A Networked Company That Embraces the World

Ralph H. Kilmann

Competitive companies in the future will be elaborate networks of people and information, each exerting an influence on the other. A diagram of this network might show a small hub at the center surrounded by a dispersed and elaborate array of resources the author calls the network. The hub's small staff, connected to each other by their physical proximity, is electronically connected to global associates who help control assets and negotiate agreements to extend the company's business influence.

Historically, successful companies were characterized by well-defined management hierarchies, established ways of dividing and assigning work (e.g., manufacturing, finance, marketing, human resources management), and employees with ingrained mind-sets that viewed corporate headquarters as the center of the universe.

But circa 1980, the computer and telecommunications revolution fundamentally changed the business environment. The world became instantaneously accessible through personal computers, fax machines, and telephone lines.

These changes have powerfully affected companies organized as traditional corporate structures. These companies need new structures that parallel the worldwide changes. They need intertwined and unfettered systems for instantaneously managing people and information.

A new organizational paradigm, best described as the network organization, is beginning to take shape. Some companies have already adopted one or two of its precepts, but no company does it all. Certain critical ingredients in network organizations will enable them to adapt and flourish in the future and can help any traditional organization transform itself into a network organization.

A hub and spokes

The network organization is an interpersonal and electronic network of people, information, and influence. Its nucleus, or hub, is connected primarily through in-person relations between team members, and its interorganizational and international relations are connected through communicating workstations. The hub represents the management of assets and the organization's competence (i.e., what it can do particularly well compared to its global competitors). The outside links represent negotiated arrangements that extend the influence of the organization to other functions (i.e., what associates can do better than the organization itself). Joint ventures, partnerships, informal agreements, and temporary deals that cut through traditional boundaries are common.

The hub of a network organization is a small centralized staff concerned with ownership of assets; it is self-managed and focused on a single aspect of excellence, thus providing a comparative advantage. The extended network is decentralized, global, concerned with control of resources, and designed for the multiple functions others perform better than the hub itself, thus providing competitive advantage.

Organizational success depends on management's ability to unite the conflicting elements

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of the face-to-face hub and the personal computer-to-personal computer network for coordinated action. Senior managers need to develop interpersonal skills (e.g., trust building, collaboration, communication, deal making, and negotiation) and information management skills (e.g., using new hardware and software; searching, processing, and analyzing information; integrating data files).

The hub's membership also includes rotating associates who represent customers, governments, suppliers, manufacturers, banks, and other key stakeholders. They share a common strategic focus, cultural spirit, and global mind-set needed to compete. Traditional management hierarchies and functional areas are replaced by whoever has the relevant information. Influence in decision making, whether by full-time members in the hub or its rotating associates, depends on expertise and the power of information, not formal authority, job descriptions, or other now-irrelevant traditions.

A day in the life

A day in the life of a hub member consists of one or more group meetings to address complex business problems with in-house experts. Although each specialist has only a limited view of a situation (e.g., of one, rather than all, factors involved in penetrating a new international market), all the wisdom needed to resolve any problem is available from the group as a whole. In order for this type of heterogeneous group to fully take advantage of each member's knowledge, hub members must value their differences, identify areas of disagreement, be comfortable with conflict, and collaborate on an integrated approach to the problem at hand.

In addition to formal hub meetings with experts, members work with their own personal information technology (e.g., high-powered, portable personal computers with fax and teleconferencing capabilities). Centralized data bases, continuously updated, provide information on competitors, government regulations, economic and consumer trends, exchange rates, prices, inventory levels, current events, and access to people in other organizations and nations with the expertise, information, and resources needed to enhance the organization's value to shareholders.

Portable networking technology for each hub member adds new meaning to flexible work hours and work-at-home privileges. Other than scheduled, in-person hub meetings, the remainder of each member's workday can be performed anytime, almost anywhere. For some network organizations, one day per week of each hub member's time is spent in the office, the remainder at home or at another nonoffice location. An office can, however, be any convenient time, rather than a place, that hub members convene a teleconferenced meeting, which is facilitated by instant electronic access to their data files and analytical methodologies.

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Because it is relatively easy to copy new products, services, and technologies and acquire capital in an online environment, networked organizations must nurture their own unique culture and blend of human resources above all else. The ways network organizations make decisions and act (e.g., in person or through electronic media) cannot be copied easily or transferred to other organizations. The competitive and cultural forces that make each network organization a sustained value-added partnership are analogous to the characteristics and influences that make each person unique (e.g., character, mind-set, and manner of coping with changing circumstances).

Network or die

Transforming existing companies into network organizations should be viewed by management as more desirable than letting old organizations die as market shares are gobbled up by foreign competitors creating network organizations from scratch.

The process of creating a functioning network organization is difficult to describe. Such transformations require completely integrated pro-

grams, unlike the reorganization quick-fixes that failed in the past.

The core of a completely integrated program consists of five sequential tracks:
- Culture track.
- Management skills track.
- Team-building track.
- Strategy-structure track.
- Reward system track.

The first three influence the people, or informal, side of the organization; their implementation fosters synergistic relationships between hub members, including guidelines for conducting online communication.

The other two influence the formal side of an organization—the systems, resources, and documents that guide hub members and their associates in deciding where the network is headed, how it should be organized to get there, and how to set up its compensation and motivation structure. Without a workable hub (using the first three tracks), adjustments to the extended network (using the other two tracks) cannot be effective.

Culture. The culture track enhances trust, communication, information sharing, and a willingness to change—conditions needed for long-term corporate improvements.

Management. The management skills track suggests new ways of coping with complex problems and hidden assumptions, in part through development of interpersonal-influence and information-management skills.

Team-building. The team-building track puts the new culture and updated skills into practice within the hub and between the hub and the extended network for addressing business problems with all the wisdom and expertise available in the network.

Strategy structure. The strategy-structure track helps develop either new or revised strategic plans for an emerging network organization, then organizes members and associates into a formal system of cooperation. This formal system, which includes information technology, plans, procedures, and allocation of resources,

keeps all the talent and energy of the informal organization on course.

Reward system. The reward system track establishes a performance-based reward system that sustains a new network organization by sanctioning the new culture, skills, and team efforts by members and associates.

The five tracks involve many choices regarding personnel and time (e.g., who will participate in each track?). For example, the culture track assigns all current members at all levels and areas in the organization to off-site workshop discussions, one day per month for three to six months. Workshop participants gradually overcome outdated cultural norms (e.g., don't share information with other groups) and promote new cultural norms (e.g., provide timely and accurate information to all members and associates).

How to get there

Every employee must work to change the existing corporate culture. In most cases, because open and trusting cultures are not apparent, at least not until the team-building track is initiated, every existing work group is subdivided into peer groups for each workshop in the culture track. In virtually all cases, peer groups are formed by separating superiors from their subordinates, because this split is the best opportunity for a candid and forthright conversation.

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Scheduling the management skills track usually involves all managers (from first-line supervisors to CEOs) in additional off-site workshop sessions for one day per month for three to six months. In these sessions, various cases and exercises are used to develop the skills needed to define and solve complex business problems.

Like the culture track, however, all group discussions are by peer groups, which foster information sharing before the culture changes.

Scheduling the team-building track brings superiors back together with their subordinates for on-site work group meetings in their formal organizational units for at least one day per month until the new organization is operational. Participants in team-building sessions apply what they learned in the first two tracks to ongoing business and technical problems. This method ensures that new knowledge gained from previous off-site sessions is transferred directly and completely into the new organization's daily operations.

Companies must not initiate the team-building track too soon. If superiors and subordinates are brought together before the new culture and skills are internalized, participants may fall back on the rejected practices of traditional organizations (e.g., supporting old fiefdoms, involving only like-minded members in the decision-making process, and withholding information needed to produce the best business solutions). It takes time, even in a relatively safe environment, for people to learn new attitudes, behaviors, and skills before they can approach on-the-job, high-stakes situations in new ways.

For example, if a work unit discussion is held after the team-building track, an outsider could not tell the superior from the subordinates. Every group member would contribute information and expertise as needed; status distinctions would not influence the way in which important issues were addressed and resolved. The physical arrangement of participants would likely be circular, reflecting each member's equal opportunity to contribute. Prior to team building (and especially before the start of the five-track program), this same observer could have easily identified the boss or executive as the leader who initiates, talks, directs, decides, and concludes more than anyone else. In some cases, the boss would be seated in a comfy leather chair at the head of a long rectangular table, dictating pronouncements to passive subordinates, the hallmark of the traditional hierarchy.

Scheduling the fourth and fifth tracks generally involves formation of two separate task forces of about 25 people each. One task force addresses strategy-structure and the other addresses the reward system. Task force members represent not only all former levels and areas in the traditional organization but affiliated associates selected from consumer groups, suppliers, universities, government agencies, and community organizations. Each task force gets together several hours per week for several months face-to-face and online, and uses the informal organization established by the first three tracks. Both task forces present their recommendations to top management and later play key roles in implementing the changes needed to compete in the new business world. ▲