Human Resources Hold the Key to the Success of the Dotcoms
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A study by IESE shows that the management of people is paramount to explain the survival or failure of companies set up in the new economy

Wanadoo España has recently announced a rise of 2.8% in operating profits for 2004, while Javier Rodríguez Zapatero, Yahoo!’s Managing Director, asserts that last year “the contribution of the filial to the mother company in terms of profit margin was already profitable”.

The positive results of these Internet companies, that managed to survive the dotcom shambles, bring to mind the differences between these companies and the ones that disappeared in the wake of the bursting of the Internet bubble.

A study by IESE that analyses the role of people management as a key element to the survival or demise of enterprises set up in the new economy, throws some light on the subject: the companies that survived the dotcom crisis all have a human resources management team that are realistic and effective.

At a time when the fight for talent represented a need for the creation and maintenance of its competitive advantage, human resources management appeared as a strategic factor in many enterprises. They used complex selection methods and sophisticated retribution policies.

Some companies, based on exaggerated optimism and the quest for personal gain in the short term, took on excessive risks that led to their downfall and disappearance. On the contrary, surviving companies like Yahoo España or Wanadoo were able to foresee that that was unsustainable in time and based their corporative strategy and Human Resources policy on austerity.

Alternatives
Unlike companies who maintained that they had no choice but to pay high salaries because that is what the labour market required, Yahoo España kept salaries below the market price from the beginning. This did not prevent them from employing people who adapted best to the profile they sought, as many candidates were attracted by the fame of the company.

The selection process of the surviving companies played an important role within the strategy of the company. Companies like eDreams bet on people with wide experience, coming from consulting companies and business schools. In this way they avoided the expenses involved in long, complex selection processes. Others, like Monster, valued
certain personal characteristics as well as being able to adapt to the team. Companies like Yahoo España carried out exhaustive selection processes because they considered that the selection policies are even more important for the Internet than for traditional companies, given that business cycles are shorter. In other cases, such as in Fraganzia, the only people hired were those with whom the founders had had a previous professional relationship, thus ensuring a relationship of mutual confidence.

All in all, in the aftermath of the bursting of the bubble only a few clear exceptions that pursued a strategy of cost contention and austerity from the outset were saved. I am referring to those companies that kept in mind something that, in the traditional economy, had been the base of all business and according to some the single purpose of all businesses: making profits as a means to survive in time.

The management of human resources in dotcoms not only had a significant role to play in the explanation of the survival of some companies, it had also influenced the management of people in all companies.

Internet companies popularised the employee power concept, a style of management based on recognising the power within an organisation at the lower levels of the workforce. This line of thought promotes the participation of the employee in the decision-taking process and accepts his ideas as important contributions. The dotcoms also strengthened “two-way mentoring”: here it was not just the veterans who taught the young, but the young shared their knowledge of the new technologies with the veterans.

This lesson is not only applicable to Internet companies but to all enterprises. In fact, the main contribution that the dotcom crisis made to human resources –and the management of companies in general- was to value prudence (that leads to good decisions-taking) and temperance (that avoids getting used to the “good life”) as two fundamental virtues of management behaviour. Last but not least, it helped not to forget that credibility and transparency are two basic weapons for all businesses.

What role is human resources management going to play in the future of the dotcoms?

Austerity is the Key

Javier Quintanilla, IESE professor

At present, Internet companies are entering a new phase. The main characteristics of this are a combination of expansion and growth with the sensation that they are still in the process of getting out of the dotcom crisis readjustment. The Internet companies that survived the technological bubble as well as those new start-ups must be conscious of the past and apply the lessons learned from that short but intensive period.

As the short history of the dotcoms has shown, a business strategy in which Human Resources Management policies are effectively at the core is a guarantee of success and survival.

Moreover, it should not be forgotten that policies of personnel selection, professional development and retribution in which rigour and austerity are paramount –not to be confused with being tight-fisted –will continue to be key factors for the success and consolidation of the company in time.
For this reason, it is highly probable that the future of the present day dotcoms will continue to be linked to their human resources department: the companies that develop a realistic and austere policy have greater chances of continuing to increase their profitability.

Managing Talent
Miguel Ángel Rodríguez Muñoz, Director PwC
Undoubtedly, one of the inheritances from the dotcom period for human resources was the way in which the importance of people’s talent came to the fore and how this talent, well managed, is a source of competitive advantage for the company. The wave of adjustments and the economic situation changed this message, adapting it to certain more realistic expectations in the short term.
Currently, technology companies have to their credit the experience of surviving in complex situations, which demanded and still require an above average degree of commitment from their professional staff. Moreover, the polyvalence and capacity of people to adapt, together with prudent human resources policies are proving to be a good recipe for these current times of uncertainty.
The role that human resources management must continue to play is precisely to stress and extend the characteristics that have let them survive. The result must be a type of company and a sector in which, thanks to the capacity of adaptation, new human resources policies are created that promote continuous innovation and capacity of commitment of their professional staff.