



HOW IMPORTANT IS CULTURE?

A SECOND LOOK AT KELLER WILLIAMS REALTY

BY DAVID F. LARCKER AND BRIAN TAYAN
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INTRODUCTION

Keller Williams is the largest real estate franchise in the world, with over 139,000 agents in 780 market centers globally. The company has enjoyed considerable growth since inception, with agent count doubling in the last four years alone. It is also highly profitable, with gross commission income and operating profit per market center largely exceeding those of its nearest competitors. The leaders of Keller Williams attribute the company's success to the combination of an economic model built on economies of scale and a cultural model that emphasizes profit sharing, interdependence, and success through the efforts of others. They believe the focus on culture helps resolve disputes by creating common expectations and provides a strong emotional connection to the company, which encourages retention.¹

Keller Williams, however, is not alone in identifying culture as an important factor in its success. Many companies emphasize the quality of their culture. Still, the impact of culture on overall performance remains an open question.² To date, researchers have not been able to agree on how or whether culture influences organizational outcomes, or the role that leadership plays in establishing and promulgating culture.

THE CULTURE OF KELLER WILLIAMS

In 2015, we conducted a large-scale survey of Keller Williams team members to understand how associates of Keller Williams view the company's culture and whether perceptions of culture are associated with performance.³ Keller Williams lends itself to analysis because of its unique organizational features that its leaders believe contribute directly to culture, and because the company operates across independent market centers, which allows for observation of how variations in the perception of culture relate to variations in economic outcomes within the same company. The company's prominent organizational features are summarized as follows:⁴

- **Belief system.** The company's culture is encapsulated in the belief system WI4C2TS (pronounced "why four see two tees"),

which emphasizes "win-win" solutions and success through the efforts of others.⁵ The belief system summarizes the values according to which organizational and customer-facing decisions are expected to be made.

- **Profit sharing.** Almost half of the operating profits of each market center are shared with individual agents in an elaborate profit-sharing formula that takes into account the cash profits of the market center and the productivity of the other agents that the agent has recruited to the company. This practice ensures that the financial success of the office is shared with agents and that the incentives of owners and agents are aligned.
- **Shared leadership.** All financial and operating decisions in a market center are made jointly by the owner (operating principal), team leader, and select agents (chosen among the top 20 percent measured by productivity) who together serve jointly on the Associate Leadership Council (ALC). This practice ensures that agents have a voice in the decision-making process.
- **Open-books policy.** All agents have access to view detailed revenue and expense information in the market center and the minutes of ALC meetings. This practice ensures transparency.
- **Training.** Keller Williams offers extensive training to agents, team leaders, and operating principals through courses that document best practices for business building, leadership, and personal development. Extensive training reflects the company's commitment to help its associates reach their full potential.

Our survey found evidence of an *exceptionally strong* culture with little variation across market centers.⁶ Associates of Keller Williams describe the company culture as ethical and one that fosters collaboration. Ninety-two percent of respondents believe the word "ethical" very much describes the company's culture. Eighty-nine percent believe that the company "will help me in a time of need." The same percentage describes the company as having a "family-like culture," while 87 percent believe very strongly that the company "does the right thing." Less than one

percent do not agree with these descriptions (see Exhibit 1).

The survey also found that associates have a very positive view of the company and its culture. Almost all (96 percent) respondents agree or strongly agree that the culture of Keller Williams is unique among large real estate agencies; less than 1 percent disagree. Ninety-six percent also agree or strongly agree that the company's culture is very important in accounting for its success; only 1 percent disagree. Respondents cite the values of integrity, teamwork, and "win-win" as most important to Keller Williams's success. Ninety-two percent believe that it is the best real estate agency to work for in their area. Ninety-one percent are extremely likely to recommend the company as a workplace to a close personal friend.⁷

The leaders of Keller Williams have stated that agents join the company for its training and education but stay for its culture. Survey data supports this claim. The top three reasons respondents claim to have originally joined the company include its educational opportunities, culture, and compensation structure. Culture, however, is by far the most frequently cited reason why associates stay (see Exhibit 2).

Commentary and follow-up interviews with selected survey participants underscore this point. According to an agent in a market center in the Midwest, "The culture is what grabbed me. ... It really is a vehicle to get to the person to help them achieve their dreams, achieve their success." According to another from the East Coast, "It is not only a great example of a real estate operation, it is a shining example to all businesses that a symbiotic do-the-right-thing culture that is followed from the top down wins and wins big." In the words of an agent from the West Coast, "We are a company that is very proud of our culture. ... People on the outside don't understand who we are, and how we operate. ... Once they see us from the inside, they completely get it." (See Exhibit 3.)

We also find positive evidence that the company's principles, including its profit-sharing model, open-books policy, system of shared leadership, and training and coaching are important both as reflections of the company's culture and as contributors to the company's success. There is some evidence that leadership at the market-center level and company-wide are important contributors to the company's culture, although we did not explore this issue in sufficient detail to make a definitive assessment.

In summary, the evidence suggests that Keller Williams has a clearly defined culture that is positively viewed and widely accepted by its associates. The company has succeeded in embedding this culture into its organizational practices, and associates have a positive perception of the company's culture, its

leadership, and their place in the organization.

Still, it is difficult to measure in economic terms the contribution that culture has made to Keller Williams's growth and profitability. This impact likely shows up in nonfinancial measures that are hard to quantify but nevertheless translate into future performance—such as recruiting engaged and loyal associates.⁸ To test this association, we measured whether market centers that score favorably on cultural perception exhibit higher overall profitability and higher profits per agent than market centers that score unfavorably. We found no relation between these variables. However, given the consistently high favorability ratings across market centers in our sample, it is not clear whether there is sufficient variability in perceptions to provide a reliable measurement. It might be the case that the most important unit of analysis is how Keller Williams performs in each market relative to competitors rather than how performance varies across market centers.

WHY THIS MATTERS

1. Keller Williams is an example of a company with a clearly defined culture that is widely understood and embraced by its team members. It is also an example of a highly successful company in terms of long-term growth and profitability. In general, how important is culture as a driver of economic outcomes? Does a company with a strong business model perform *better* if it also has a strong culture?
2. A company with a strong culture is not a fit for everyone. A strong culture can lead to higher than average turnover and the loss of qualified associates who feel alienated by the company's work practices. What is the cost of a strong culture? How can a company determine whether it has a healthy or excessive level of turnover? How does culture influence the employee selection and hiring process?
3. Keller Williams scores favorably among many positive cultural attributes, in particular having a family-like culture, willingness to help in a time of need, and caring about the personal success of its associates. How important is it that associates feel their company "cares" about them personally and professionally? Does this perception provide additional motivation to work at a higher standard?
4. What role does leadership play in shaping culture? What role does the average associate play? Which would do more damage to an organization: leaders who do not emphasize the company's culture, or employees who do not embrace it?
5. If a company has an extremely strong culture, does it make the company operationally or strategically inflexible? What

happens when the competitive marketplace changes in a way that challenges the culture? ■

Governance Matters. *The authors would like to thank Keller Williams for the company's cooperation in this study and Michelle E. Gutman for research assistance in the preparation of these materials.*

The Stanford Closer Look Series is a collection of short case studies that explore topics, issues, and controversies in corporate governance and leadership. The Closer Look Series is published by the Corporate Governance Research Initiative at the Stanford Graduate School of Business and the Rock Center for Corporate Governance at Stanford University. For more information, visit: <http://www.gsb.stanford.edu/cgri-research>.

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¹ For more detail on the Keller Williams operating model and comparative metrics, see David F. Larcker and Brian Tayan, “How Important Is Culture?: An Inside Look at Keller Williams Realty,” Stanford Closer Look Series (April 16, 2015).

² Empirical evidence on the relation between culture and performance is mixed. Sørensen (2002) finds no association, while O’Reilly et al. (2014) find a positive association. See Jesper B. Sørensen, “The Strength of Corporate Culture and the Reliability of Firm Performance,” *Administrative Science Quarterly* (2002). Charles A. O’Reilly III, David F. Caldwell, Jennifer A. Chatman, and Bernadette Doerr, “The Promise and Problems of Organizational Culture: CEO Personality, Culture, and Firm Performance,” *Group & Organizational Management* (2014).

³ This study was conducted for research purposes only at the request of the authors. Keller Williams did not commission, influence, or seek to influence any aspect of the study, including design, collection of data, analysis, presentation of results, or the information contained herein. Keller Williams did not provide financial assistance, nor did it compensate the authors or Stanford University for any part of this work. The results of the study and this Closer Look represent entirely the work of the authors. Information provided by individual respondents has been kept strictly confidential, and no information has been shared with Keller Williams that would compromise the privacy of any participant in the study.

⁴ These features are discussed more fully in Larcker and Tayan, “How Important Is Culture?: An Inside Look at Keller Williams Realty.”

⁵ The elements of WI4C2TS include the following: Win-win—or no deal; Integrity—do the right thing; Customers—always come first; Commitment—in all things; Communication—seek first to understand; Creativity—ideas before results; Teamwork—together everyone achieves more; Trust—starts with honesty; Success—results through people.

⁶ The final sample includes 3,802 associates, team leaders, operating principals, coaches/trainers, and other administrators in 662 market centers in the United States and Canada. Forty-nine of the 50 United States are represented plus the District of Columbia, and five Canadian provinces. Respondents have been in the real estate industry for an average of 13 years (11 years median), and associates of Keller Williams for an average of 6 years (5 years median). A third of respondents (32 percent) are members of the Associate Leadership Council in their market center.

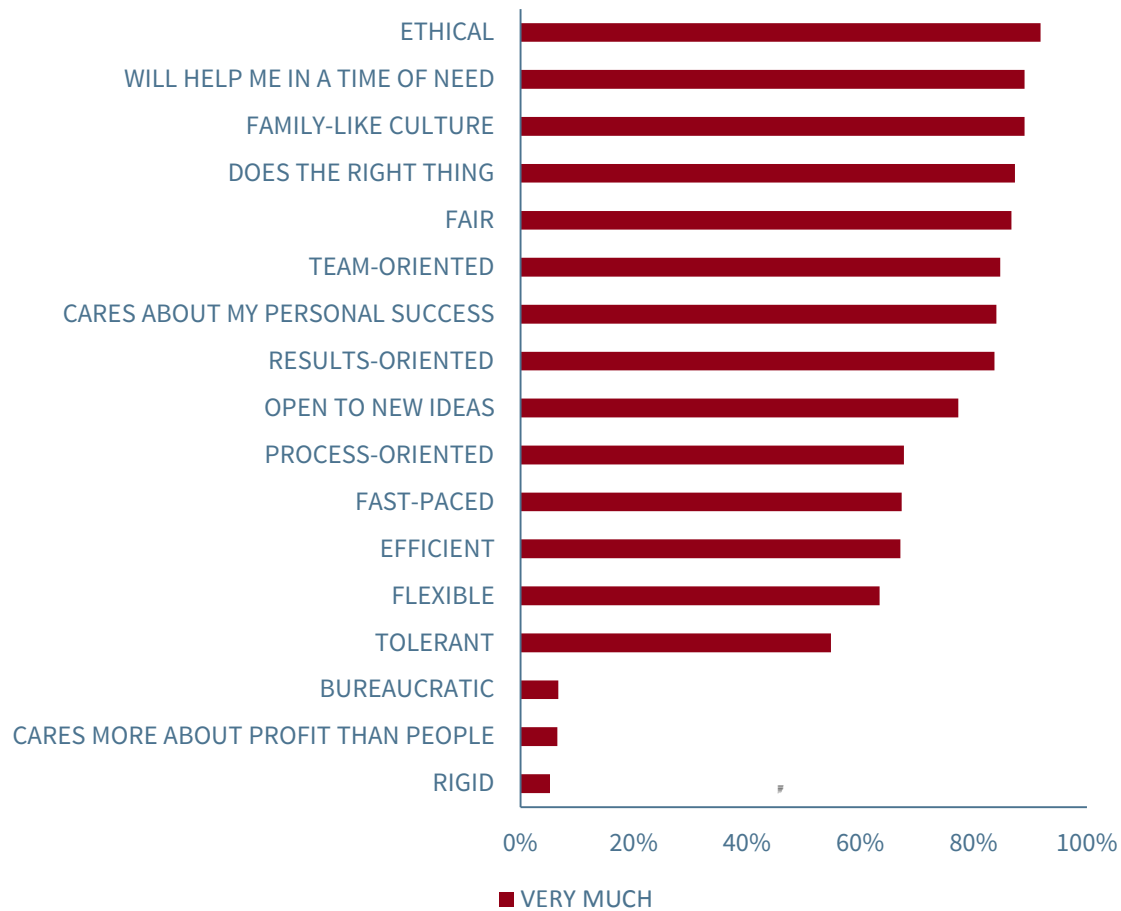
⁷ Measured as a score of 9 or 10 on a 10-point scale.

⁸ Keller Williams’s extremely positive net promoter score suggests that the company might have such an advantage. For more on nonfinancial performance indicators, see Christopher D. Ittner and David F. Larcker, “Coming Up Short on Nonfinancial Performance Measurement,” *Harvard Business Review* (November 2003).

David Larcker is Director of the Corporate Governance Research Initiative at the Stanford Graduate School of Business and senior faculty member at the Rock Center for Corporate Governance at Stanford University. Brian Tayan is a researcher with Stanford’s Corporate Governance Research Initiative. They are coauthors of the books A Real Look at Real World Corporate Governance and Corporate

EXHIBIT 1 — DESCRIPTORS OF KELLER WILLIAMS CULTURE

TO WHAT EXTENT DO THE FOLLOWING WORDS OR PHRASES ACCURATELY DESCRIBE THE CULTURE OF KELLER WILLIAMS?



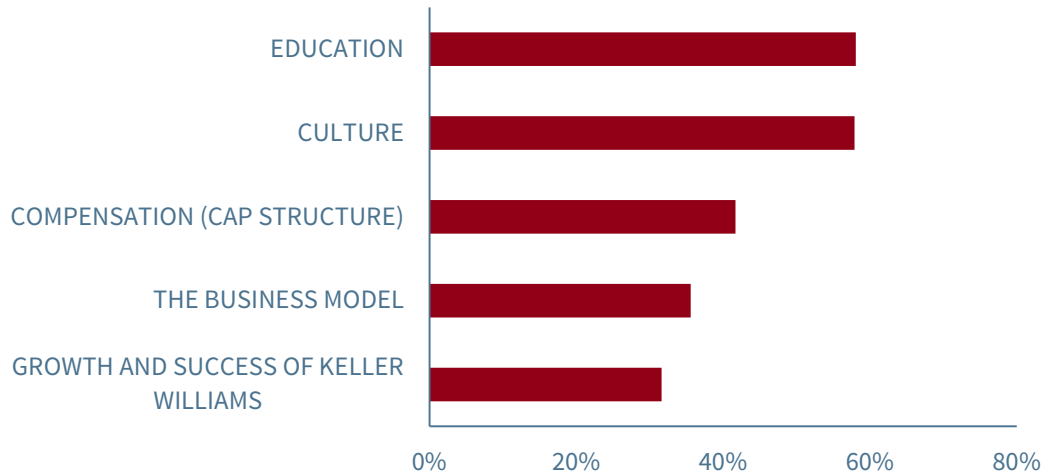
Note: As measured on three-point scale: very much, somewhat, not at all.

Source: Proprietary study conducted by the authors (October 2015).

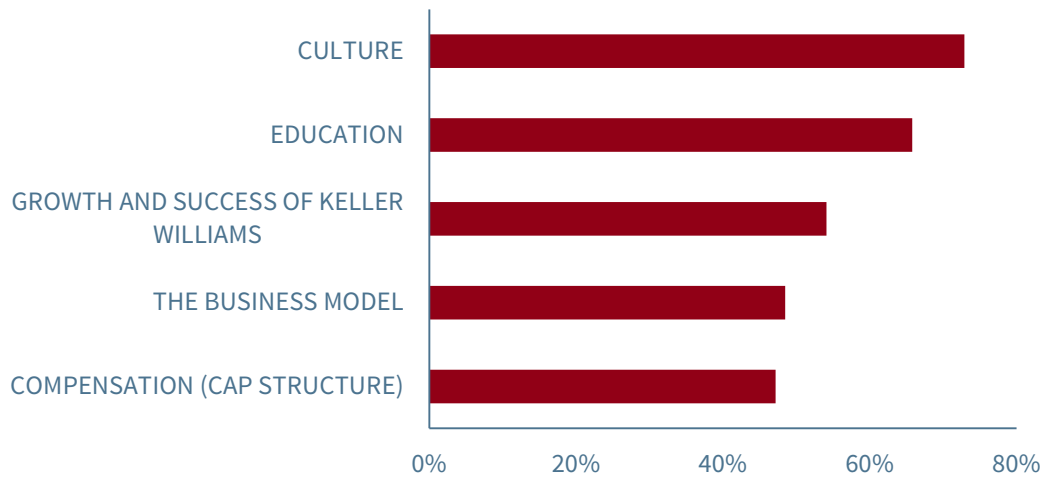
EXHIBIT 2 — TOP REASONS TO JOIN AND STAY WITH KELLER WILLIAMS

WHAT ARE THE REASONS YOU...

... ORIGINALLY JOINED KELLER WILLIAMS? (SELECT ALL)



... HAVE STAYED AT KELLER WILLIAMS? (SELECT ALL)



Note: Top five responses only.

Source: Proprietary study conducted by the authors (October 2015).

EXHIBIT 3 — PERCEPTIONS OF KELLER WILLIAMS CULTURE

ON MISSION

“We are very clear about the mission: to build careers worth having, businesses worth owning, and lives worth living.” – Leader, Southwestern region

“Keller Williams is first and foremost a business and business-building organization. But the personal enrichment and the culture of personal development, caring, and giving are the most rewarding benefits.” – Leader, Northeastern region

ON CULTURE

“People often come to make more money or to save money, and then they stay for the culture. I stayed for the culture.” – Agent, Western region

“We have attracted a lot of people who wanted to come to us just for the money, and you see them wash out when the market shifts. The people who remain are here for the values and the core beliefs.” – Leader, Northwestern region

“We are a company that is very proud of our culture. ... People on the outside don’t understand who we are, and how we operate. Once they see us from the inside, they completely get it.” – Agent, Western region

“The culture is what grabbed me. ... It really is a vehicle to get to the person to help them achieve their dreams, achieve their success, inspire them to wholeness and to a mindset of success, of helping and contributing to others. ... The culture means that I can be in business in alignment with my values.” – Agent, Midwestern region

“It is not only a great example of a real estate operation, it is a shining example to all businesses that a symbiotic do-the-right-thing culture that is followed from the top down wins and wins big. Creating a corporate structure that encourages mutually assured success for the ownership, leadership, workers, and clients leads to a truly amazing and sustaining result.” – Agent, Eastern region

“[Outsiders] will say, ‘It is like you scripted everybody.’ There is that consistency. I think that to people who have values, our values matter. And I think that people who aspire to our values are attracted to our company.” – Leader, Northwestern region

“Keller Williams is a different real estate company. It is certainly not a fit for everyone.” – Administrator, Midwestern region

ON VALUES

“There is no finer real estate company in the world, and I am blessed to be a part of a company that clearly states their values in the lobby of each office: ‘Family then business.’” – Agent, Southwestern region

“I think the most powerful message that Keller Williams has for its agents, for a customer, is that we are always going to do what’s right, what makes their situation the right situation. We’re going to do what we can with integrity and honesty and commitment.” – Agent, Northeastern region

EXHIBIT 3 – CONTINUED

“WI4C2TS is really a system of how we display our values and beliefs. ... One of my challenges is to make sure our people really know what that is, not just if they pick it up and read it, but know it and can say it and understand it, and learn to live it every day.” – Leader, Southeastern region

“I was at an event and someone from another Market Center stood up, not someone we knew, and said that someone in their office had been diagnosed with Stage IV cancer and was given only a few weeks to live. It wasn’t a matter of, ‘Let’s help them out with medical bills.’ It was a matter of her having things that she would like to do with her family before she dies, and she did not have the financial means to do them. She asked if anybody in the room could help out. Several thousands of dollars were raised. There was someone in need, and we wanted to help them. They are part of our family.” – Administrator, Western region

ON LEADERSHIP

“I can honestly say the leadership has changed my life, and I feel the leaders care about me and my family.” – Agent, Southwestern region

“I always know that the people in our company have my best interest at heart.” – Agent, Southeastern region

“I’ve been in the work force for 40-plus years, in three major professions. None has come close to seeing employees as vital to the corporate outcome as Keller Williams. ... We at Keller Williams are here for them now and will be in the future.” – Agent, Eastern region

“Agents are astounded when they join and find we have a real interest in them, not just their productivity. ... Newly joined agents who encounter a personal problem or illness are blown away by the fact that the office cares. Food delivered to those who are ill, offers to help run their business until they are able to come back, etc. It just isn’t found elsewhere.” – Leader, Eastern region

“If you’re going to have a profit-share system, there really needs to be transparency and say-so in the way things are done.” – Leader, Northeast region

ON TRAINING

“I wouldn’t be where I am professionally or personally without the education, coaching, and mentoring my company has provided me.” – Agent, Western region

“It is more than just real-estate skills acquisition. It’s about growing as individuals. The most powerful coaching and training events have nothing to do with real estate specifically. They are about mindset and big picture thinking.” – Administrator, Midwestern region

“I developed the belief that the only difference between top performers and me was my mindset. The other critical point for me is something Gary Keller said. He said in order to be successful you need to succeed in all areas of your life. So if I am successful in my career and fail as a father or with my health, then I am not successful. It is important to me that our leadership cares about our lives.” – Leader, Midwestern region

Source: Proprietary study conducted by the authors (October 2015). Edited for clarity.