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THE BIG IDEA

Tours of Duty: The New Employer-Employee Compact

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TOURS OF DUTY

THE NEW EMPLOYER-EMPLOYEE COMPACT

BY REID HOFFMAN, BEN CASNOCHA, AND CHRIS YEH

FOR MOST OF THE 20TH CENTURY, the compact between employers and employees in the developed world was all about stability. Jobs at big corporations were secure: As long as the company did OK financially and the employee did his or her job, that job wouldn't go away. And in the white-collar world, careers progressed along an escalator of sorts, offering predictable advancement to employees who followed the rules. Corporations, for their part, enjoyed employee loyalty and low turnover.

PHOTOGRAPHY: FREDRIK BRODÉN

Then came globalization and the Information Age. Stability gave way to rapid, unpredictable change. Adaptability and entrepreneurship became key to achieving and sustaining success. These changes demolished the traditional employer-employee compact and its accompanying career escalator in the U.S. private sector; they are in varying degrees of disarray elsewhere.

We are not the first to point this out or to propose solutions. But none of the new approaches offered so far have really taken hold. Instead of developing a better compact, many—probably most—companies have tried to become more adaptable by minimizing the existing one. Need to cut costs? Lay off employees. Need new skills? Hire different employees. Under this laissez-faire arrangement, employees are encouraged to think of themselves as "free agents," looking to other companies for opportunities for growth and changing jobs whenever better ones beckon. The result is a winner-take-all economy that may strike top management as fair but generates widespread disillusionment among the rest of the workforce.

Even companies that have succeeded using minimalist compacts experience negative fallout, because the compacts encourage turnover and hamper employee productivity. More important, although the lack of job security indirectly creates incentives for employees to become more adaptable and entrepreneurial, the lack of mutual benefit encourages the most adaptable and entrepreneurial to take their talents elsewhere. The company reaps some cost savings but gains little in the way of innovation and adaptability.

The time has come, we believe, for a new employer-employee compact. You can't have an agile company if you give employees lifetime contracts—and the best people don't want one employer for life anyway. But you can build a better compact than "every man for himself." In fact, some companies are doing so.

We three come from an environment where the employer-employee relationship has already taken new forms—the high-tech start-up community of Silicon Valley. In this world, adaptability and risk taking are acknowledged as crucial to success, and individual entrepreneurs can have a big impact if the networks they've built are strong enough.

Two of us (Reid and Ben) recently wrote a book, *The Start-up of You*, that applied the habits of successful tech entrepreneurs to the work of building a fulfilling career in any field. Obviously, not every industry works like a start-up business. But most firms today operate in a similar environment of rapid change and disruptive innovation.

Tiny start-ups out-execute corporate giants all the time, despite seemingly huge disadvantages in resources and competitive position. Start-ups succeed in large part because their founders, executives, and early employees are highly adaptable, entrepreneurial types who are motivated to out-hustle, out-network, and out-risk their competitors—and who thus generate outsize rewards.

Recruiting, training, and relying on such a workforce can be scary. After all, if you encourage your employees to be entrepreneurial, they might leave you for the competition—or worse, they might *become* the competition. This is an everyday reality in Silicon Valley. But smart managers here have realized that they can encourage entrepreneurial mindsets and increase retention by rethinking how they relate to talent within their organizations. What's more, many have come to understand that they can benefit from employees who do leave for other opportunities.

This is the beginning, we think, of the new kind of compact that's needed today. Although it is most evident in the tech world, we've seen elements of it elsewhere—at consulting firms, for example. The chief principle underlying it is reciprocity: Both parties understand and acknowledge that they've entered into a voluntary relationship that benefits both sides.

Mutual investment was implicit in the old lifetime employment compact, to be sure. Because both sides expected the relationship to be permanent, both sides were willing to invest in it. Companies provided training, advancement, and an unspoken guarantee of employment, while employees provided loyalty and a moderation of wage demands. The new compact acknowledges the probable impermanence of the relationship yet seeks to build trust and investment anyway. Instead of entering into strict bonds of loyalty, both sides seek the mutual benefits of *alliance*.

As allies, employer and employee try to add value to each other. The employer says, "If you make us more valuable, we'll make *you* more valuable." The employee says, "If you help me grow and flourish,

Idea in Brief

For most of the 20th century the compact between employers and employees was based on loyalty. That is now gone, replaced in the U.S. by a transactional, laissez-faire approach that serves neither party well.

A workable new compact must recognize that jobs are unlikely to be permanent but encourage lasting alliances nonetheless. The key is that both the employer and the employee seek to add value to each other. Employees invest in the company's *adaptability;* the company invests in employees' *employability.*

Three simple policies can make this new compact tangible. They are (1) hiring employees for explicit "tours of duty," (2) encouraging employees to build networks and expertise outside the organization, and (3) establishing active alumni networks to maintain career-long relationships.

YOU CAN'T BUILD AN AGILE COMPANY WITH LIFETIME EMPLOYMENT CONTRACTS. BUT YOU CAN CREATE A BETTER COMPACT THAN "EVERY MAN FOR HIMSELF."

I'll help the company grow and flourish." Employees invest in the company's *adaptability;* the company invests in employees' *employability.* As former Bain CEO Tom Tierney used to tell recruits and consultants, "We are going to make you more marketable."

The reciprocal compact may be unsentimental, but it depends on trust nonetheless. Because the parties are seeking an alliance rather than just exchanging money for time, it can build a stronger relationship between them even as it acknowledges that relationship's finite life in the organization. This allows both sides to take more risks, investing time and resources to find global maxima rather than simply seeking local peaks.

Netflix's compact with its employees is an example of what these new arrangements can look like. In a famous presentation on his company's culture, CEO Reed Hastings declared, "We're a team, not a family." He gave managers this advice: "Which of my people, if they told me they were leaving in two months 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." The new compact isn't about being nice. It's based on an understanding that a company is its talent, that low performers will be cut, and that the way to attract talent is to offer appealing opportunities.

We've found three simple, straightforward ways in which organizations have made the new compact tangible and workable. They are (1) hiring employees for defined "tours of duty," (2) encouraging, even subsidizing, the building of employee networks outside the organization, and (3) creating active alumni networks that facilitate career-long relationships between employers and former employees. Let's look at each in turn.

Establishing a "Tour of Duty"

If you think all your people will give you lifetime loyalty, think again: Sooner or later, most employees will pivot into a new opportunity. Recognizing this fact, companies can strike incremental alliances. When Reid founded LinkedIn, he set the initial employee compact as a four-year tour of duty, with a discussion at two years. If an employee moved the needle on the business during the four years, the company would help advance his career. Ideally this would entail another tour of duty at the company, but it could also mean a position elsewhere.

The tour-of-duty approach works: The company gets an engaged employee who's striving to produce tangible achievements for the firm and who can be an important advocate and resource at the end of his tour or tours. The employee may not get lifetime *employment,* but he takes a significant step toward lifetime *employability.* A tour of duty also establishes a realistic zone of trust. Lifelong employment and loyalty are simply not part of today's world; pre-

Don't Be Afraid of Entrepreneurial Employees

With a new compact, you can attract entrepreneurial, adaptive people. But relying on entrepreneurial employees can be terrifying: They restlessly search for new, high-learning career opportunities, and other companies are always looking to poach them. Still, it's crucial to have them aboard, even temporarily, so you should put your fears aside. Here's why.

Do entrepreneurial employees really benefit their employers?

They can be extremely valuable, as John Lasseter's story demonstrates. In the early 1980s Lasseter, then a young animator at Disney, pitched his superiors on the new technology of computer-generated animation—and was promptly fired. He ended up in Lucasfilm's computer graphics division, which Steve Jobs acquired and, with Lasseter's help, built into the computer-generated-animation powerhouse Pixar. In 2006 Disney paid $7.4 billion for Pixar and named Lasseter chief creative officer of both Pixar and Walt Disney Animation Studios. Disney learned an expensive lesson: It would have been much cheaper to let Lasseter exercise his creative and entrepreneurial genius in-house.

Quantifying the benefits of entrepreneurial employees is hard, but Global Entrepreneurship Monitor, which studies in-company entrepreneurship, has made some intriguing findings. In a 2011 study it compared the frequency of individuals' "creating and developing new business activities for the organizations they work for" in different nations. It found that "the prevalence of entrepreneurial employee activity as a percentage of the adult population" in economies classified as innovation-driven was more than ten times as high as in factor-driven economies and more than twice as high as in efficiency-driven economies. In other words, entrepreneurial employees are highly correlated with corporate innovation.

If I encourage employees to be entrepreneurial, won't they leave?

Some will. But retaining them for even a limited time can bring enormous benefits.

tending that they are decreases trust by forcing both sides to lie.

Why two to four years? That time period seems to have nearly universal appeal. In the software business, it syncs with a typical product development cycle, allowing an employee to see a major project through. Consumer goods companies such as P&G rotate their brand managers so that each spends two to four years in a particular role. Investment banks and management consultancies have two- to four-year analyst programs. The cycle applies even outside the business world—think of U.S. presidential elections and the Olympics.

Properly implemented, the tour-of-duty approach can boost both recruiting and retention. The key is that it gives employer and employee a clear basis for working together. Both sides agree in advance on the purpose of the relationship, the expected benefits for each, and a planned end.

The problem with most employee retention programs is that they have a fuzzy goal (retain "good" employees) and a fuzzy time frame (indefinitely). Both types of fuzziness destroy trust: The company is asking an employee to commit to it but makes no commitment in return. In contrast, a tour of duty serves as a personalized retention plan that gives a valued employee concrete, compelling reasons to finish her tour and that establishes a clear time frame for discussing the future of the relationship.

The Wharton School polls its students about their satisfaction with their pre–business school jobs. It has found that students who came to it from "terminal jobs"—two-year analyst programs, for example—are more positive about their work experience than their peers are. Terminal jobs are generic versions of tours of duty; personalized tours would probably produce even more positive feelings.

In 2003 Matt Cohler was a management consultant who wanted to become a venture capitalist, although he lacked start-up experience. He began working for Reid at LinkedIn, where the two mapped out a two-year tour of duty. After that time was up, he and Reid agreed to extend the tour while they figured out what Matt could do next. Six months later Matt had the opportunity to join Facebook as one of its first five employees. Although Reid didn't want to lose Matt, he advised him to take the position, which would bring diversity to his start-up experience and move him closer to his goal. After three years at Facebook Matt became the youngest general partner at Benchmark, a prominent venture capital firm.

Action item: Construct personalized, mutually beneficial tours. Work with key employees to establish explicit terms of their tours of duty, developing firm but time-limited mutual commitments with focused goals and clear expectations. Ask, "In this alliance, how will both parties benefit and progress?"

Amazon became a leader in cloud computing thanks to Amazon Web Services, which allows companies to rent storage and computing power rather than having to buy and operate their own servers. The idea for AWS came from Benjamin Black, a website engineering manager at the company, and his manager, Chris Pinkham. In 2003 they realized that the operational expertise that made Amazon an efficient retailer could be repurposed to serve the general market for computing power. They pitched Jeff Bezos on the concept, and after a few iterations Bezos put Pinkham in charge of developing what would become AWS.

Both Black and Pinkham eventually left Amazon to start their own companies. But they left behind a business unit that contributed some $2 billion to Amazon's revenue in 2012.

Won't tours of duty shorten employee tenure?

A tour of duty has a defined end, but that doesn't have to be the end of an employee's tenure. One successful tour is likely to lead to another. Each strengthens the bonds of trust and mutual benefit. And if an employee wants change, an appealing new tour of duty can provide it within your company rather than at a competitor. This is a more effective retention strategy than appealing to vague notions of loyalty.

Do *all* my employees need to be entrepreneurial?

You don't need or even want 100% of your employees to be hard-core entrepreneurs. Silicon Valley start-ups like to brag about hiring "rock stars," but a company composed of only rock stars would be a nightmare. Every company needs a mix of types that's appropriate for its competitive environment. Companies in relatively stable industries, for example, may do best with fewer entrepreneurial employees.

Still, the chances that your organization is *too* entrepreneurial are pretty low.

When possible, a tour of duty should offer an employee the possibility of a breakout entrepreneurial opportunity. This might involve building and launching a new product, reengineering an existing business process, or introducing an organizational innovation.

This approach can't be executed by a central HR function; you're making a compact, not drawing up a contract. We're not suggesting that you negotiate a guaranteed arrangement that spells out all the specifics—a rigid approach is the opposite of an entrepreneurial mind-set. You're building a trust relationship that's based on the employee's actual job, so the conversations must be handled by direct managers.

Engaging Beyond the Company's Boundaries

Henry Ford once complained, "Why is it that every time I ask for a pair of hands, they come with a mind attached?" But these days, of course, minds dramatically amplify the value of hands—and they become even more powerful when they're able to engage with minds outside the company.

No matter how many smart employees you have, there are always more smart people outside your company than within it. This is true of all organizations, from one-person start-ups to the Googles of the world.

You can engage with smart minds outside your company through the network intelligence of your employees. The wider an employee's network, the more he or she will be able to contribute to innovation. Martin Ruef, of Duke University, has found that entrepreneurs with diverse friends scored three times as high as others on measures of innovation. To maximize diversity and thus innovation, you need networks both inside and outside your company.

Therefore, employers should encourage employees to build and maintain professional networks that involve the outside world. Essentially, you want to tell your workers, "We will provide you with time to build your network and will pay for you to attend events where you can extend it. In exchange, we ask that you leverage that network to help the company." This is a great example of mutual trust and investment: You're trusting your employees by giving them the resources to build their networks, and they're investing in your business by deploying some of their relationship capital in your company's behalf.

Those networks should encompass the entire environment in which your business operates, including customers and competitors alike and serving as platforms for information on new technology and other trends. For example, at the venture capital firm Greylock, where Reid is a partner, tapping the investment professionals' external networks is an important part of product review meetings. Someone might ask, "What new technologies are you hearing about? Which ones should we investigate?" The insights gained translate into better decision making and more value for Greylock's portfolio companies. The partners at another top venture capital firm, Andreessen Horowitz, have their own creative spin: At the beginning of every meeting, they award a cash prize for the best industry rumor someone has heard. You don't have to be in venture capital to adapt such techniques for your company.

The power of external engagement helped define the history of Silicon Valley high tech, as chronicled in AnnaLee Saxenian's 1994 book on technology clusters, *Regional Advantage.* In 1970 some of the world's largest technology firms were located in Boston's Route 128 corridor. Today none of the 10 largest tech firms are; Boston's primacy has been snatched away by Silicon Valley. What made that possible? External networks.

Massachusetts companies typically preferred secrecy to openness and rigorously enforced noncompete clauses to prevent employees from jumping to rival firms or starting their own. Silicon Valley has long had a more open culture (and lacks enforceable noncompete clauses), and this has permitted the development of much denser and more highly interconnected networks—which make it easier for people to innovate. The area even gave rise to a term, "coopetition," that reflects the fact that working with competitors can be mutually beneficial. Consider Netflix again: It runs its streaming video service on Amazon's cloud platform, even though Amazon's Instant Video is a direct competitor.

Action item: Encourage network development. In *The Start-up of You* we wrote, "Your career success depends on both your individual capabilities and your network's ability to magnify them. Think of it as I^{We}. An individual's power is raised exponentially with the help of a team (a network)."

Just as an individual's power rises with the strength of her network (I^{We}), a company's power rises with the strength of its employees' networks. Value each person's network and her ability to tap it for intelligence; make it an explicit, acknowledged asset. An employee who keeps her LinkedIn profile current or builds a big personal following on Twitter is doing right by your company, not being disloyal to it. And make a candidate's network strength and diversity a priority when hiring. Bringing in employees with strong networks is good; hiring people whose networks complement rather than overlap those of existing employees is even better.

One of the techniques we recommend for individuals is to maintain an "interesting-person fund" to take people in their networks out to coffee. The corporate equivalent is a "networking fund" for employees. To make sure your company reaps the full benefits, establish two requirements for tapping the fund. First, employees have to leave your corporate campus; you want them to get "outside the building" to build a more diverse external network. Second, they must report back about what they learn so that the gains are shared. Most companies allow employees to expense business lunches, but few allow them to expense networking lunches. Yet if you're a top executive, you probably have such lunches all the time, and your company benefits as a result. Make it not just acceptable but *expected* for your people to do the same.

HubSpot, a Massachusetts-based marketing software company that, in its words, believes in "invest[ing] in [the] individual mastery and market value" of every HubSpotter, keeps it even simpler than that. Interested in a book? Mention it on the internal company wiki, and the book will show up on your Kindle. Want to take somebody smart to lunch? Company policy is: "Expense it. No approval needed."

The network intelligence flowing into your company needs to be a top management concern, with specific programs to strengthen and extend it. For highly networked and entrepreneurial employees, this is one of the primary criteria for judging your attractiveness as an employer.

Building Alumni Networks

The first thing you should do when a valuable employee tells you he is leaving is try to change his mind. The second is congratulate him on the new job and welcome him to your company's alumni network.

Just because a job ends, your relationship with your employee doesn't have to. Corporate alumni networks are a prime way to maintain long-term relationships with your best people. As Cindy Lewiton Jackson noted while she was the global director of career development and alumni relations at Bain, "The goal is not to retain employees. The goal is to build lifelong affiliation."

Some industries and firms have long understood this. McKinsey & Company has operated an alumni network since the 1960s; the group now has upwards of 24,000 members (including more than 230 CEOs of companies with at least $1 billion in annual revenue). Booz Allen Hamilton's network has 38,000 people.

One obvious benefit of alumni networks is the opportunity to rehire former employees. The Corporate Executive Board reports that rolling out the CEB Alumni Network doubled its rehire rate in just two years. But the value goes far beyond that. Your alumni are among your most effective means of external engagement. They can share competitive information, effective business practices, emerging industry trends, and more. They understand how your organization works and are generally inclined to help you if they can. Bain's Tom Tierney has observed, "Our number one source of high-quality new business is our alumni."

It may be that management consultancies have pioneered corporate alumni networks because the organizational practices of those firms (two-year analyst programs, "up or out" advancement, encouragement of consultants to take positions with clients) align so well with the concept—but the practice is spreading. LinkedIn now hosts thousands of corporate alumni groups, including those of 98% of the *Fortune* 500 companies. Such groups are often informal, not official; they spring up because alumni want to stay in touch with and help one another. In a study from the University of Twente, in the Netherlands, only 15% of the companies surveyed had official alumni networks, but 67% had independently organized, informal groups.

You might fear that running an alumni network is an admission of failure—a sign that your company can't retain its best people. But your alumni are likely to form a network anyway; the only real question is whether your company will have a voice in it. Alumni are fallow resources waiting for you to tap them. So why don't you?

Action item: Utilize your exit interviews. The traditional exit interview represents a lost opportunity. Instead of collecting perfunctory feedback that they'll probably just ignore, your managers should gather information that can help you maintain long-term relationships with departing employees (and induct them into your alumni network!). Keep a database of information on all former employees: personal e-mail and phone, LinkedIn profile, Twitter handle, blog URL, areas of expertise, and so on.

AN EMPLOYEE WHO NETWORKS ENERGETICALLY AND THINKS ABOUT OTHER OPPORTUNITIES IS *NOT* A LIABILITY.

The exit interview is also a trust-building opportunity. Many employees have sat through grimly polite or even resentful parting talks. You can make your company stand out by emphasizing the ongoing nature of the relationship. This is also, of course, an opportunity to learn about ways the company and you can do better. Departing employees are more likely than current ones to be honest, and the flaws in your business and organizational practices may be on their minds. Listen closely to what they say.

If the employee who's leaving is one of your stars, you should provide an even higher level of service (assuming he handles his departure professionally and doesn't take the rest of the organization with him). Such folks are likely to go on to great things and to be the hubs of their networks, which could prove very valuable to you. As with the tour of duty, aim for a two-way flow of value; you need to provide benefits if you expect to receive them. The benefits you offer may depend on the business you're in. For example, management consultancies often give free insights to alumni who have joined industry clients. If you're a consumer company, offer alumni discounts in addition to the customary employee discounts. The cost is minimal, and the trust and goodwill gained can be substantial. Some might consider it extravagant to "reward" employees who have left, but that view misses the point. Most employees don't leave because they're disloyal; they leave because you can't match the opportunity offered by another company.

"Interns."

If you don't have the resources to set up a formal alumni network, you can support the informal networks that arise on LinkedIn or Facebook. Your assistance can cover the gamut, from giving financial rewards to alumni who help your firm to handing out company swag or paying for pizza during a meetup. Even distributing an alumni newsletter can contribute to an ongoing cordial relationship at practically no cost.

The Virtuous Circle

An employee who is networking energetically, keeping her LinkedIn profile up to date, and thinking about other opportunities is *not* a liability. In fact, such entrepreneurial, outward-oriented, forward-looking people are probably just what your company needs more of.

How do you square the need for such people with the reality that many of them won't stick around forever? First, by accepting that reality. A CEB study of 20,000 workers identified by their employers as "high potentials" found that one in four of them planned to be working elsewhere within the year (see "How to Keep Your Top Talent," HBR May 2010). Once you get past this scary truth, you'll find it easier to achieve honest, productive relationships that support your employees' ambitions. This will make your employees more effective on the job and may actually keep them around longer.

The key to the new employer-employee compact we envision is that although it's not based on loyalty, it's not purely transactional, either. It's an alliance between an organization and an individual that's aimed at helping both succeed.

In the war for talent, such a pact can be the secret weapon that helps you fill your ranks with the creative, adaptive superstars everyone wants. These are the entrepreneurial employees who drive business success—and business success makes you even more attractive to entrepreneurial employees. This virtuous circle has created a competitive advantage in talent for Silicon Valley companies. It can work for your company, too.

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