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Established companies versus emerging organizations - a HR perspective

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How organizations frontload HR strategies into their vision and long-term business goals differs across the spectrum of large and emerging players. To understand how this happens, it is important to first contrast an emerging company from an established organization.

What makes emerging companies different from their larger contemporaries is that they are very laser focused. They are not like an IBM, or a Veritas (now Symantec), with hundreds of products. Indeed when Veritas started out 14-15 years ago, it was a one product, laser-focused company determined to bring out the world's best file system. This laser focus paid off and it went on to become a successful established company.

The other aspect about emerging companies is that they often "out-execute" bigger companies. They do so because their teams are much more tightly knit and the teamwork is of a higher order. You can see this play out in tennis. The doubles partners are not usually the best people on an individual basis but they can create a winning combination when playing together. Therefore, teamwork is not merely a sum of individual performances; it is about how the individuals come together.

The third difference is that emerging companies can "out-innovate" their larger contemporaries. This is because they do not have organizational inertia. Organizational gravity or organizational inertia prevents quantum innovations to happen. In large, established companies, while incremental innovation can take place quickly, quantum innovations are hard to do. Oftentimes they are held back by their existing customer base.

Another big difference is that smaller, emerging companies ride market discontinuities better. Take the instance of Cisco, which was a disruptive company when it was very young. It was advocating at that time the heretical notion that data communication and voice communication would collapse into one market. In those days, I was on the other side of this debate, the dark side - with the established player AT&T, part of which later become Lucent - and I can tell you that many people weren't buying that vision. And yet look how the data and voice world has changed just as Cisco predicted!

The fifth area, which separates emerging and established companies, is their notion of leadership. Now, the concept of leadership itself has evolved over the years. Many, many years back people used the war metaphor for leadership. It was all about strategy and direction, command and control. Some business publications and business leaders even today rely on that metaphor. Then things changed and the coach metaphor became fashionable. The idea here was that if you take bright people with potential and coach them well, you can get teamwork that will elevate the performance of the organization in a way that you didn't anticipate before. So leaders were expected to be great coaches who could get outstanding performances from average people.

Of late, particularly in the last 15 years, the idea of transformational leadership has taken hold. This is about creating an environment where the change is pulled in by the people and not pushed at them. This works when the employees see the gap between the new reality that is needed and the current assumptions that they are making. Leadership in this situation is about creating an environment where every employee can not only visualize this gap but also feels empowered to invoke a personal adaptive change process. When this happen, then like a flock of geese, the whole organization changes course. This kind of transformational leadership is often seen at work in emerging companies. Their smaller size itself is an inherent advantage. They have good teamwork happening inside. What's more, they are anchored to a market discontinuity on one side and are biased toward quantum innovation on the other.

Now let's examine how these differences impact the HR strategies of established and emerging companies.

Let us first look at the area of organizational and people development. Established companies need to focus on this aspect as much as emerging companies. However, what they need to focus on is very different. Large, established companies such as IBM (with around 300,000 employees) often focus on organizational development through their leadership programs. They take five or ten percent of their entire employee population-the high-performance, high-potential people-and decide that they will invest in them. They give them rotational opportunities, better training, and do what it takes so that they can be the future leaders of the company.

So the notion of organization development in large companies is usually based around this concept of a handful of "A" players. Since everybody is an "A" in an emerging company, this approach does not apply. Instead what emerging companies need to do is to focus on organizational development from the perspective of increasing scale and maturity. As these organizations grow, capability voids will get created. Emerging companies have to anticipate these voids and recognize the ones that are going to be strategic to their success. In other words, their organizational development focus has to be on their "A" positions and how they will fill them either by bringing people from outside or by moving people internally. So to put it rather crudely, established companies focus on "A" players while emerging companies focus on "A" positions.

Let's look at another aspect of HR strategy when comparing established and emerging companies. How do they build a culture of accountability? In large companies there are two enemies of accountability. One is a tendency of the employees to set low standards largely because they are gaming the performance management system. If they aim low they can exceed their goals more easily. The second enemy of accountability is often the ambiguity about the roles and the lack of clarity as to where the responsibility lies. To fix this situation, established companies focus a lot on aligning responsibility and accountability with authority. And since authority typically is associated with hierarchy, this often ends up being about aligning accountability with hierarchy. The other thing that established companies do is to try and raise the bar on acceptable standards by focusing on performance distribution curves. Many like GE then take out the bottom 5-10% of their people every year. Both these interventions shape the accountability culture of an established company.

In an emerging company data and information is widely available, there is a more pressing need to succeed which drives high standards, and of course since there is less hierarchy. So the enemies of accountability are different. Research has shown that the desire for artificial harmony leading to a fear of conflict is the biggest enemy of accountability in an emerging company. Artificial harmony is a death knell to the decision commitment process. People are no longer able to follow the maxim that says that you should contribute to decisions before they are made and support decisions once made. And if the decision process in an emerging company is compromised it undermines the whole venture. So culture building for accountability has to explicitly focus on encouraging the right cultural traits of healthy conflict and disciplined decision-making.

The third area that both large and small organizations need to focus on from the HR perspective is, of course, hiring. But unlike established companies, emerging companies need quick starters - they want stuff that is ready to eat and not just ready to cook. Where do you get such people? One source is other emerging companies. Like serial entrepreneurs, there are some people who move from one emerging company to another. This pool is pretty small in India as with most other locations except Silicon Valley. So we are left with the other option of ungluing people from established companies.

How does one unglue senior people from established companies into emerging companies? What is the proposition that can be offered to them? It's not span of control. It's better career growth. One needs to look for people who are getting to the cusp of a key career inflexion. For example, a first line engineering manager who wants to become a second line engineering manager. The trick is to bring that person over laterally on the promise, really a possibility, of a faster transition to a second line manager role. For this to be credible to the prospective employee the emerging company has to open up and share its organizational roadmap. Unless they are able to show a clear linkage between the organizational roadmap and the career roadmap the ungluing process doesn't work. Obviously emerging companies have to work harder at hiring. Remember the goal is to find the right talent - "A" players for "A" positions. If you go back to mid-to-late 80s, Microsoft, which was then an emerging company, literally combed the world for the right talent. They even came to India looking for people in 1988, way before it was fashionable to do so. In India, Infosys broke new ground by hiring MBAs for market facing roles in mid-80s, way before it was fashionable in the Indian IT industry.

With hiring comes the issue of retention. The fundamentals of retention are the same in established and emerging companies. In both cases, the best way to retain people is to keep them in the center of the storm so that they feel challenged and valued in a professional way.

So, as we have seen, HR is vitally important to an emerging company. The key focus areas are proactive capability building, setting up an accountability culture, and hiring, particularly strategic hiring. Since HR teams in emerging companies are small, the only way to do justice to the key focus areas is to bring in outsiders to help out with the routine personnel management processes ranging from on-boarding to off-boarding. Outsourcing these activities is not the prerogative of just the larger companies. In fact, while such outsourcing may be optional for the established companies, it is almost mandatory for the emerging companies. Without this outsourcing HR inevitably gets bogged down by the mundane stuff and is not able to focus on the really important areas.

In conclusion, an effective HR strategy in an emerging company is quite different from what it is in an established company. Both need seasoned professionals. In an established company, HR is about scale and functional specialization. Most HR generalists get a raw deal there. I believe that the emerging companies are often the best home for HR generalists. They have a better opportunity to thrive as true business partners to the company leaders!

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