

The Perfectly Competitive Company

Follow these five tracks to transform your traditional organization into a competitive one—a network of electronic *and* interpersonal relationships. **By Ralph H. Kilmann**

ORGANIZATIONS MAY BE the greatest invention of all time. Without organized activity, all of mankind's other great inventions either would not have been created or would never have been brought to market. Organizations let people transcend the limitations of body and mind to manage the problems of nature and civilization. To a large extent, the world's economic development has been determined by the success of organizations and institutions.

But in the early 1980s, the world changed: the introduction of the personal computer was part of a combined technological and political revolution that fundamentally altered the organizational environment. The coming together of PCs, facsimile machines, and telephones put the entire world at everyone's fingertips and gave more freedom to all organizational members.

Politically, too, the world became more interconnected and accessible. Deregulation and global competition combined to eliminate many of the historical boundaries that formerly constrained organizations and nations. If anything, these changes have made organizations more important than they ever were before. But the organizations that can prosper in this new world will be significantly different from their traditional forebears.

Before the worldwide revolutionary changes took

effect in the early 1980s, successful organizations were designed according to a specific group of attributes:

- A well-defined management hierarchy, with the higher positions having more information and influence than the lower positions.
- A well-accepted way of dividing and assigning the work—manufacturing, finance, marketing, human resources, or whatever the standard organizing principles for the industry happened to be.
- A well-ingrained conviction that corporate headquarters was the center of the universe.

In today's environment, however, this traditional form of organization can no longer prosper. Companies need a type of organization that parallels the upheavals reshaping the world. To keep up, organizations must remake themselves into an intertwined system for instantaneously managing people and information without boundaries.

A new paradigm—best described as the network organization—is gradually taking shape. Some companies have already adopted parts of it, but no one company has yet incorporated it all.

In the new environment, the perfectly competitive organization consists of an interpersonal and electronic network of people, information, and influence. The nucleus, or hub, of the organization is connected

ILLUSTRATION BY JANET WOOLLEY

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primarily (but not exclusively) through in-person relations among team members, while interorganizational and international relations are connected electronically, generally via PC-to-PC communications or fax transmissions.

The hub of the network organization represents the management of assets and a distinct competency: what the organization can do particularly well relative to its global competitors. The outside links represent negotiated arrangements that extend the influence of the organization to other relevant functions: what others, referred to as associates, can do better than the organization itself.

The hub is relatively small, centralized, local, based on ownership of assets, and self-managed. Interaction takes place in person. It focuses on a single function of excellence, which provides the organization's comparative advantage.

The extended network is relatively large, decentralized, global, based on control of resources, and negotiated. Interaction takes place primarily on-screen. It is designed for the multiple functions that others can perform better than the hub itself, which provides the organization's competitive advantage.

The new challenge of organizational success is to simultaneously manage the face-to-face hub and the PC-to-PC links to form a holistic system of coordinated action. Making these two ingredients work together places increasing demands on interpersonal skills such as trust building, collaborating, communicating, deal making, and negotiating, as well as on information management skills such as using new technology; searching out, processing, and analyzing information; and integrating data files.

Network organizations will replace traditional management hierarchies and typical functional areas with power distributed according to who at any time, in any place, has the relevant information to contribute to the task at hand. Influence in decision making, whether by full-time members in the hub or by their associates, is based on expertise and information power, not on formal authority, job description, or other irrelevant traditions.

A typical day in the life of a hub member might include a series of group meetings to address complex business problems with diverse experts. Although each specialist may have only a limited view of the whole situation, all the necessary wisdom to resolve any such problem is available to the group as a whole. To supplement these formal hub meetings,

hub members turn to information technology. High-powered, portable PCs equipped with facsimile and teleconferencing capabilities connect with additional resources around the world, from centralized databases to people in other organizations and nations who have the needed expertise and information.

Laptop PCs equipped with network connections add a new element of freedom to hub members. Other than the in-person hub meetings, the remaining tasks of each hub member's workday can be performed anytime, anywhere. Indeed, in some network organizations, hub members might spend as little as one day a week in the office while the remainder of their time is spent on the road or at home. Instead of a physical place, the "office" becomes any convenient time when hub members convene a teleconferenced meeting. PC communications allow these meetings to draw on the same information resources available at the headquarters location, no matter where the members are.

Because this instantaneously accessible world makes it easy to acquire capital and copy new products, services, and technologies, the perfectly competitive organization must nurture its unique culture and the quality of its human resources: they are its only renewable assets. The particular way a network organization makes decisions and acts (what gets done face-to-face and how, what gets done electronically and how) cannot easily be copied onto or implanted within another organization. Ultimately, what makes each network organization a sustained value-added partnership is analogous to what makes each individual in the universe unique—its essential character, mindset, and manner of coping with changed circumstances.

Creating the Network Organization

As more leaders discover the ideal match between the network organization and the instantaneously interconnected nature of the world today, the demand for transformed organizations will grow. Adapting organizations that functioned well in yesterday's world is more desirable (especially for current organizational members) than letting old organizations die a natural death. As existing companies decline, their market shares become vulnerable to competitors, especially foreign companies, who are already creating network organizations from scratch.

Transforming a traditional organization into a network organization requires a "completely integrated

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program," which is in sharp contrast to the currently popular, narrowly focused quick-fix efforts that have repeatedly failed in the past. Since the world has become so interconnected, only an integrated program of planned change can bring a network organization to life.

I have designed such a completely integrated program to transform traditional organizations into network organizations. It comprises:

1. THE CULTURE TRACK.
2. THE MANAGEMENT-SKILLS TRACK.
3. THE TEAM-BUILDING TRACK.
4. THE STRATEGY/STRUCTURE TRACK.
5. THE REWARD-SYSTEM TRACK.

The first three tracks adjust the people side of the organization, what is often called the informal organization—the blood and guts of how people behave toward one another on the job. These tracks are designed to foster an effective, synergistic interchange among all hub members in their face-to-face discussions and to develop informal guidelines for PC-to-PC exchanges.

The last two tracks adjust the formal side of the organization—the systems, resources, technologies, and documents that guide what hub members and their associates are supposed to do. The strategy/structure track covers where the network is headed and how it is organized to get there. The reward-system track sets the monetary and psychological compensation that participants will receive for their contributions.

The sequential nature of the five tracks is critical to their useful implementation. Without first developing an effective hub via the first three tracks, any adjustments to the extended network in the last two tracks will be merely cosmetic, not fundamental, sustained, or successful.

The culture track is designed to enhance among all current members trust, communication, information sharing, and a willingness to change—all conditions that must exist before any long-term improvement effort can be sustained.

The management-skills track aims to give members new ways to cope with complex problems and hidden assumptions, including the development of interpersonal and information-management skills.

The team-building track is intended to instill the new culture and updated skills in everyday practice, both within the hub itself and between the hub and the extended network, so that all crucial problems will be addressed with all the wisdom and expertise available.

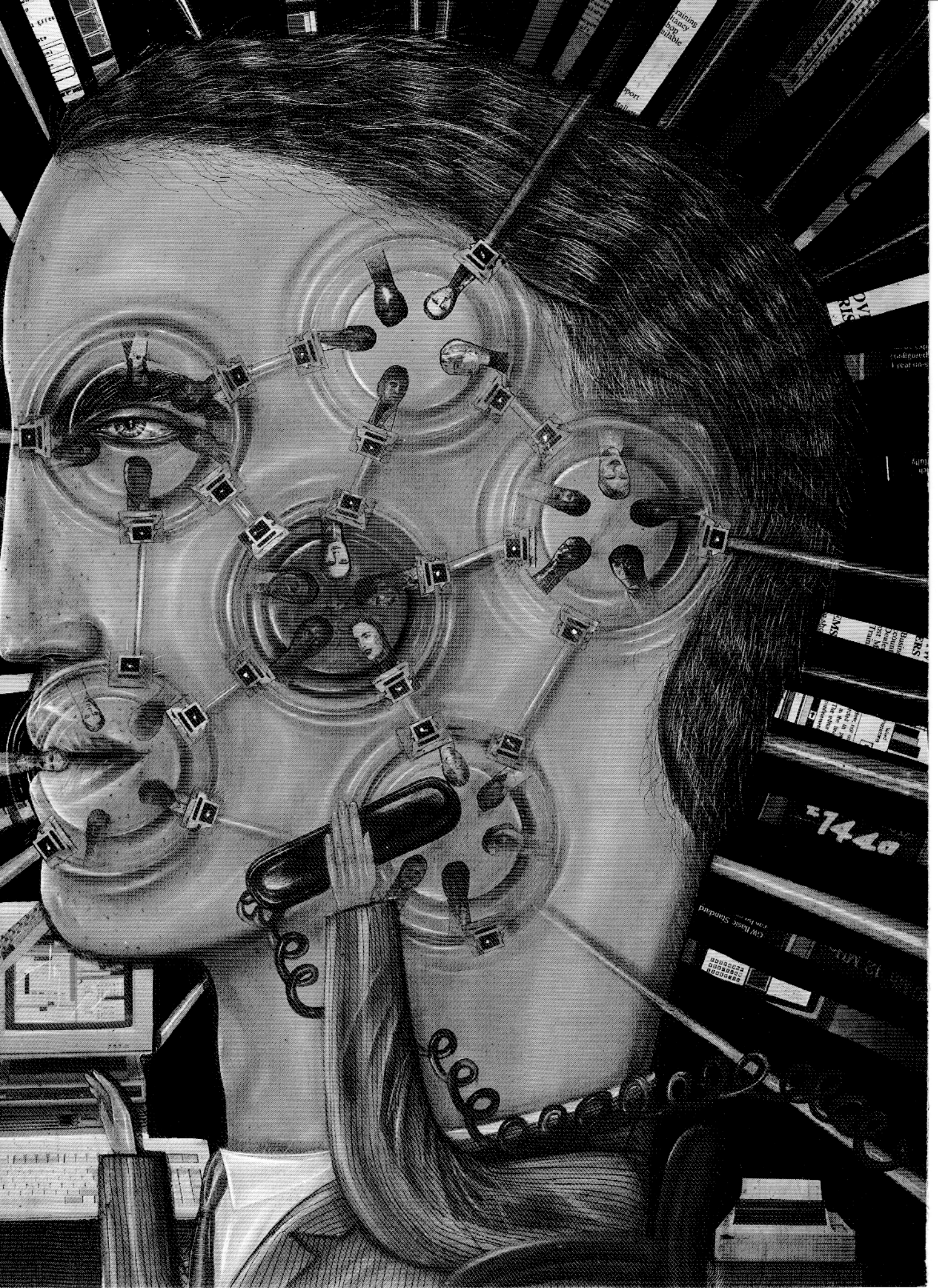
In the strategy/structure track, the company develops either a new or a revised strategic plan for the emerging network organization and then aligns current members, present associates, and future associates into a formal system of cooperation. This system—including information technology, plans, procedures, and the allocation of resources—is designed to keep the talent and energy of the informal organization on course.

The strategic plan, when translated into a well-conceived structure, also facilitates measures of performance that capture the true and complete contribution of each member in the network organization: the reward-system track. This track calls for members to establish a performance-based reward system to officially sanction the network organization's new culture, skills, and cooperative team efforts. Companies must be sure to explicitly assess and reward both short-term performance results and long-term behavioral contributions.



PHOTOGRAPH BY DAVID WANDEVEER/BLACKSTAR

Dr. Ralph Kilmann believes U.S. firms must transform themselves to compete with aggressive foreign companies.



Scheduling the five tracks requires careful use of personnel and time. Companies must decide who will be involved in working through each track, how often their participation will be required, and for how long.

Ensuring every member's extensive involvement is the only way to change an ingrained corporate culture. Therefore, the culture track typically includes all current members at all levels and areas in the organization or designated business unit. Members attend off-site workshop discussions one day per month for three to six months. In these monthly workshops, the members gradually extinguish outdated cultural norms such as "Don't share information with other groups" while they continually reinforce new cultural norms like "Provide timely and accurate information to all members and associates."

Because it takes months to create an open and trusting culture—at least until the team-building track is initiated—companies should subdivide existing workgroups into peer groups for each workshop in the culture track. To provide the best opportunity for a candid and forthright conversation, management should form these peer groups by separating superiors from their subordinates.

The management-skills track involves everyone from first-line supervisors to the chief executive officer in additional off-site workshop sessions conducted one day a month for three to six months. In these sessions, participants use cases, exercises, and instruments to develop the critical skills needed to define and solve complex problems through face-to-face meetings and electronic exchanges. Just as in the culture track, however, all group discussions take place in peer groups to foster open communication and information sharing before the culture has changed.

The team-building track reunites superiors with their subordinates for on-site workgroup meetings in their formal organizational units. To ensure that the new knowledge gained from the off-site sessions is transferred directly and completely into the everyday life of the new organization, the on-site meetings should be held at least once a month until the network organization is fully operational. In these team-building sessions, the participants use process observers and constructive feedback to learn how to apply the lessons of the first two tracks to their ongoing business and technical problems.

Companies must be careful not to initiate the team-building track too soon. If companies bring together superiors and subordinates before fully internalizing the new culture and skills, almost everyone will fall back on the norms and practices of the traditional organization: working to support old fiefdoms, involving only similarly minded members in the decision-making process, and withholding the vital information needed to produce the best solution to a complex problem. It takes time in a relatively safe environment for people to learn the new mindsets,

behaviors, and skills they need for approaching on-the-job, high-stakes situations in new ways.

The last two tracks involve the formation of two separate task forces (networks of people, information, and influence) with about 25 members each. One task force addresses strategy/structure while the other handles the reward system. The people chosen for these special missions must represent all former levels and areas of the traditional organization. More than that, they must include the associates of the newly forming network organization, such as representatives of consumer groups, suppliers, universities, government agencies, community organizations, and so on. These task force meetings should continue for several hours each week over several months (through both face-to-face meetings and PC-to-PC exchanges), making use of the effective, informal organization established in the first three tracks.

Following their deliberations, the task force members present to top management their recommendations for designing the organization's strategy/structure and reward system into a well-functioning network organization. Subsequently, these groups will play a key role in helping to implement the changes that they have recommended.

Pulling It All Together

Making a successful transition from a traditional organization to a network organization requires a well-orchestrated approach with sufficient time and effort devoted to each track. The first three tracks provide the necessary foundation for the full utilization of the organization's human resources. The last two tracks serve a dual purpose. They make an ideal forum for designing the new system of organization, and they offer the first taste of how the successful network organization will work in practice.

The 21st century will be full of organizational surprises, but the essential process for arranging cooperative efforts to achieve a strategic mission is already emerging: equal opportunity to link with anyone in the world, to connect people and information for comparative and competitive advantage, to add value by creating products and services with new associations, and to influence the definition and experience of human relationships. The integrated five-track program outlined here can help turn outmoded traditional organizations into well-functioning network organizations equipped with the qualities crucial to prosperity in the new information age. ■

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