**HACK IMD 13: Finding the X FACTOR in Organizations**

Galina, Sunil, Duncan, Earnest, Frederik, Jean-David

**Summary**

The current management structures are bureaucratic and tend to suppress worker participation in decision making. This translates into frustrated, half-committed and frustrated employees who feel alienated from the organization. Likewise, customer viewpoints are excluded from key company performance metrics with disastrous consequences for customer satisfaction and organizational sustainability. To rectify this situation, we are proposing finding the “X-Factor” in management, making innovation and entrepreneurship part of corporate solutions to challenges. This would give employees the opportunity to participate in the selection of their leaders and solutions to company challenges and play a central role in determining their key performance indicators. This should lead to more engaged and committed employees who are customer oriented and immensely innovative. A moderating role should be played by an HR committee to ensure an objective and transparent process for all stakeholders, while avoiding the populist tendencies in regular democracies.

In sum, this proposal is aimed at breaking the bureaucratic bridles and fostering an innovative culture which should keep workers and employees fully engaged in the organization’s renewal and strategy execution.

**Moonshots**

- Expand minds: rethink the philosophical foundations of management
- Distribute power: build natural flexible hierarchies
- Seek balance: develop holistic performance measures

**Problem**

**Lack of influence leading to creative indifference:** In many companies, workers have the impression that they are not in a position to voice their opinion. They are not in the loop regarding big picture decision making. Innovative thinking is not encouraged and workers are often diminished to operate within a set of suffocating controls and bureaucratic processes.

**Lack of Trust leading to One-way Management:** When workers have grown accustomed to the stray jacket of bureaucracy, managers get used to the lack of creativity delivered in driving the business and finding solution. This leads to a lack of trust and the managers turn to the measures at hand trying to ensure the performance expected. Controls and KPIs are then pushed down from top to bottom enhancing the sense of unconstructive supervision and control. This ultimately leads to an un-collaborative environment and a lack of transparency and coordination of performance measures between peers.

**Lack of transparency leading to de-motivation:** The imposed KPIs to measure worker performance leave them under the authority of their manager. Whole departments in companies start working in silos and workers end up believing organizations are places of secrecy where employee contribution is just a small part of a long process, which they do not even understand. As a consequence people get demotivated, unengaged and cannot identify themselves with the organization.

**Solution**

The proposed solution is focused on finding and bringing out the “X-factor” in the business.

**The X-factor concept:**

The X-factor concept is ingenious and has been a revolutionary solution to some of the music industry`s challenges - finding talent where it is least expected. By building an environment that allows and encourages out of the box proposals from artists (candidates) who would normally never dare to present – they manage to inspire everybody with a hidden passion, idea or dream to come out. At the same time the concept is engineered to give candidates exposure to the public while letting the public choose the candidates they believe in and trust to bring them inspiration going forward. While at the surface it seems that candidates are elected by the public they are only to a certain extent. A panel of judges are also competing to reach their objectives, namely to develop future stars who could sell millions of albums. Through this 3 layered process the X-factor concept manages to align the interests of all three stakeholder groups. The Expert judges filter out candidates before they are even put up for public votes, and even after the public votes it is always the panel of judges who have the final say in which candidate that passes on to the next round from the bottom two in the public vote. It is interesting to see how the public after their favorite was voted out continue to vote and engage in the process, just due to the fact that their opinion is asked for. Even the “average Joes” candidates participating are grateful for the opportunity they have been given when voted out.

A WIN-WIN-WIN situation is created – Public gets to chose their own popstar, many candidates are given the opportunity to live out a dream and a passion and several go on to successful careers after their talent has been discovered. Finally the judges and the music industry are rewarded, by haven identified talent for future record contracts, who are already stars before they have sold their first record. It is a beautiful business model designed to spark the very best in every stakeholder involved.

**Applying the X-factor model to business:**

If we exchange the stakeholders in the above example, it can be applied almost directly to business. The candidates would be the company employees, as well as the public. While the expert judge panel would be an executive team on Directors/VPs/CxOs. We propose a solution where BU/general managers responsible for up to 2-300 employees could be elected based on their X-factor, being their ability to inspire and motivate the employees and formulating strategies and action plans of how to reach the objectives of the organization. The board of executives would propose the challenges and objectives for the following three years. The employees would then be encouraged to pitch in front of the board. The board would choose 2-5 runner-up proposals for which the unit employees can vote, after also having heard their game plan. In addition specific proposals for specific issues could be awarded resources to be implemented, along with prices recognizing ideas proposed according to different categories like “out of the box thinking” etc. This way the top-down communication would be focused on generating creative solutions and recognizing them rather than stifling them.

**Implementing KPI system as a complementary measure of the X-factor practice:**

Along with the X-factor concept we propose a 360 approach to KPI measures – When generated by subordinates, peers, superiors and focused on a common goal the KPIs become a way for the employees to show alignment and commitment to the organization rather than a way for the organization to control the employees. Customers and suppliers (both internal and external) can influence the KPIs before and after them in the value chain to the benefit of all – better service to be delivered and high loyalty is built.

KPIs would still be the base for financial incentives, however, all other benefits and remuneration management would be governed outside the proposed management concept. This is important to ensure the credibility and overall objective. The power given to the employees in influencing the election of their future leader should not be influenced by populist tendencies. At the same time the New 360 KPIs should be based on the candidate proposal and how to reach the objectives and tackle the challenges of the organization. In this way the best financial incentive in the voting process becomes voting for the candidate under which each employee believes they will be most likely to meet the targets of the organization. The way the targets are reached are up to units after the board have approved the integrated KPI incentive structure.

We believe that an organization driven by inspired and empowered workers who are to a certain extent in charge of their own destinies will lead to a cultural and mindset change within the company. The increased levels of commitment and engagement will lead to a lower need for control and bureaucratic processes. Also the concepts are essentially based on a collaborative management ideal. Less levels of supervision and management would be necessary in the future as people would be managing each other in determining and following KPIs they put in place together.

**Practical impact**

* Given that the X-factor model involves a mix of employees selecting their leaders combined with a verification/ approval system by the leaders, there is a fundamental shift in the way an organization would behave. This would mean a much higher involvement from the employees. The associated HR processes, remuneration setup etc. would change.
* Since the process can be convoluted with contestants going through rounds of public selection, it may have 2 impacts:
	+ The selection process may be questioned, leading to increased monitoring and associated bureaucracy if not managed in a proper manner. Thus a clear communications approach must be setup that also includes “neutral” monitoring systems. It is thus a pre-requisite to have the described HR committee dealing with benefits and remuneration as well as a transparent process.
	+ Since the system is also linked with overall company performance and eventually financial rewards, there may be a propensity to select leaders for short term financial gains vs. long term sustainability. This can be addressed through the objectives and challenges initially put forward by the executive board.
* It is important to select a leader for a 3 year period to allow the leader to perform. However, the auditions with ideas for improvements would be continued every year, although the objective would not be the election of a new leader, but a unique opportunity for exposure and capture of employee creativity. The selection process will need to involve a review of past performance, beyond just a “sales pitch” from one of the employees. Thus vision will need to be matched with action. This matching will need careful assessment and transparency to the employees. Overtime everybody will know the performance of the unit under the management of the elected candidate. The measures are transparent and public and the performance can be followed. In the end every employee will know if their financial incentives from the KPIs would be triggered, and they would be inclined to vote for the candidates who have been able to deliver the results promised for the whole unit.
* Since the KPIs involves an involvement of peers, subordinates, managers and potentially even customers, the system associated with managing this process will need to be robust. Indeed, the performance metrics setup will take some time as in addition to collecting the KPIs from various sources, they will need to be interlinked and the manager will need to ensure that they are aligned with the overall company vision.

**First steps**

In implementing this change, one of the most important things is to get people excited about the challenge and the improvements, to make them think in different ways, to think of what is possible.

As a first step, to start introducing the concept, the organization can start by posing the challenge initially only to the Business Unit before they open it to the whole organization. In an open forum the senior leaders could pose the question “What do you think is our number one challenge or opportunity for this Business Unit in the next year? And if you were responsible for running this Business unit, what would your strategy and execution be to address it?” Employees could be encouraged to submit proposals for a prize. This initial pilot will stimulate some ideas and introduce the concept to the organization before it is used as the basis for the selection and voting mechanism. It also gives additional freedom in the thinking process as the employees will be asked not just how they would respond to particular challenge posed by the board, but rather what they consider to be the most important challenge/opportunity and how to address/capture it.

It would be helpful to specify the scope of challenges/opportunities addressed as well as what elements of the solution the organization is looking for in order to make the proposals more comparable. It could also encourage the submission of joint proposals thus increasing productive team work.

This initial pilot could also be used to gauge interest in the project and to collect feedback that will improve the process when it’s rolled out across the organization.

**Credits/tags/helpful materials**