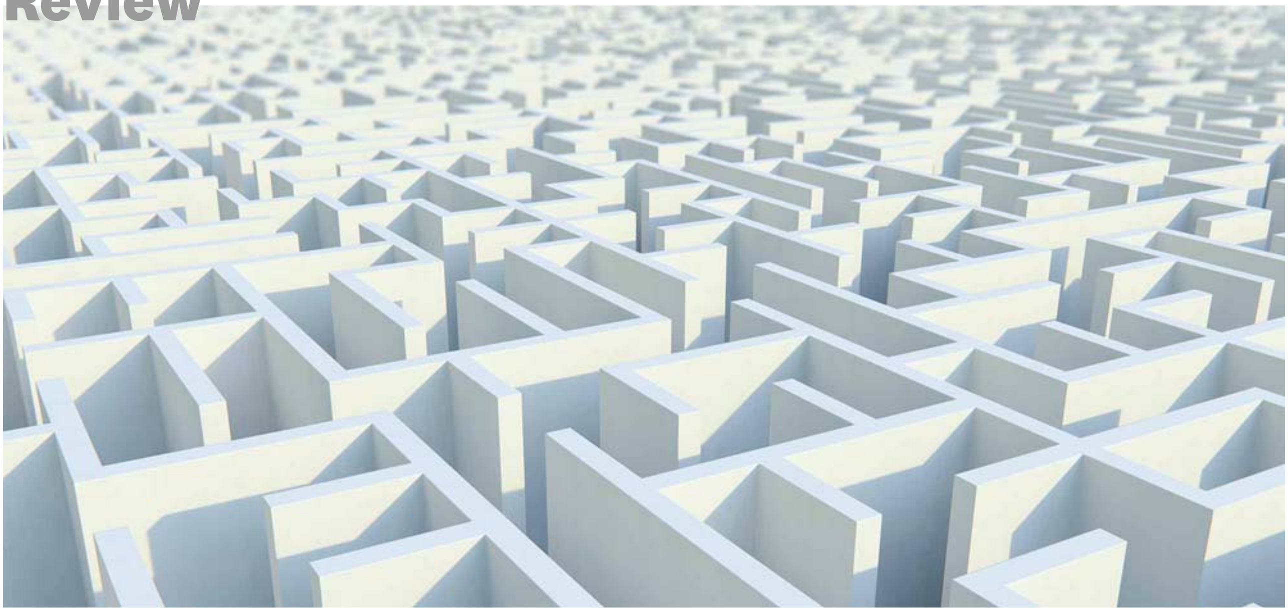
Harvard Business Review



MANAGING ORGANIZATIONS

Structure That's Not Stifling

by Ranjay Gulati

FROM THE MAY–JUNE 2018 ISSUE

Leaders know they need to give people room to be their best, to pursue unconventional ideas, and to make smart decisions in the moment. It's been said so often that it's a cliché. But here's the problem: Executives have trouble resolving the tension between employee empowerment and operational discipline. This challenge is so difficult that it ties companies up in knots. Indeed, it has led to decades' worth of management experiments, from matrix structures to self-managed teams. None of them has offered a clear answer.

That may be because leaders cling to the notion that freedom and control are zero-sum, often oscillating between the extremes. However, in studying more than a dozen organizations in a range of industries—businesses as diverse as an entertainment company, an airline, and an e-tail start-up—I've learned that guidelines are not the death of freedom if they're well designed and well implemented. They actually support and nurture it by giving people a clear, positive, galvanizing sense of where the organization is trying to go.

Leaders who have made this basic but counterintuitive discovery have essentially cultivated freedom within a framework, embedding the organization's purpose, priorities, and principles in a living set of guidelines. Once they've laid out the framework, they commit substantial resources to helping employees understand it and thrive within it.

> Well-designed and well-implemented guidelines are not the death of freedom.

"Freedom within a framework" is not my phrase. Leaders I have studied use it to describe how they think about employee decision making, for instance, or how they look at the central organization's relationship to business units or individual brands. This article provides a broader definition that can be applied in a variety of contexts.

"Freedom" can mean many things, but here, as a baseline, it means trusting employees to think and act independently in behalf of the organization. It may also include allowing them to find fulfillment and express themselves.

Of course, employees' desires vary. But we know from a large body of research on organizational behavior that most people want some form of choice and voice in what they do at work, and that this can spark greater commitment and improve performance. Human-relations thinkers made this connection nearly a century ago, and since then management experts such as Peter Drucker, Jeffrey Pfeffer, Richard Hackman, and Michael Beer have advanced the argument. Robert Burgelman and Joseph Bower have shown a relationship between autonomy (of both individuals and units) and the growth of innovative ideas and ventures within companies. Kenneth W. Thomas and others have emphasized the impact that free choice can have on empowerment and motivation.

Any of the factors just mentioned—commitment, performance, innovation—would be a compelling reason to expand employees' freedom. But consider this as well: With the explosive growth of the internet and social media, people now enjoy innumerable channels for sharing concerns and ideas in their personal lives. Compared with these expansive platforms for selfexpression, the workplace can feel downright stifling. The freedom of the outside world is banging at the corporate door, demanding to come inside. Yet most leaders are still afraid to open it, because they continue to view freedom and frameworks as antagonists in an intense tug-of-war. And since a tug-of-war can have only one winner, they pour their resources into regulating employee behavior.

Two decades ago the Harvard Business School organizational theorist Christopher A. Bartlett and the London Business School management professor Sumantra Ghoshal called out companies' bias toward control, arguing that leaders were misguided in their complaints about employees' lack of engagement, gumption, focus, and so on. The real issue, Bartlett and Ghoshal argued, was the persistent use of a simplistic, outdated organizational model in which leaders dream up strategy, devise a corporate structure to support it, and install systems to make sure employees toe the line. The result, they said, was often a work environment as enervating as Calcutta's heat in the summer.

Little has changed, sadly. As the faculty chair of Harvard Business School's intensive on-campus Advanced Management Program for executives, I have heard numerous firsthand accounts attesting to organizations' ingrained habits of control. In one memorable conversation, an HR executive of a major U.S. multinational lamented that freedom in a corporate context is, in the end, an "impossible dream."

> Netflix leaders want to give their people "oxygen to make mistakes."

In this article I'll share several company examples that contradict that assessment. These cases show what freedom in a framework looks like and how it functions in a range of settings, including the airline industry, one of the most regulated and rules-laden businesses. I'll also discuss the framework's fragility—its vulnerability to dissolution and its tendency, absent a constant infusion of energy, to revert to bureaucracy.

A Richer View of Freedom: Two Cases

One of the first companies I've seen push beyond the conventional, limited understanding of employee freedom is Netflix. The U.S.-based media company has received a lot of press for its hands-off approach to management. Its leaders assume that people do their best work when they don't have to ask for approval at every turn. One of the company's senior global executives told me that he personally hates to be managed and looks for the same attitude in job candidates.

In a slide deck that went viral several years ago, the company described its culture as a blend of "freedom and responsibility." That means employees are at liberty to use their own judgment within the strategic priorities articulated in "foundational" documents, which include such things as FAQs about the company's philosophy and priorities and instructions about minimizing rules and valuing flexibility over efficiency.

Consequently, Netflix has no shortage of employee-sparked initiatives, ranging from new film and TV content to innovative social media campaigns. The company lets employees make their own choices about vacation time, maternity leave, and travel expenses, rather than looking to HR to impose limits. Employees are also encouraged to communicate openly and to argue their points of view.

But here's the twist: This freedom isn't merely there for the taking. Employees are expected to exercise it, as part of their responsibility to the organization. For example, it's their job to read, understand, and debate the ideas in the foundational documents. The Netflix global executive just mentioned said that this "requires a great deal of engagement with broad aspects of the business." Once employees grasp the company's needs at that level, they are trusted to have its best interests at heart and to behave accordingly. "It's rare that people abuse the trust," the executive told me. Researchers have pointed out that companies often specify "zones of discretion" or "spheres of influence" in which employees get limited autonomy, but Netflix considers virtually the entire company to be such a zone.

"It's not necessary for us to implement control mechanisms," an HR executive told me. "We want to help people learn and give them oxygen to make mistakes." For example, he allows managers to hire candidates he would have rejected. "Managers can make the bets they feel are right for the business. I could disagree on a candidate, but if a manager takes my input and still makes another bet, I support that bet."

This blend of freedom and responsibility has paid off at Netflix. Since its founding, two decades ago, as a mail-order video-rental service, the company has expanded into online streaming with more than 100 million subscribers worldwide, representing nearly every country. It is also increasingly prominent as a producer of award-winning TV and film content. The company attributes these successes to its empowered, committed, innovative workforce.

You might wonder whether this approach is broadly applicable. I've asked myself the same question. After all, Netflix maintains a small, exceptional workforce of about 3,500 people—hardly the kind of sprawling, heterogeneous employee base "that requires rules to be effective," as the Netflix global executive put it. Its recruitment process is exceedingly selective, and the pay is high.

Though some companies have such recruitment and compensation tools at their disposal—other tech-based companies, for instance, and professional services firms—lower-margin businesses usually don't. What's more, Netflix is in the entertainment industry, where mistakes may cost a lot but don't typically endanger people's health or lives. The degree of freedom that's appropriate in an entertainment or an internet company is far greater than what would be tolerated in many businesses—particularly those that are regulated and unionized—so I also closely examined organizations with such constraints. Here, too, I was able to find companies whose employees can still think constructively, innovate, and make customer-friendly decisions on their own—and exercise more choice and voice in their day-to-day work—by internalizing guidelines that complement more-conventional control systems.

Let's look at Alaska Airlines, which operates in a highly regulated, safety-focused, low-margin industry and has a diverse, unionized workforce. (If an airline can establish a coherent framework for employee freedom despite such constraints, virtually any company can do the same.) Like Netflix, Alaska learned that carefully designed and implemented guidelines can support and enrich freedom. But it took the airline a long time to get there, because its early attempts weren't sufficiently rooted in the organization's needs.

> Some Alaska employees had the impression they could do anything for passengers.

Back in the 1990s, Alaska was a relatively small company with a big personality—its workforce was friendly, informal, and eager to help. Frontline employees were encouraged to make real-time decisions to better serve customers and maintain a competitive advantage. "I remember being told [on arrival in 1997], 'Trust your gut; do the right thing,'" Stacie Baker, Alaska's director of airport training and leadership, told me. "I remember giving that guidance to others as well when I became a supervisor."

A senior executive informally dubbed this service philosophy Whatever It Takes—and the growing company adopted that as its mantra. Employees were urged to go to great lengths to assist, appease, and even compensate passengers to maintain a happy, loyal customer base. Leaders assumed—or hoped—that employees would infuse these extraordinary efforts with an understanding of the company's interests.

But employees were never given a clear sense of those interests. Whatever It Takes was entirely customer-focused, and it was a sprawling philosophy. "It didn't have any fences around it," says Andy Schneider, who was the vice president of in-flight operations back when that philosophy ran rampant. It gave some employees the false impression that there were no limits on what they could do for passengers.

The value of independent decision making did come through in a crisis: In January 2000, when Flight 261 went down in the Pacific Ocean, killing all 88 people aboard, customer service employees sprang into action to aid families and others connected to the victims. The company dispatched a team of 600 employees, equipped them with company credit cards, and authorized them to arrange for hotel rooms, babysitters, and whatever else those affected might need. "Virtually anything that needs to happen, we will do it," Jeff Butler, an Alaska Airlines executive, said at the time.

However, the crash also set off a cultural shift at Alaska. The company curtailed its growth plan and intensified its focus on safety, appointing a safety vice president and hiring some 200 additional maintenance workers.

Then—less than two years later, after the terrorist attacks of September 11—demand for air travel plummeted, and security costs increased. In 2001 Alaska Airlines lost $43 million. That year U.S. airlines went from substantial profitability to a combined net loss of nearly $8 billion, despite an emergency infusion of close to $4 billion in government support. Meanwhile, Alaska's on-time performance had become poor, threatening customer satisfaction.

In addressing the intense pressure for safety, cost, and performance improvements, Alaska made the conventional assumption about trade-offs between freedom and control. "The world being uncertain, we became more disciplined," Stacie Baker said when we spoke. This is a common response to a crisis or a downturn. Unfortunately, as the airline clamped down, it snuffed out decision autonomy. For instance, a few years later, to improve safety and boost on-time results, it created a heavily scripted departure-and-arrival "playbook." Efficiency increased, and net profits did rise—from $138 million in 2006 to $571 million in 2014. But gate and flight attendants and other frontline workers were using less and less discretion to solve problems. Despite older workers' informal attempts to pass along the company's customer-centric traditions, newcomers felt uncomfortable making judgment calls in ambiguous situations and tended to be rigid about preserving the airline's on-time record. They "were afraid that if they didn't precisely follow the policies, they would get in trouble," Ben Minicucci, Alaska Airlines' president and COO, told me. Customer-service numbers began to slip, and competitors were catching up. As Baker explained, other airlines "were raising their game, but we were status quo."

When leaders solicited feedback from the front lines, they learned that the bureaucracy was tying employees' hands and creating frustration. So in 2014 and 2015, in hopes of winning again on superior customer service, Alaska returned to its culture of frontline autonomy. But this time the company took a serious look at decision boundaries. How should they be drawn? If it was permissible, say, to delay takeoff while a passenger ran back into the terminal to fetch a forgotten item, was it also permissible to lavish gifts on passengers to make up for delays? The answer would turn out to be no. The company saw that providing consistently excellent service while adhering to regulations and maintaining the gains in efficiency would require independent decision making—but within well-understood limits.

Drawing inspiration from the Disney Institute's "four keys" to a great customer experience, Alaska's leadership team defined four standards of service: safety, caring, delivery, and presentation. Within each standard it provided broad guidelines for employees' attitudes and behaviors.

Alaska had discovered that the frontline employee—the worker "on the spot," in the economist Friedrich Hayek's terminology—must be given enough knowledge to align his or her decisions with the organization's needs and plans. So the airline developed a comprehensive training program with an explicit goal of helping frontline employees internalize its service standards. The company's top executives attended the training to underscore its importance. In a museumlike space designed for an immersive experience, they talked about Alaska's core beliefs and history, and employees were shown artifacts such as uniforms dating to the 1940s to convey the arc of the company's story and to underscore the idea that future success would stem from long-held customer-centric values. They learned about the company's financial standing and its sustainability plan as well. The training made clear that frontline workers were essential to beating low-cost carriers and big legacy rivals, including Delta, which had gained traction on Alaska's home turf in Seattle. They also learned how the company was evaluated by J.D. Power and other raters and where it stood in relation to competitors.

Further training sessions, reinforced with videos, helped employees understand their decisionmaking power and how it related to the company's goals and service standards. One video, in which an agent waived a fee for a passenger whose travel plans had to be changed because of an injury, illustrated that employees were expected to make thoughtful choices on their own.

Some workers were skeptical, concerned that moving away from a purely rules-based approach would hurt on-time performance. The company assured employees that it wanted them to experiment and would support them in their decisions. Managers, too, had to be retrained—many were initially uncomfortable ceding decision authority to their direct reports. They also needed guidance on having constructive conversations with subordinates who went a little too far for customers. The goal was to help employees grow from the experience, not to punish them for well-intended choices or make them afraid to use their discretion in the future.

So far the results have been positive: In 2017 Alaska earned J.D. Power's highest customer satisfaction ranking among traditional airlines. The company's continuing position as a low-cost leader—it has been ranked at the top of the 15 biggest U.S. airlines in fuel efficiency, for example—suggests that Alaska is also achieving other performance goals. It has been listed by FlightStats as the most on-time airline in North America for seven consecutive years, and according to the *Wall Street Journal*'s domestic-airline rankings, for four years in a row it has had the best on-time performance and the fewest tarmac delays and complaints.

In addition, the training has had the unanticipated effect of improving relations among staff members. "If you've ever worked in a union environment, there's a lot of paranoia, a lot of misinformation," Andy Schneider explained to me. "It was healthy for employees to hear, 'Hey, we don't always get it right, but we're committed to this. We're committed to you. And we need you in order to win.'"

Defining the Framework

In a groundbreaking series of HBR articles in the 1990s (including "Changing the Role of Top Management: Beyond Systems to People," May–June 1995), Bartlett and Ghoshal offered an antidote to the strategy-structure-systems thinking that gives rise, again and again, to oppressive workplace controls: Companies, they said, need to shift to a model built on an engaging corporate purpose, effective management processes that encourage individual initiative, and a people policy focused on developing employees' capabilities rather than on monitoring their behavior. They suggested that employee motivation would grow out of a "strong central framework" embodying the company's vision.

> Simple principles help people select reasonable options in their day-to-day work.

The advice is eminently well founded but has proved hard to implement, because it leaves some big questions unanswered: How should companies translate purpose into action? How can they encourage initiative and de-emphasize monitoring without causing chaos? What, exactly, is a framework, and how does it function? So I am proposing some refinements to Bartlett and Ghoshal's model, to make it more user-friendly. I, too, have identified three core elements.

First, as Bartlett and Ghoshal also argued, a company needs to articulate its *purpose*—a single shared goal that sums up the "why" of the organization. This conveys how the company makes sense of the world and brings stakeholders together in a common cause. The purpose gives direction and meaning to everything the company and its employees do. Employees often adopt it as their own reason to work for the organization.

To develop a purpose and articulate it in a way that would resonate with workers, Alaska put together a team of two dozen high-performing and widely respected frontline employees and eight managers. They ultimately described Alaska's purpose as going above and beyond to create "personal connections and extraordinary journeys."

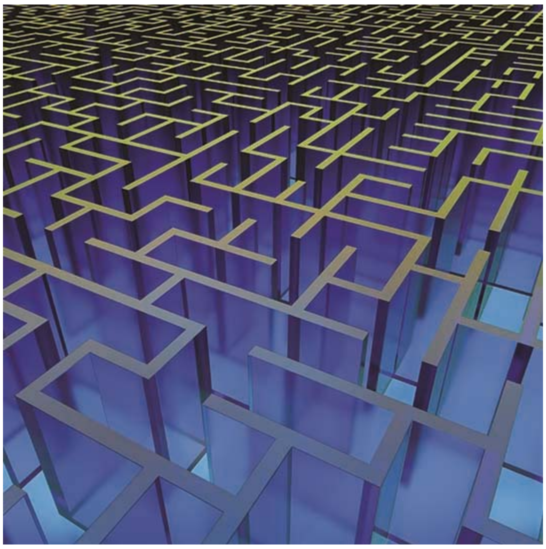
On its own, a statement like that is pretty lofty. It needs to be tethered to reality by established *priorities*—behavioral rules that reflect the organization's goals. Spelling out the company's interests enables employees to act in those interests and use time and other resources wisely. Alaska Airlines explicitly ranked its four standards of service in priority order, with safety outweighing caring, which outweighed delivery, which outweighed presentation. "Going above and beyond" translates into going an "extra inch" for customers without sacrificing safety or efficiency. "If we all give an inch, all those inches turn into a mile," Baker said.

Finally, a simple set of *principles,* growing out of the organization's purpose and priorities, helps employees choose among reasonable options in their day-to-day work. A principle should apply to more than one situation—it should facilitate decisions in an array of contexts. That said, it shouldn't be so broad that it provides no real guidance. Take the statement "All employees must be treated with respect." Although that is a laudable aim, what does it look like in practice? Better to describe behaviors that convey respect, such as encouraging people to express their opinions freely or even rewarding them for doing so. Principles can also be constructed out of business choices, such as infusing innovation efforts with design thinking or focusing on the needs of international or middle-market customers.

Principles, then, can include positive guidelines for action as well as limits on behavior. And ideally, they, along with purpose and priorities, will be iteratively defined and tweaked, with feedback from people at all levels of the organization. Otherwise the framework won't make sense in practice, won't reflect the company's interests, or will lack consistency. Alaska's Whatever It Takes campaign had all three problems.

By contrast, the company's 2014 initiative drew heavily on the experience and wisdom of both leaders and frontline workers. The team of employees and managers who had articulated Alaska's purpose, priorities, and four key service standards met every few weeks over several months to define the airline's principles. Executives occasionally came in to receive briefings and provide feedback. One, for instance, challenged the idea of including "I comply with company standard uniforms" as a principle within the "presentation" standard, because it seemed unnecessarily specific. But the team insisted on the importance of the guideline, so it stayed in.

It's critical to listen to frontline workers even when their views conflict with senior management's. That is what connects the framework to practice and helps legitimize it in employees' eyes. Though I happen to agree with the executive who thought the line about uniforms was too granular, it will be up to managers and employees to sort that out in future conversations about the framework—after they've lived with it and applied it.



When I meet with business leaders, sometimes an analogy helps me explain how purpose, priorities, and principles enable freedom. I point to an intrepid group of improv actors known as the Improvised Shakespeare Company. The ISC takes audience suggestions for titles (usually ridiculous ideas, such as *The Knave's Pantaloons*) and, in real time, creates Shakespearean mini-dramas to fit them. It's evident that the players have all acquired a deep knowledge of Shakespeare's themes, characters, and language, as well as an understanding of what's required to keep audiences engaged and coming back for more. They have so fully internalized the troupe's purpose (to entertain), priorities (to be hilarious and interactive), and principles (situations and dialogue must feel authentically Shakespearean) that they can improvise with dizzying inventiveness without sacrificing coherence. Similarly, in a business environment the purpose provides the motivation, the priorities and principles provide the knowledge, and together the three elements support superior judgment in the moment.

Implementing the Framework

Trusting employees to implement the framework generally works well. But it's useful to put some checks and balances in place, as the internet-era eyewear retailer Warby Parker has done.

Before we look at how, let's consider some background: Warby Parker is a relatively small, young start-up—at the time of this writing it had been around for just seven years and was still running on venture capital. Though it has opened more than 60 physical stores, in other ways it resembles Netflix: It's a web-based company that has a "home try-on" program, and it has used a highly selective hiring process to grow its workforce (currently numbering about 1,300). Its employees have considerable freedom to voice their ideas and concerns, whether by engaging in honest conversation, participating in 360-degree reviews, or proposing new initiatives.

As at the other companies I've mentioned, employees' freedom exists within a well-defined framework: The company's purpose is to "do good" (for example, through partnerships with nonprofits, Warby ensures that for every pair of glasses sold, a pair is distributed to someone in need). As for priorities, the company has developed a system in which 30-plus senior managers cast "Warbles" (weighted votes) on employee-proposed projects related to engineering. The more Warbles something gets, the stronger the indication of priority. But in practice the rankings function as preferences, not direct orders. Engineers may disregard the vote-based priorities and instead work on projects that best fit their skills, interests, and views regarding what will benefit the company most.

It's a democratic system, but one in which the people doing the work have a degree of decision power—within established boundaries. The system serves broader functional and philosophical purposes, too: In encouraging proposers to seek support for their ideas, it fosters widespread conversations, underscoring the company's principle of valuing both consensus and autonomy.

Of course, a critical part of implementation is learning from missteps. As large engineering projects unfold, Warby Parker holds periodic "retrospective" conversations with relevant stakeholders—including managers outside engineering—to capture learning about what's going right or wrong. For example, during a commercial foray into Canada, participants discussed why they hadn't realized until late in the game that a local bank card was incompatible with the company's payment system. Conversations about such missteps are structured to cover not only what could have gone better but also "What's still an open question—what still puzzles us?" according to Andrew Jaico, a Warby Parker technical product manager.

The Fragility of a Framework

At numerous companies freedom frameworks (or proto-frameworks—that is, less-developed ones) have fallen apart. Why does that happen?

The short answer is that a framework, like freedom itself, is inherently fragile. It requires maintenance. You can't expect it to last unless you provide constant infusions of energy. So one major risk is neglect. People must maintain an explicit awareness of the company's purpose, priorities, and principles. If those elements fade from managers' and employees' consciousness, the framework is in jeopardy. The same will be true if the company brings in a host of new employees—say, through a merger or an acquisition—but doesn't immerse them in the guidelines.

Another risk is that new leaders will fail to support the framework because they don't grasp its value. Or—probably even more common—the leaders who established it may turn around and deliberately take away some employee freedoms for one of these reasons:

Reaction to a crisis.
After a major shock, leaders tend to lurch into big changes when a better approach might be to maintain a steady course while increasing the organization's learning. Alaska Airlines' suppression of employee freedom when revenue and performance were declining provides an example of this pendulum effect.

Reaction to success.
Sometimes freedom-fueled performance is followed by a period of inflexibility, as was the case at Nokia. In the 1970s CEO Kari Kairamo had downplayed traditional formalities and processes in favor of speed and agility, thereby propelling the company into the electronics and telecom markets that would eventually yield its greatest wins. Yet a little over a decade after the company reached its peak, in the late 1990s, Nokia underwent a shift toward bureaucracy. My Harvard Business School colleagues Juan Alcacer and Tarun Khanna found in their research that as the company rapidly grew, it was unable to adapt to all the distinct challenges in different global markets. In many instances headquarters ignored or responded too slowly to requests from subsidiaries. Nokia ceded market share to both low- and high-end competing products.

> Like freedom itself, a framework is inherently fragile. It requires maintenance.

The primacy of process.
In some organizations, rules for how to do the work assume too much importance, and people toil away without autonomy or any understanding of why. Even in industries such as health care and pharmaceuticals, where employees often share a strong sense of their organizations' purpose, process can overtake meaning. A VP at one global pharma company told me that customer-facing employees fundamentally love what they do—"our values are alive"—but "the head office imposes so many restrictions on compliance, training, and rules of engagement to cover our risk that employees can hardly maneuver."

Given these sources of fragility, companies need to constantly monitor employee voices and look for signs of declining agency. Is there real diversity among workers' expressed viewpoints? Is there significant variation in the kinds of projects people are undertaking? Even the best-designed freedom frameworks must be reinforced through education, executive example, and rigorous after-action discussion.

CONCLUSION

After Alaska Airlines acquired Virgin America, the once-small regional carrier became the fifth-largest airline in the United States by traffic. The merger brought in 3,000 additional employees, all of whom would require training in Alaska's approach to customer service. The acquisition increased the challenge regarding employee freedom. As COO Ben Minicucci put it: "How can I make sure 20,000 people feel connected to management, that they embrace our purpose?" To complicate matters, Virgin had its own, less-formal freedom framework. It had fewer explicit guidelines and went further than Alaska in encouraging employees to express their personalities and interests at work. The acquisition has pushed Alaska into making refinements to embrace elements of Virgin's purpose and values.

Stress tests like Virgin's integration—and Netflix's rapid expansion into new markets, and Warby Parker's long-range goal of becoming an international corporation—occur against a backdrop of expanded freedom in employees' personal lives. Indeed, concepts of freedom are highly dynamic. They must be continually redefined—they must breathe, grow, and evolve within companies' simultaneously changing needs.

All of which highlights the importance of creating strong, coherent frameworks that can be relied upon to support and strengthen that freedom going forward.

A version of this article appeared in the May–June 2018 issue (pp.68–79) of *Harvard Business Review*.

Ranjay Gulati is the Jaime and Josefina Chua Tiampo Professor of Business Administration, the head of the organizational behavior unit, and the chair of the Advanced Management Program at Harvard Business School.

This article is about MANAGING ORGANIZATIONS

⊕ FOLLOW THIS TOPIC

Related Topics: LEADERSHIP & MANAGING PEOPLE | MOTIVATING PEOPLE

Comments

Leave a Comment

POST

3 COMMENTS

Tony Cord 18 days ago

The article resonates with me on multiple levels; as a business builder, CEO advisor, entrepreneur and board director. Against a backdrop of rapid change, keeping focus on a company's purpose, priorities and principles makes the focus on a framework essential. An important read - thank you Dr. Gulati.

REPLY 0 0

JOIN THE CONVERSATION

POSTING GUIDELINES

We hope the conversations that take place on HBR.org will be energetic, constructive, and thought-provoking. To comment, readers must sign in or register. And to ensure the quality of the discussion, our moderating team will review all comments and may edit them for clarity, length, and relevance. Comments that are overly promotional, mean-spirited, or off-topic may be deleted per the moderators' judgment. All postings become the property of Harvard Business Publishing.