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Employment in the Networked Age

Rebuilding Trust and Loyalty through an Alliance

Imagine it's your first day of work at a new company. Your manager greets you with warm enthusiasm, welcomes you to "the family," and expresses her hope that you'll be with the company for many years to come. Then she hands you off to the HR department, who sits you down in a conference room and spends thirty minutes explaining that you're on a ninety-day probation period, and that even after that, you'll be an "at will" employee. "At any moment, you can be fired. For any reason, you can be fired. Even if your boss has no reason at all, you can be fired."

You just experienced the fundamental disconnect of modern employment: the employer-employee relationship is based on a dishonest conversation.

Today, few companies offer guaranteed employment with a straight face; such assurances are perceived by employees as naive, disingenuous, or both. Instead, employers talk about retention and tenure with fuzzy language: their goal is to retain "good" employees and the time frame is . . . indefinitely. This fuzziness actually destroys trust—the company is asking employees to commit to itself without committing to them in return.

Many of your employees have responded by hedging their bets, jumping ship whenever a new opportunity presents itself, regardless of how much they profess their loyalty during the recruiting process or annual reviews.

Both parties act in ways that blatantly contradict their official positions. And thanks to this reciprocal self-deception, neither side trusts each other. Not surprisingly, neither side profits as fully as it might from their relationship. Employers continually lose valuable people. Employees fail to fully invest in their current position because they're constantly scanning the marketplace for new opportunities.

Managers, meanwhile, are caught in the middle. They're wary about even acknowledging the problem, much less solving it. Instead of thinking about how to facilitate growth in their employees in forward-looking ways, they worry about keeping their teams intact long enough to complete key projects. No one wants to risk being jilted, so no one invests in the long-term relationship.

Employers, managers, and employees need a new relationship framework where they make promises to one another they can actually keep. That's what this book aims to provide. And we think it will help build successful companies and powerful careers.

The old model of employment was a good fit for an era of stability. In stable times, companies grew larger to leverage economies of scale and process improvement. These titans offered an implicit deal to their workers: *We provide lifelong employment in exchange for loyal service*. "Maximizing employee security is a prime company goal," Earl Willis, General Electric's manager of employee benefits, wrote in 1962.[1] In that era, careers were considered nearly as permanent as marriage. Employers and employees committed to each other, for better or worse, through bull and bear markets, until retirement did them part. For white-collar professionals, progressing in one's career was like riding an escalator, with predictable advancement for those who followed the rules. Because both sides expected the relationship to be permanent, both sides were willing to invest in it and each other.

Then the world changed, both philosophically and technologically. The rise of shareholder capitalism led companies and managers to focus on hitting short-term financial targets to boost stock prices. Long-term investment took a backseat to short-term cost-cutting measures like "rightsizing"—or as we used to call it, *firing people.* Around the same time, the development of the microchip ushered in the Information Age, sparking a communications revolution and the globalization of business. Companies like the Big Three American automakers found themselves competing with leaner, hungrier competitors.

As a result of these shifts, the stability of the 1950s and 1960s gave way to rapid, unpredictable change, and once-stalwart companies began to be toppled out of the S&P 500 at a faster and faster rate.[2] Adaptability and entrepreneurship became key to achieving and sustaining success in business, their importance growing as the spread of computers and software imposed Moore's Law on every corner of the economy. Today, anyone with an internet connection has the power to connect with billions of others around the world. Never before in human history have so many people been connected by so many networks.

The traditional model of lifetime employment, so well-suited to periods of relative stability, is too rigid for today's networked age. Few American companies can provide the traditional career ladder for their employees anymore; the model is in varying degrees of disarray globally.

In response to these competitive pressures, many—probably most—companies have tried to become more flexible by reducing the employer-employee relationship to what's explicitly spelled out in a legal and binding contract. This legalistic approach treats both employees and jobs as short-term commodities. Need to cut costs? Lay off employees. Need new competencies? Don't train your people—hire different ones. "Employees are our most valuable resource," companies insist. But when Wall Street wants spending cuts, their "most valuable resource" suddenly morphs into their most fungible resource.

In the 1980s, a Conference Board survey found that 56 percent of executives believed "employees who are loyal to the company and further its business goals deserve an assurance of continued employment." Just a decade later, that figure had plummeted to 6 percent.[3] Remember GE's focus on maximizing employee security? By the 1990s, GE CEO Jack Welch was quoted as saying, "Loyalty to a company? It's nonsense."[4]

In the at-will era, employees have been encouraged to think of themselves as "free agents," seeking out the best opportunities for growth and changing jobs whenever better offers beckoned. The Towers Watson 2012 Global Workforce Study found that even though about half of employees wanted to stay with their current employer, most of them felt that they would have to take a job at a different company in order to advance their careers.[5]

"It's just business" has become the ruling philosophy. Loyalty is scarce, long-term ties are scarcer, but there's plenty of disillusionment to go around.

And so managers and employees end up staring at each other after the "Welcome to the Company" happy hour, knowing that their relationship relies on mutual self-deception, but unable to do anything about it.

As much as companies might yearn for a stable environment and employees might yearn for lifetime employment, the world has irrevocably changed. But we also can't keep going the way we've been going. Trust in the business world (as measured by the proportion of employees who say they have a "high level of trust in management and the organization" they work for) is near an all-time low.[6] A business without loyalty is a business without long-term thinking. A business without long-term thinking is a business that's unable to invest in the future. And a business that isn't investing in tomorrow's opportunities and technologies—well, that's a company already in the process of dying.

The Alliance

If we can't go back to the age of lifetime employment, and the status quo is untenable, it's time to rebuild the employer-employee relationship. The business world needs a new employment framework that facilitates mutual trust, mutual investment, and mutual benefit. An ideal framework encourages employees to develop their personal networks and act entrepreneurially without becoming mercenary job-hoppers. It allows companies to be dynamic and demanding but discourages them from treating employees like disposable assets.

The Alliance lays out a path forward for companies and their employees. We can't restore the old model of lifetime employment, but we *can* build a new type of loyalty that both recognizes economic realities and allows companies and employees to commit to each other. Our goal is to provide a framework for moving from a transactional to a relational approach. Think of employment as an alliance: a mutually beneficial deal, with explicit terms, between independent players. This employment alliance provides the framework managers and employees need for the trust and investment to build powerful businesses and careers.

In an alliance, employer and employee develop a relationship based on how they can add value to each other. Employers need to tell their employees, "Help make our company more valuable, and we'll make *you* more valuable." As Russ Hagey, Bain & Company's chief talent officer, tells recruits and consultants, "We are going to make you more marketable [in the labor market in general]."

Employees need to tell their bosses, "Help me grow and flourish, and I'll help the company grow and flourish." Employees invest in the company's success; the company invests in the employees' market value. By building a mutually beneficial alliance rather than simply exchanging money for time, employer and employee can invest in the relationship and take the risks necessary to pursue bigger payoffs.

For example, many HR leaders and executives get frustrated when they spend a lot of money on training and development programs, only to see employees walk out the door months later. If you think of your employees as free agents, the natural response is to slash training budgets. Why train a competitor's new hire? In an alliance, the manager can speak openly and honestly about the investment the company is willing to make in the employee and what it expects in return. The employee can speak openly and honestly about the type of growth he seeks (skills, experiences, and the like) and what he will invest in the company in return by way of effort and commitment. Both sides set clear expectations.

When a company and its managers and employees adopt this kind of approach, all parties can focus on maximizing medium- and long-term benefits, creating a larger pie for all and more innovation, resilience, and adaptability for the company.

Moving from Family to Team

In a famous presentation on his company's culture, Reed Hastings, the CEO of Netflix, stated, "We're a team, not a family."[7] He went on to advise managers to ask themselves, "Which of my people, if they told me they were leaving for a similar job at a peer company, would I fight hard to keep at Netflix? The other people should get a generous severance now so we can open a slot to try to find a star for that role."

We believe that most CEOs have good intentions when they describe their company as being "like family." They're searching for a model that represents the kind of relationships they want to have with their employees—a lifetime relationship with a sense of belonging. But using the term *family* makes it easy for misunderstandings to arise.

In a real family, parents can't fire their children. Imagine disowning a child for poor performance. "We're sorry, Susie, but your mom and I have decided you're just not a good fit for us. Your table-setting skills aren't delivering the exceptional customer service experiences we're known for. We're going to have to let you go. But don't take it the wrong way; it's just family." Unthinkable, right? But that's essentially what happens when a CEO describes the company as a family, then institutes layoffs. Regardless of what the law says about at-will employment, those employees will feel hurt and betrayed—with real justification.

In contrast, a professional sports team has a specific mission (to win games and championships), and its members come together to accomplish that mission. The composition of the team changes over time, either because a team member chooses to go to another team, or because the team's management decides to cut or trade a team member. In this sense, a business is far more like a sports team than a family.

Yet while a professional sports team doesn't assume lifetime employment, the principles of trust, mutual investment, and mutual benefit still apply. Teams win when their individual members trust each other enough to prioritize team success over individual glory; paradoxically, winning as a team is the best way for the team members to achieve individual success. The members of a winning team are highly sought after by other teams, both for the skills they demonstrate and for their ability to help a new team develop a winning culture.

The idea of a sports team defines how we *work* together, and toward what purpose, but the idea of a family still has relevance because it defines how we *treat* each other—with compassion, appreciation, and respect. (One benefit of establishing a corporate alumni network, for example, is how it allows employers and employees to relate to each other as a family, even after they're no longer under the same roof; more on this in chapters 7 and 8.)

Getting Value from Entrepreneurial Talent

We three authors come from a business environment where the employment alliance has already taken root—the high-tech start-up community of Silicon Valley. It's the best place in the world for adaptation and innovation, as demonstrated by its economic growth over the past decade. If you want your organization to be able to survive and thrive in an environment where change is rapid and disruptive innovation rampant, you need to develop the adaptability that is the hallmark of this ecosystem.

Obviously, not every industry works like Silicon Valley, nor should many established companies attempt wholesale adoption of start-up strategies. The question is *which* lessons from Silicon Valley are generally applicable. Mainstream media's coverage of Silicon Valley tends to focus on flashy details. But attributing the valley's success to four-star meals in cafeterias, Foosball tables, or even stock options is like attributing a Ferrari's power to its bright red paint job.

The real secret of Silicon Valley is that it's really all about the people. Sure, there are plenty of stories in the press about the industry's young geniuses, but surprisingly few about its management practices. What the mainstream press misses is that Silicon Valley's success comes from the way its companies build alliances with their employees. Here, talent really is the most valuable resource, and employees are treated accordingly. The most successful Silicon Valley businesses succeed because they use the alliance to recruit, manage, and retain an incredibly talented team of entrepreneurial employees.

Entrepreneurial employees possess what eBay CEO John Donahoe calls the *founder mind-set*. As he put it to us, "People with the founder mind-set drive change, motivate people, and just get stuff done." Our previous book, *The Start-up of You*, showed individual professionals how to develop the founder mind-set for any type of career, including a career spent working at one or two companies. Indeed, having a founder mind-set doesn't necessarily mean you are going to start your own company. Many people with such instincts are quite happy to work at companies like eBay or LinkedIn—provided such companies maintain an employment alliance that encourages entrepreneurial behavior. Having employees focused on the start-up of their career is a good thing; after all, employees who don't feel a pressing need to invest aggressively in their own careers probably won't be capable of the quick, decisive actions that your company needs to adapt and grow.

The founder mind-set, and the alliance required to incorporate it into your company, weren't always quite so critical. In the old economy—the stable one—efficiency was the cardinal virtue. Employers placed employees on fixed tracks so that they could develop ever-higher degrees of specialization. But when markets change, specialization often shifts from asset to liability, as in the case of the proverbial buggy-whip manufacturer. In the new economy of fierce competition and rapid technological change, the markets are constantly shifting.

Today, *entrepreneurial thinking and doing are the most important capabilities companies need from their employees.* As the competitive pace increases, it becomes more and more critical. Consider the effect of just a few entrepreneurial employees at two giants of innovation, Pixar and Amazon.

John Lasseter at Pixar

John Lasseter is the type of entrepreneurial employee every innovative company wants. If you've seen movies like *Toy Story*, *Finding Nemo*, and *Monsters, Inc.*, you know his work intimately. His movies have grossed over $3.5 billion in the United States alone, and have averaged over $250 million at the box office, making Pixar the most successful movie studio of all time.[8] What most people don't know is the story of how Disney, his original employer, fired him.

Lasseter began his career at Disney as a young animation designer in the days when animation was created with pen and paper, then converted into film. One day, a colleague showed him a video from a local conference about the emerging technology of computer-generated animation. Lasseter was struck by a vision—Disney should create an entire film using computer-generated animation. He went to managers and pitched the idea. They listened carefully to his pitch, then sent him back to his desk. A few minutes later, he received a phone call from the head of Disney's animation department—informing him that he was being fired. The rationale for his dismissal: he was too distracted with his crazy ideas.

Like many with the founder mind-set, Lasseter refused to give up on his dream. He joined George

Lucas's Lucasfilm, where he pursued computer animation as a member of Ed Catmull's computer division. A few years later, Lucas sold the then-unprofitable division to Steve Jobs, who named the resulting company Pixar. And in 1995, Pixar partnered with Disney to release the world's first computer-animated feature film, *Toy Story*.

In 2006, eleven years after *Toy Story* was released and twenty-three years after Lasseter was fired, Disney realized it had made a mistake by rejecting computer animation and ended up bringing Lasseter back. But it would cost them—the Walt Disney Company spent over $7 billion to buy Pixar. And that's how Lasseter ended up back at Disney as its chief creative officer of Disney Animation Studios.[9]

Disney's management hired an entrepreneurial talent like Lasseter, but they treated him as a commodity rather than an ally, and in the process, they lost their chance to develop a multibillion-dollar business. Lasseter would have been happy to develop that business within Disney, but his managers wouldn't let him.

Benjamin Black and Amazon Web Services

Amazon didn't make the same mistake as Disney. Recently, it used the principles of the alliance to generate a new multibillion-dollar business. Amazon has become a leader in the field of cloud computing, thanks to Amazon Web Services (AWS), which allows companies to rent online storage and computing power, rather than buying and operating their own servers. Companies ranging from *Fortune* 500 giants to one-person start-ups run their businesses on AWS. What most people don't realize is that the idea for AWS didn't come from Amazon's famed entrepreneurial founder and CEO, Jeff Bezos, or even from a member of his executive team, but rather from an "ordinary" employee.

In 2003, website engineering manager Benjamin Black wrote a short paper describing a vision for Amazon's infrastructure and suggested selling virtual servers as a service.[10] He realized that the same operational expertise that made Amazon an efficient retailer could be repurposed to serve the general market for computing power. Black and his manager, Chris Pinkham, pitched Bezos on the concept, and after a few more iterations, Bezos put Pinkham in charge of a project to develop what would become AWS. When Amazon's board questioned whether the company should tackle something so unrelated to online retail, Bezos defended the idea and pushed it through. Launched in 2006, AWS contributed an estimated $3.8 billion to Amazon's revenues in 2013.[11]

Unlike John Lasseter's bosses at Disney, Bezos was open to the entrepreneurial contributions of Amazon's individual employees—even when those ideas were outside what Wall Street (and even his own board of directors) considered the company's core business. AWS represents precisely the kind of value creation any CEO or shareholder would want from their employees. Want your employees to come up with multibillion-dollar ideas while on the job? You have to attract professionals with the founder mind-set and then harness their entrepreneurial impulses for your company. As Intuit CEO Brad Smith told us, "A leader's job is not to put greatness into people, but rather to recognize that it already exists, and to create the environment where that greatness can emerge and grow."

Having the Courage to Lead Honest Conversations

We wrote this book to share our vision for how the employer-employee relationship should work. Our concept of the alliance represents a potentially controversial departure from the standard take on corporate management. You may not agree with everything we have to say. But if you consider it a priority to recruit, manage, and retain the talent that today's organizations need to adapt and thrive, this book will offer both a framework and practical advice, including a detailed template for a statement of alliance as an appendix. We'll tackle questions like:

- How do I build trust and loyalty with my employees if I can't guarantee lifetime employment?
- How does the alliance apply to different types and levels of employees?
- How do I build a relationship with my entrepreneurial employees when our ultimate goals and values might differ?
- What kind of networking and personal brand building should I allow my employees to do in the workplace?
- How can I run an effective corporate alumni network given limited time and resources?

Adopting the alliance is ideally a companywide endeavor led by the CEO. CEOs or senior executives will find commentary throughout on how a company should think about these ideas. Some advice, like establishing a corporate alumni network, is best carried out with the support of the CEO's office.

But we also recognize that the people who bear the primary responsibility for putting the alliance into practice are, in fact, managers. If you're a manager, you'll find tools that will help you implement the alliance so that you can start transforming your department or team.

For individual employees, this book can help them understand what they can commit to and expect from the alliance they negotiate with their managers. (For more direct advice on how to transform an individual career using entrepreneurial principles, see our earlier book, *The Start-up of You*.)

The Alliance isn't just an argument that we need a new way of doing business. It's a blueprint for how to actually do it. It's a way to invest in the long-term future without sacrificing adaptability. The alliance makes employees more valuable by making them more adaptive and skillful, gives managers the tools and guidance to work better with their direct reports, and teaches companies how to effectively leverage and retain entrepreneurial employees.