model, or even a totally new one.

We firmly believe that going down the digital path is not a matter of tools or technology, but a matter of developing certain organizational behaviors, as a BCG study states:

> ". . . Leaders need to acknowledge digital transformation as the fundamental, strategic paradigm shift that it is. Like any major transformation, a digital transformation requires instilling a culture that supports the change while enabling the company's overarching strategy."

Figure 1 below displays in graphic form the pathway we describe in this paper. We will review each part of this pathway in detail.

Figure 1

The Pathway to Digital
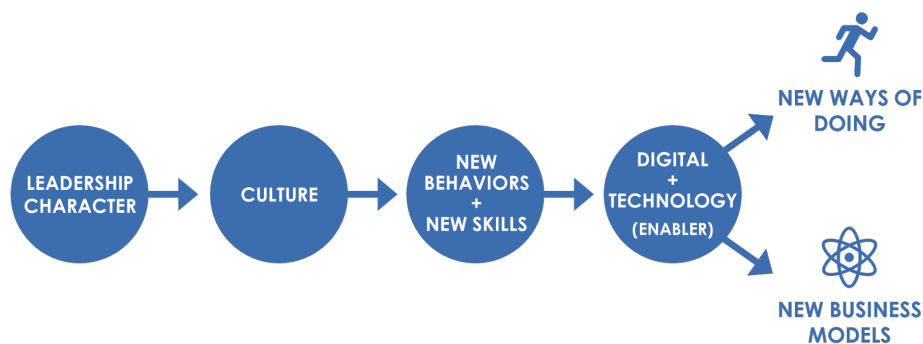
Leadership Character

The findings from our seven-year research project assessing the connection between the Character Reputation of senior leaders and the bottom line showed an amazing result.

High-Character leadership teams brought nearly five times more profitability to the bottom line than did the leadership teams with low Character. Furthermore, the High-Character teams enjoyed a much higher level of workforce engagement and lower levels of corporate risk.

We reported our findings in *Return on Character* (2015, Harvard Business Review Press).

Return on Character®(ROC) Headlines

Character-led organizations significantly out-performed organizations with self-focused leadership as measured by:

- **~5x** greater Return on Assets
- **26%** higher Workforce Engagement
- **Lower levels of corporate risk**

High-character leaders on average are perceived as +18% more skilled overall.

Return On Character
The Real Reason Leaders and Their Companies Win
Fred Kiel

Harvard Business Review Press
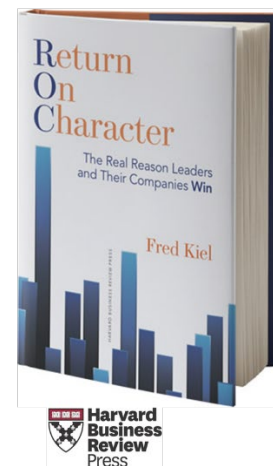
For years the leadership-development industry has focused on enhancing the skills of individuals and teams. Their skills are *what* they do. Little attention has been paid to the core of *who* the individual is as a person. True, many companies use personality assessments to select and develop leaders. While this is useful, personality assessment does not reach the core of who a person is.

One's coworkers do not decide to trust him or her based on his or her personality. Trust in the workplace is based on an individual's "Character Habits." A person's character habits are simply the habitual ways a person interacts with other people.

A person's interactions can be thought of as expressions of four universal moral principles.

Figure 2

The Digital Culture

No one has done more to study and understand the concept of corporate culture than retired professor Edgar Shein. Shein was a professor at MIT Sloan School of Management for decades and has written extensively on the subject of culture. He was interviewed in 2015 by *Leadership and Change Magazine*. In this interview, he said:

> "Culture operates at many levels and certainly 'how we do things around here' is the surface level. I like to think of culture to be like the lily pond. On the surface, you've got leaves and flowers and things that are very visible. That's the 'how we do things around here' but the explanation of why we do things in that way forces you to look at the root system, what's feeding it and the history of the pond, who planted what. If you don't dig down into the reasons for why we do things this way you've only looked at the culture at a very superficial level and you haven't really understood it."

There are dozens of more formal definitions of culture and we have selected a typical one:

> "Corporate culture refers to the shared values, attitudes, standards, and beliefs that characterize members of an organization and define its nature. Corporate culture is rooted in an organization's goals, strategies, structure, and approaches to labor, customers, investors, and the greater community."

So what are the qualities of a digital culture? The authors of the MIT Sloan Research Report (Summer, 2016) state:

> "A key finding in this year's study is that digitally maturing organizations have organizational cultures that share common features. These features consistently appear in digitally maturing companies across different industries. The main characteristics of digital cultures include: an expanded appetite for risk, rapid experimentation, heavy investment in talent, and recruiting and developing leaders who excel at 'soft' skills."

Quy Huy, INSEAD Professor of Strategic Management and Zhixing Xiao, Visiting Professor, Peking University HSBC Business School (PHBS) recently wrote:

> "Innovation is like an iceberg. Most companies concentrate on what's above the surface—the money-making products and services—rather than on the less tangible culture and processes that underlie, support, and enable them. They want innovative results, without realising that innovation starts from the inside out, i.e., with culture. Without a strong cultural component, attempts at innovation are, in effect, akin to putting the cart in front of the horse."

So how is a corporate culture maintained or changed? Jim Whitehurst, CEO of RedHat Computing, wrote in the October 13, 2016 issue of *Harvard Business Review* ("Leaders Can Shape Company Culture Through Their Behaviors"):

> ". . . building an innovative culture starts by looking at how you behave as a leader toward those trying to innovate. The same is true about any kind of culture—it all begins with the behavior of your leaders. To say that another way, if you are interested in changing the culture of your organization, your first step should be to look in the mirror and make sure you are setting the kind of behavioral example you want everyone else to follow. "

The KRW Research Institute has created a Digital Culture Index Survey (See Appendix A) which is benchmarked against the character reputation scores of senior teams who have successfully created highly effective cultures.

A case study of one digitally successful North American retailer is provided. (Appendix B)

New Behaviors + New Skills

A senior team with strong Character Habits creates a culture where a successful transformation into a digitally mature organization can occur. But it is important that the team also focuses on new skills to guide this transformation.

New skills in ways of working—the organization structure, collaboration, innovation, speed, agility, customer-centricity, prototyping and learning, data driven—are needed or nothing will really happen.

High-Character teams are also seen by their workforce as being more skilled in a number of these ways.

High-Character teams:

- Create more inspiring visions

- Create a strong culture of accountability
- Make it safe for the workforce to be innovative
- Are strong team leaders
- Encourage collaboration
- Are good communicators

It seems that strong Character Habits and good business skills go hand in hand.

The Enabler: Digital Technology and New Business Models

Successful digital cultures develop new ways of doing things that allow new business models to emerge while leveraging digital technology. Digital technology is the enabler.

But for this enabling to occur, it must be supported by a culture where innovation, risk taking, collaboration, and customer-centricity flourish.

The Customer and KPIs

This digital revolution has given a voice to the customer that has become extremely powerful. Gone are the days when a company could ignore customer preferences and arrogantly act like customers don't know what they want and are "ignorant." Customers have a voice today. They can shame and cause a major ding in a company's reputation in a matter of minutes using social media. Likewise, customers can have a wonderfully positive impact using the same social media. Customers can also collaborate with a business to bring major improvements.

To survive in today's world of digital disruption, it is imperative that a business is customer-centric. It's one thing to say, "We are customer-centric"; it's another to practice it. Unless a business can affirmatively answer these questions, it is unlikely that they're customer-centric. The questions are: What delights our customers? What do they need from us? What is so satisfying to them that they return again and again to buy our services or products?

The answer to these questions reveals ways to measure customer satisfaction and engagement. The companies that continuously measure the key performance indicators of customer engagement are the ones who have a chance of surviving this digital tidal wave.

Jeremie Bacon at *Journeys from Synap* writes:

> "Reaching a state of customer-centric nirvana goes beyond delivering what your customer wants. It requires that you get deep into understanding their fundamental needs as part of your relationship management efforts. Organizations that are aligned around their customers seek to understand the world through their eyes."

A Research Update (June, 2018) by *MIT Sloan Management Review* entitled, "Customer-Focused KPIs Fuel the Future of Business" states:

> ". . . what sets leading companies apart is not so much the number of metrics they track but how they use them to better engage customers."

They further observe, "What gets measured, gets managed."

So being customer-centric means understanding your customer's world so well that you can measure it continuously with just two or three KPIs. This provides the necessary feedback loop for you to adapt internal processes to better meet your customer's needs.

Conclusion

The Pathway to Digital begins with High-Character leaders who create the culture that supports the development of new behaviors and skills and new ways of doing things that leverage digital technology—and often this transforms the business and even creates a new business model.

The Pathway to Digital
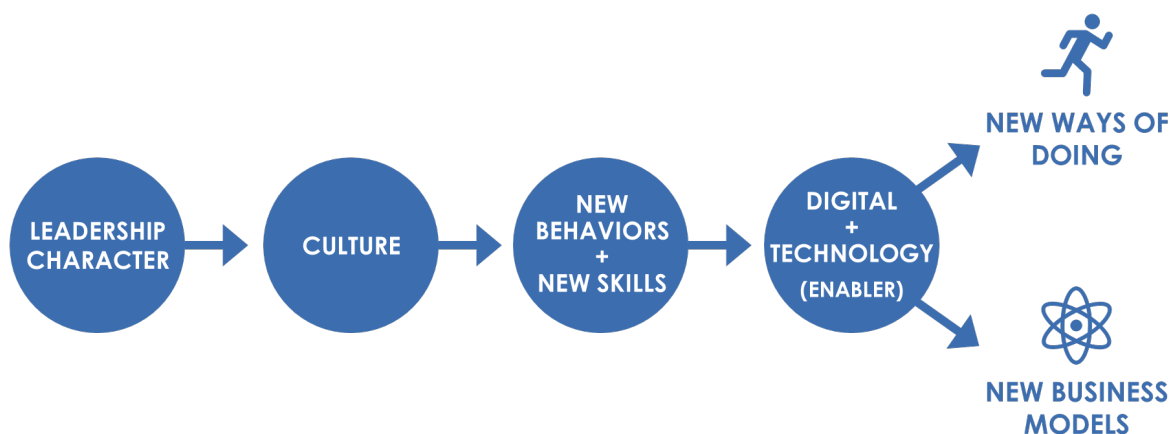
Appendix A

RAPID—The Digital Culture Index

> **RAPID—The Digital Culture Index is a survey with thirty-two questions covering seven cultural dimensions. This survey can be administered to all or just a random sample of the workforce. It takes less than fifteen minutes to complete.**
>
> **We've labeled it "RAPID" because it provides a quick and insightful view into the organizational conditions that reflect the underlying culture.**
>
> **The Index is a benchmarked score that reveals how a company's culture compares to the cultures created by High-Character leadership teams.**

The current wave of digital disruption has businesses scrambling to transform their organizations and business models into ones that are digitally mature and will survive.

They face many challenges. Technical challenges are not the biggest problem. Top of the list are people issues. A recent webinar presentation by *MIT Sloan Management Review*[1] reported that nearly fifty percent of C-Suite executives identified people issues as their biggest challenge in dealing with the digital disruption. People issues are, of course, a reflection of the organization's culture.

Many writers have described the importance of culture as the "container" in which a successful transformation to digitization can occur.

The authors of the MIT Sloan Research Report (Summer, 2016) state:

> "A key finding in this year's study is that digitally maturing organizations have organizational cultures that share common features. These features consistently appear in digitally maturing companies across different industries. The main characteristics of digital cultures include: an expanded appetite for risk, rapid experimentation, heavy investment in talent, and recruiting and developing leaders who excel at 'soft' skills."

We at the KRW Research Institute know something about cultures. The highest performing companies in our research database were led by High-Character teams who had created very safe and productive cultures.

We scoured our database of research questions and found thirty-two items which reflect an organization's culture and can be benchmarked on an item level. None of these items are used to score the character reputation index of the senior team.

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1 June 27, 2018 MIT Sloan Management Review Webinar: How Big Data and AI are Driving Business Innovation in 2018.

We chose these items based on the strength of their correlation with the character reputation index of senior teams. All thirty-two tems correlate at +.60 or higher.

We then sorted them into categories based on the content of the items. The following seven categories emerged:

- Psychological Safety
- Confidence in Management
- Communication
- Risk-taking
- Fairness
- Vision
- Innovation & Collaboration

Table 1 displays the Character Index Scores for the High-Character teams as well as the Self-Focused teams. It is very clear that the Character Reputation of the senior team has a major impact on risk taking, innovation, collaboration, and overall confidence in management. Furthermore, it impacts how much the workforce embraces the vision.

Table 1

RAPID—The Digital Culture Index

Factor	High-Character Teams' Character Reputation Index	Self-Focused Teams' Character Reputation Index	Gap
Psychological Safety	82	63	19
Confidence in Management	83	66	17
Communication	85	69	16
Risk-Taking	79	65	14
Fairness	79	63	16
Vision	85	71	14
Innovation & Collaboration	75	61	14
OVERALL INDEX	**81**	**65**	**16**

We assert that an organization that scores high on each of these categories (factors) will have a culture that is the ideal container for leadership to effectively deal with the current digital disruption.

We know from our research that the character reputation of the senior team is highly related to strong profitability, lower risk, and high workforce engagement. Teams with a

strong Character reputation bring nearly 5X more to the bottom line, enjoy a 26% higher level of workforce engagement, an 18% higher level of assumed skills, and finally, a lower risk profile compared to those with a weak Character reputation. [2]

The teams who deliver these exceptional high returns all have one thing in common: a corporate culture that drives organizational success.

More specifically, we found that the *psychological safety* factor is essential for a digital culture.[3]

Google's Aristotle Project

Our results coincide with the findings of the *Aristotle Project* Google launched in 2013 to answer this question: "What makes a Google team effective?" Julia Rozovsky, an analyst in Google People Operations (HR), reported the findings on November 17, 2015.[4]

> "Over two years we conducted 200+ interviews with Googlers (our employees) and looked at more than 250 attributes of 180+ active Google teams. We were pretty confident that we'd find the perfect mix of individual traits and skills necessary for a stellar team—take one Rhodes Scholar, two extroverts, one engineer who rocks at AngularJS, and a PhD. Voila. Dream team assembled, right?"

Rozovsky continues:

> "We were dead wrong. Who is on a team matters less than how the team members interact, structure their work, and view their contributions. So much for that magical algorithm."

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[2] Fred Kiel. *Return on Character.* Harvard Business Review Press, 2015.

[3] Laura Delizonna. *High-Performing Teams Need Psychological Safety. Here's How to Create It.* Harvard Business Review, August 24, 2017.

[4] https://rework.withgoogle.com/blog/five-keys-to-a-successful-google-team/

The Google project learned that there are five key dynamics that set successful teams apart from less effective teams:

1. **Psychological safety**
   "Can we take risks on this team without feeling insecure or embarrassed?"

2. **Dependability**
   "Can we count on each other to do high-quality work on time?"

3. **Structure & clarity**
   "Are goals, roles, and execution plans on our team clear?"

4. **Meaning of work**
   "Are we working on something that is personally important for each of us?"

5. **Impact of work**
   "Do we fundamentally believe that the work we're doing matters?"

Rozovsky goes on to claim:

"*Psychological safety* was far and away the most important of the five dynamics we found—it's the underpinning of the other four. How could that be? Taking a risk around your team members seems simple. But remember the last time you were working on a project. Did you feel like you could ask what the goal was without the risk of sounding like you're the only one out of the loop? Or did you opt for continuing without clarifying anything, in order to avoid being perceived as someone who is unaware?"

"Turns out, we're all reluctant to engage in behaviors that could negatively influence how others perceive our competence, awareness, and positivity. Although this kind of self-protection is a natural strategy in the workplace, it is detrimental to effective teamwork. On the flip side, the safer team members feel with one another, the more likely they are to admit mistakes, to partner, and to take on new roles. And it affects pretty much every important dimension we look at for employees. Individuals on teams with higher psychological safety are less likely to leave Google, they're more likely to harness the power of diverse ideas from their teammates, they bring in more revenue, and they're rated as effective twice as often by executives."

An additional source about the importance of psychological safety is explained in a TED Talk by Dr. Amy Edmonson, a Professor at Harvard.[5]
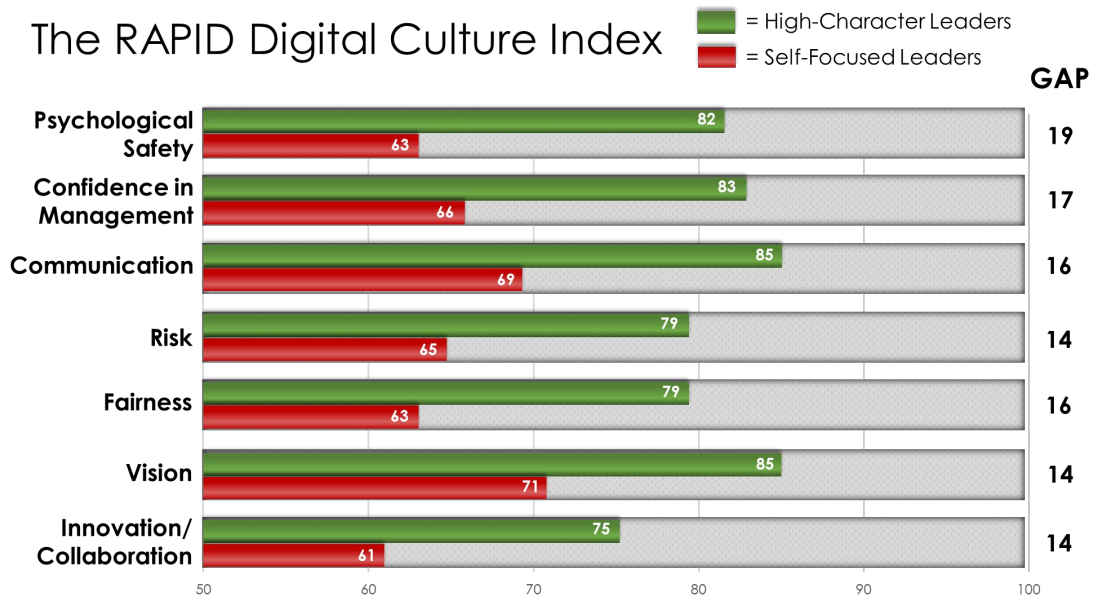
KRW's RAPID Digital Culture Index Survey Factors and Correlations with the

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[5] Amy Edmonson. Building a Psychologically Safe Workplace.
https://www.youtube.com/watch?v=LhoLuui9gX8

Character Reputation of the Senior Team

Psychological Safety **Correlation with Team Character Reputation = .80**
This factor has seven survey questions regarding what happens when people make mistakes, how well senior management listens to what they have to say, and in general, how safe it is to tell the truth to senior management.
Confidence in Management **Correlation with Team Character Reputation = .80**
This factor has four survey questions which assess the quality of the decisions made by senior leaders and their overall business acumen.
Communication **Correlation with Team Character Reputation = .75**
This factor has five survey questions which assess the quality of communication at several layers within the organization.
Risk-Taking **Correlation with Team Character Reputation = .72**
The factor has three survey questions which assess how performance failures are handled and how management reacts to new ideas.
Fairness **Correlation with Team Character Reputation = .70**
This factor has four survey questions which assess accountability and overall procedural fairness.
Vision **Correlation with Team Character Reputation = .68**
This factor has four survey questions which assess how well the senior team's vision motivates and inspires the organization.
Innovation & Collaboration **Correlation with Team Character Reputation = .65**
This factor has five survey items which assess the quality of cross-functional cooperation, how well management involves employees in relevant decisions, and what happens when innovative ideas are surfaced.

The Benchmarked Results:

The RAPID Digital Culture Index

= High-Character Leaders
= Self-Focused Leaders

Dimension	High-Character	Self-Focused	GAP
Psychological Safety	82	63	19
Confidence in Management	83	66	17
Communication	85	69	16
Risk	79	65	14
Fairness	79	63	16
Vision	85	71	14
Innovation/Collaboration	75	61	14

These data show conclusively that the character reputation of the senior team is what drives these seven cultural dimensions.

Conclusion

- Risk taking, innovation, and collaboration cannot be sustained in a self-focused and risk-averse organization.
- Without healthy risk taking, thriving innovation, and robust collaboration, it is very hard for the workforce to possess the required agility needed to discover new solutions and customer-centered behaviors.
- An elevation of the Character Reputation of the senior team is the driver that prompts the culture to shift to become digitally mature.
- The senior team also needs to leverage an important set of skills:
  - ➢ Create inspiring visions
  - ➢ Create and maintain a strong culture of accountability
  - ➢ Make it safe for the workforce to be innovative
  - ➢ Demonstrate strong team leadership
  - ➢ Encourage collaboration
  - ➢ Communicate effectively
  - ➢ Act with speed and agility
  - ➢ Demand customer-centricity
  - ➢ Encourage prototyping and learning
  - ➢ Remain data driven

Endnotes:

The following is a partial list of the sources we've drawn from to write this paper.

1. "Gartner Says Digital Business Requires Growth Mindset and Not Just Technology"
   a. https://www.gartner.com/newsroom/id/3861863

2. CMS Wire: David Roe. Why a Digital Mindset Is Key to Digital Transformation
   https://www.cmswire.com/digital-workplace/why-a-digital-mindset-is-key-to-digital-transformation/?utm_source=cmswire.com&utm_medium=email&utm_campaign=cm&utm_co ntent=nl-daily-180308&mkt_tok=eyJpIjoiTkRnMk5qTTJORGRoTW1JeiIsInQiOiJVWElwUEVjWlBmTzNOS0VjMVw vXC9mcTF6cFJndnVDeE9sUmZrcWNjUndUcVVqNmt0RjNpNUUzUllwQjBzY241RFR EekQ1OHJCaV ZMMnVuTUdtdGt0UlJ5TFB2dFBnWkhTeDRHSzVFZWJtMThmdFA1QXNCTTRyazhrVH IJWDhIUEZ1I n0%3D

3. Secrets of Successful Change Implementation. McKinsey & Company, October 2017 https://www.mckinsey.com/business-functions/operations/our-insights/secrets-of-successful-change- implementation

4. The Secret of Productivity: Microsoft Reporter, February 6, 2018
   https://news.microsoft.com/europe/features/the-secret-of-productivity/

5. Yuval Harari – World Economic Forum Video, 2018.
   https://www.youtube.com/watch?v=hL9uk4hKyg4

6. Ray Kurzweil. *The Singularity Is Near: When Humans Transcend Biology*. Penguin Books, 2005.

7. Moore's Law. https://cacm.acm.org/magazines/2017/1/211094-exponential-laws-of-computing-growth/abstract

8. MIT Sloan Management Review Research Update (June, 2018) Customer-Focused KPIs Fuel the Future of Business

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10. Jim Whitehurst. October 13, 2016 issue of Harvard Business Review (Leaders Can Shape Company Culture Through Their Behaviors)

11. Fred Kiel, *Return on Character*. Harvard Business Review Press, 2015.

12. Corporate Culture - Encyclopedia - Business Terms

https://www.inc.com/encyclopedia/corporate-culture.html

13. Leadership and Change Magazine. *Edgar Schein on Culture*. Marcella Bremer, August 28, 2015 https://www.leadershipandchangemagazine.com/edgar-schein-on-culture/

14. https://www.britannica.com/topic/organizational-culture

15. David L. Rogers, *The Digital Transformation Playbook: Rethink your business for the digital age.* Columbia Business School Publishing. 2016.

16. Quy Huy, INSEAD Professor of Strategic Management and Zhixing Xiao, Visiting Professor, Peking University HSBC Business School (PHBS). *The Cultural Attributes of the Most Innovative Companies.* KNOWLEDGE Magazine, INSEAD. June 23, 2018

   a. https://knowledge.insead.edu/leadership-organisations/the-cultural-attributes-of-the-most-innovative-companies?mc_cid=73770c7000&mc_eid=9be5bf5728#K5fIuwBDpbzAEiHP.99

Appendix B

Case Study

REI: A Successful Transformation to a Digital Culture

From REI's website:

REI is a specialty outdoor retailer, headquartered near Seattle. The nation's largest consumer co-op, REI is a growing community of more than 16 million members who expect and love the best quality gear, inspiring expert classes and trips, and outstanding customer service. REI has 147 stores in 36 states. If you can't visit a store, you can shop at REI.com, REI.com/REI-Garage or the free REI shopping app. REI isn't just about gear. You can take the trip of a lifetime with REI Adventures, a global leader in active adventure travel that runs 170 custom-designed itineraries on every continent. REI's Outdoor School is run by professionally-trained, expert-instructors who teach beginner- to advanced-level courses about a wide range of activities. To build on the infrastructure that makes life outside possible, REI invests millions annually in hundreds of local and national nonprofits that create access to–and steward–the outdoor places that inspire us.

REI's History:

1938 - Before color television. Before the completion of The Appalachian Trail. Before the end of The Great Depression. An era long before online shopping carts, or actual shopping carts for that matter. Before it was convenient to buy quality outdoor equipment.

It was 1935 when Seattle-based outdoorspeople Lloyd and Mary Anderson made a conscious decision: They needed a better way to purchase gear.

At the time, quality ice axes were available for $20, a hefty sum in those days. To get better prices, they'd have to rely on local ski shops—middlemen who charged a premium to make it happen—only to receive overpriced, imitation Austrian goods.

Unhappy with the process, Lloyd began ordering quality ice axes directly from Austria himself, relying on Mary's German skills to translate the catalogs. This way, they could get beautiful Austrian ice axes delivered to Seattle at a cost of a mere $3.50, including postage.

Friends and colleagues from The Mountaineers quickly caught word of what the Andersons were up to. Also seeking to stretch their bucks with quality gear, they wanted to get involved.

Light bulb! Eager to outfit others with quality, affordable gear, Lloyd and Mary decided to collect money in larger batches to increase buying power and lower the cost of goods for all.

And thus, out of a wilderness spirit, our co-op was born.

To the pair, better ice axes meant better adventures for them and their friends. What they didn't know was how this moment would spur a movement that would create better adventures for millions of adventure-seekers in the decades to come.

It is abundantly clear that REI was formed with a specific purpose in mind: to provide quality climbing gear for others. Their vision was not to become a national chain; the

inspiring vision was simply to do the best they could in providing quality outdoor gear. However, they did become a national chain. By 1996 REI had seventy-seven stores.

At that time (1996) REI had already been selling goods on the internet. By 1998 they were making a profit from internet sales. Sales gradually picked up speed in 2003 when the management team launched a free in-store pickup policy for customers who ordered online.[6] Their primary motivation was to get more customers into their stores. They discovered that about a third of the people who came to pick up their online order stayed at the store and bought an average of $90 more merchandise. They further increased customer satisfaction by the use of a "promise algorithm" which informed the shopper when they could pick up their merchandise. They always kept their promised delivery date and occasionally even found a way to deliver the merchandise a day or two early, making the customer additionally happy.

According to *Retail Dive*,[7] fifteen years after 2003, REI's e-commerce business in 2018 has achieved 82.5% of market share in its category, compared to 14% for Backcountry and 3.5% for Moosejaw (owned by Walmart). This was up from 79.7% in 2017.

Writer Daphne Howland says:

> "REI's online sales overpowered competitors Backcountry and Walmart-owned Moosejaw the week up to and including Memorial Day, despite all three offering similar sales, according to Edison Trends, a Silicon Valley firm that analyzes e-commerce patterns."

So how did this retailer so successfully manage the e-commerce disruption? Over the more than two decades (1996-2018) REI has had three different CEOs. It is likely, however, that the one thing that has remained constant is REI's culture.

Sally Jewell was on REI's board since 1996 and the CEO of REI from 2005 to 2013. She left REI to become the Secretary of Interior in Obama's Cabinet. She is one of the ten Virtuoso CEOs in KRW's Return on Character research study.[8] When Jewell arrived at REI in 2005, she found a strong Character-based culture. She and her team continued to reinforce the culture during her eight years as the CEO.

We surveyed a random sample of three hundred of her employees in 2007. At this early stage of our research we did not have all seven questions for this factor but we did have these four:

1. It is safe to tell the truth to senior management.
2. Our company is a nurturing and supportive community.

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[6] *How REI scaled the e-commerce mountain*. CIO Magazine. May 19, 2004. Megan Santosus
[7] *REI's Memorial Day sales outpaced average by 600%*. Retail Dive, June 1, 2018. Daphne Howland.
[8] Jewell gave the KRW Research Institute permission to provide these data about her and her team.

3. Employees are cared for as individuals with personal lives—not as "production units."

4. Our CEO acts as if she believes that when things go wrong, it is usually because someone else screwed up.

Here are the results based on these items:

REI's Psychological Safety Score
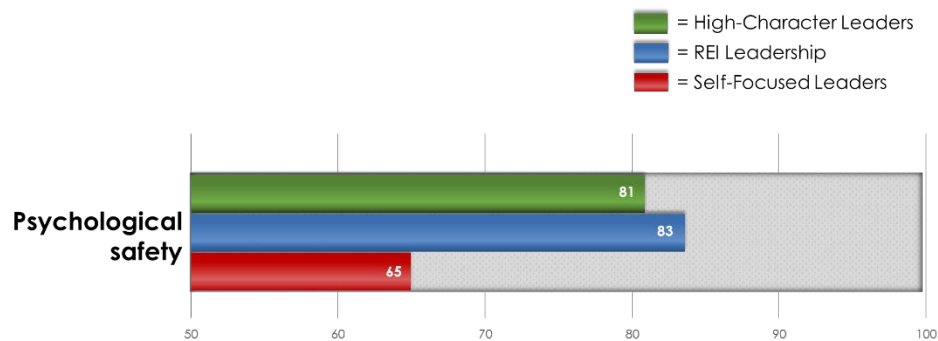
These results demonstrate that Jewell's leadership team were rated even higher by the workforce sample than the average for the Virtuoso group.

Conclusion:

REI clearly enjoyed the benefits of a psychologically safe culture. Their culture is what allowed REI to "scale the e-commerce mountain" as reported by CIO Magazine (see footnote 6).