

NESTLÉ ON THE MOVE

Most companies want their employees to align with the goals of the organization, to gain and then share their insights, to work collaboratively and to show initiative. Few companies, however, have asked themselves to what extent the traditional, hierarchical, pyramidal organizational structure facilitates or hinders these types of employee contributions. While the hierarchical, top-down approach may serve an organization well if it has primarily uneducated and uninformed employees who need supervisors to manage them carefully, it is not appropriate for today's highly educated and informed employees. Nestlé identified significant problems with the hierarchical, pyramidal model and developed the "Nestlé on the Move" program to address the worst shortcomings of the hierarchical model.

Limitations to the Pyramidal Model

There are seven main drawbacks to using the pyramidal model in today's organizations:

1. **Vertical career path** – Encourages structures and processes for hierarchical professional development, rather than for the flatter organizational and remuneration structures that inspire creativity.
2. **Command communication** – Top-down in manner and assumes that the lower ranks cannot contribute to designing strategies and defining objectives.
3. **Company experience** – Perceives in-company experience as more

valuable than outside experience, thereby promoting people/managers based on seniority rather than on a required skill set.

4. **Internal competition** – Fosters competitive conditions rather than cooperation and knowledge sharing, as employees work for only one boss and focus on executing their assigned tasks.

5. **Silo thinking** – Vertical careers, top-down communication, valuing company experience and internal competition combine to create silos because employees develop strong allegiances to their bosses, rather than to the entire organization.

6. **Obedience orientation** – Obeying your boss and disciplined execution matter because bosses define what is considered quality execution. This stifles initiative: what matters is meeting your boss' expectations, not actually looking for ways to improve execution.

7. **Delegation of tasks rather than authority** – Instead of delegating authority to their employees, bosses delegate tasks. Since bosses judge the quality of the tasks performed, this enforces obedience orientation.

Nestlé on the Move: Moving toward a performance culture

These limitations block four qualities that modern organizations need to fully benefit from the knowledge and skills their employees bring with them when hired. First, employees' actions should be in line with the company's goals,



Paul Broeckx
Former Senior Vice
President of Nestlé's
Corporate Human
Resources division



Robert Hooijberg
IMD Professor
of Organizational
Behavior

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not their supervisors' expectations. Furthermore, possessing experience is no longer enough: employees must convert that experience into meaningful insight and action. Employees must also be cooperative, not competitive. Finally, they need to take the initiative and not be passive. Organizations therefore need to put the structures and systems into place that emphasize these four qualities and eliminate those that encourage the limitations with the pyramidal model.

Top management at Nestlé recognized the need to change its structures and systems. It approved the design and implementation of the “Nestlé on the Move” five-part program, described below. It aimed to change the mindset of its employees and move toward a performance culture. The efforts mostly took place simultaneously.

Implementing flat and flexible structures

Moving towards a non-pyramidal organization that encourages a network culture meant that Nestlé had to reduce its hierarchical levels. In 2002, Nestlé started to review its world-wide organization, with the purpose of building an agile and flexible organizational structure, while still maintaining its growth.

Inspiring management

Nestlé had to change the way managers seek out contributions from their staff. Clearly, if they wanted more alignment, insight, cooperation, and initiative, it would need to start with a change in the way managers led their people. Two programs were developed to address this issue: The Nestlé Leadership Program and the Develop People initiative.

Nestlé Leadership Program

Nestlé needs both managers and leaders, not leaders instead of managers. Nestlé developed this program around four main beliefs.

1. In a hierarchical organization leadership change should start with the top line.
2. Leadership skills could be improved only if managers accepted that they could improve and therefore it needed to be a self-development

program, not an assessment tool. Both direct management involvement and any link with compensation were eliminated.

3. Consequently, it could only be run with an outside organization, otherwise managers might not admit that they can improve. Furthermore, they could think that their possible weaknesses would not work against them in terms of reward.
4. The program should be based on actual feedback from each manager's colleagues – peers, superiors and subordinates. This feedback, also collected by the outside organization and included the individual himself/herself, was the most important part of the program. Results would be given to the managers by professional coaches and full confidentiality was ensured.

About 450 executives attended between 2003 and 2006. Furthermore, Nestlé extended the program and rolled it out to another 4,000 middle managers starting early 2006. Nestlé used the same organization to deliver this decentralized program. It had an international network with three centers: Singapore, Miami and London. Great care was taken to ensure that the decentralized program had the same characteristics as the top line program and that it was of the same quality. In 2006 alone some 1,200 participants attended at a cost of about \$25 million. The Leadership Program did a lot to promote “Nestlé on the Move” during the program. Top executives were together with the younger generation which greatly helped the change of mentality.

The Develop People Initiative

Nestlé also decided to restructure its assessment process. Its starting point was the belief that they needed to both enhance personal development and encourage knowledge sharing and cooperation. Nestlé believes that assessment and rating are two different things. To Nestlé, assessment refers to the development of the managers and of the managers' responsibility for developing their people. Everyone agrees that assessment is

required; however, the role of development had not received enough attention. Assessment refers to both the past and the future, whereas traditional rating refers exclusively to the past. Consequently, Nestlé launched its Develop People initiative with the purpose of making managers responsible for the development of their people and reversing their role from that of “passive judge” to “committed developer.” They developed the “Progress and Development Guide,” which focused on long-term objectives, the leadership framework, the assessment of the role of the employee and his or her possible development and the Development Plan.

The essential characteristic of the Develop People initiative is that the development plan discussion is totally separate from any consideration of compensation. This helps managers who are now able to lead a discussion that is future-related and tuned to specific needs.

Some managers have found it difficult to cope with Nestlé’s new model since ratings are such an intrinsic part of the hierarchical model. These managers still believe that ratings drive performance, rather than submissiveness and obedience, if not flattery. One national manager of a major European country was very reluctant. As he was due for retirement he was replaced by someone pro-“Nestlé on the Move”. Some others were dragging their feet; eventually this group either left or were won over by the advantages of the program.

It took about two years for the new approach to begin to be accepted and valued, as is generally the case today. During this process, communication has been crucial. Nestlé launched a vast campaign and visited affiliates with detailed presentations. In addition, the “Progress and Development Guide” operates on a web-based platform helping its implementation.

Summary

Nestlé transformed its management practices and enhanced the role of the inspiring manager using both its Leadership Program and the Develop People initiative. They believe that an inspiring management

approach is an important complement to flatter, flexible structures. Flatter structures usually mean that managers have more direct reports, who then must act more independently, which requires a different management approach.

Long-term development

The third part of “Nestlé on the Move”, implemented simultaneously, was long-term development. Nestlé has a long-standing tradition of international development; however, the pyramidal model had introduced a silo approach. Most careers were managed within one region or within one function. Furthermore, the best way to a top level general management position was via a marketing career, which many managers pursued – even if their profile did not correspond to its requirements and, sometimes, still less to those of a general manager.

With the introduction of a network organization with flat and flexible structures, the situation has changed dramatically. The number of hierarchical levels has been reduced and fewer promotion levels are available. For example, although it is difficult to produce a statistical figure on how many layers were reduced as this is decided locally, the factories are generally down to three layers from five to seven. Another indicator is that the number of direct reports at top level has increased significantly: from five to seven up to fifteen or even sometimes twenty. Interregional and interfunctional moves have been enhanced to stimulate both personal development and organizational learning. New types of roles have been created that cut across the traditional career paths – for example, specific project work, supply chain management, GLOBE (a worldwide program to implement integrated data and common systems across the Nestlé Group), and so on.

It took three years to get the long-term development program off the ground. This was not really due to the technicalities. Rather, it was mostly management’s reluctance to share their talent and ensuring that the program encompassed all regions, businesses and functions. However, there is progress: The bad habit of hiding resources is now gradually fading; at the end of 2006, the talent pool included 2,200 names; and the link with succession

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planning has now been clearly established and is actively reviewed.

Dynamic compensation

When Nestlé flattened the organizational structure, it changed not only career paths but also the remuneration model. It therefore developed a model which allowed employees to increase their remuneration without promotion. There are many concrete measures resulting from this new situation. The variable part of remuneration, geared to past achievement, was decoupled from the other elements. The other elements of remuneration (base salary, long-term incentives) were geared essentially to the future. Nestlé also introduced a long-term incentive plan based on stock.

Lifelong learning

Today's fast moving world requires continuous education for employees, way beyond previous levels. Today, working also entails learning and vice versa. In addition, increased levels of education and information continue to play a major role in the creation and running of "Nestlé on the Move." These trends confirm the need for Nestlé to maintain and develop its philosophy of continuous learning and can probably continue its present practices without major changes.

Results and challenges for the future

"Nestlé on the Move" has already made an important contribution to company results in terms of drive and excitement. It delivers a positive message on how the company should manage its people, and demonstrates that people are its most important asset. The importance of the worldwide Leadership Program is recognized and the follow-up program has shown an improvement in individual scores.

Changes in the compensation model have improved Nestlé's competitiveness at all levels. Combining this competitiveness and the long-

term development strategy, allows Nestlé to maintain a low turnover rate in a world where changes are becoming increasingly numerous. Change may be necessary, but stability is also an asset as many staff changes are costly. Companies developing a long-term relationship with their people will therefore always be more profitable in the long term and their development more sustainable.

The program's effect on management and staff was positive. Human resources staff was more energized because they saw a change from a decentralized and supporting role to a more strategic one. The German HR unit – not noted for its singing ability – even created a "Nestlé on the Move" song. The program was presented during most programs at Nestlé's International Training Center over a 5-year period; the session quickly became one of the highlights and received the highest ratings. Country managers now routinely refer to the program in their communications.

While Nestlé has taken a lead in how the evolving workforce should be managed with its "Nestlé on the Move" initiative, achieving better alignment, gaining more insight, getting better collaboration and seeing more initiative, there is still room for improvement. For example, they could further develop horizontal career development and use collective contributions to drive more team-based rewards rather than purely individual ones.

Moving toward a more humanistic working environment and engaged workforce is Nestlé's challenge today, and it is well on its way to reaching that goal.

This article is based on "Nestlé on the Move", by Paul V. Broeckx, chapter 3 of the book *Being there even when you are not: Leading through strategy, structures and systems*, edited by Robert Hooijberg, James G. Hunt, John Antonakis, Kimberly B. Boal, with Nancy Lane. Elsevier, 2007.

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Chemin de Bellerive 23
PO Box 915, CH-1001 Lausanne
Switzerland

Central tel: +41 21 618 01 11
Central fax: +41 21 618 07 07
info@imd.ch www.imd.ch