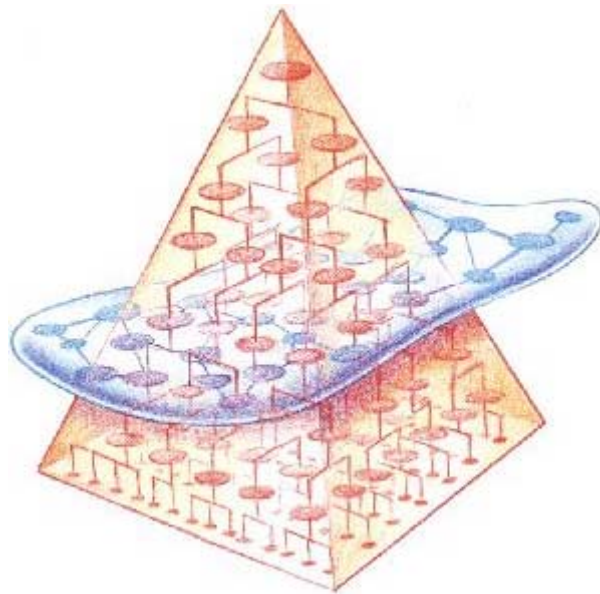


Making a Virtual Organization Work

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What do clan, tribal and corporate organizational structures have in common? Among other things, they are all forms that require a degree of trust among their members to function successfully. Operationalizing trust in today's global organizations brings an extra challenge: creating authentic dialogue to successfully navigate the real world of a virtual world



Between May 1994 and December 1996, 2088 executives attending courses at IBM's Advanced Business Institute were asked to characterize the environment with which their organizations will have to cope in the future. These respondents represent a broad cross-section of global industries: manufacturing, health, utility, education, service, and financial. 51% of them described their environment as "continuous discontinuity", i.e., one in which many of the variables known to impact organizational performance take on unprecedented, unpredictable values and where new variables not accounted for by existing models become important determinants of success. An additional 25% reported facing "a one-time discontinuity, followed by continuous, but incremental, change."

When asked about their strategy for dealing with this degree of discontinuity, the initial response was almost invariably sustained silence. But, after some

prodding, a list of prescriptions familiar to readers of current management literature would usually emerge: re-engineering, team structures, flexible manufacturing, value-based leadership, outsourcing, customer value management, and so on. The common denominators were a shift of focus from products to processes, empowerment of individuals closer to the firing line, increased attention to customers, and dissatisfaction with their attempts at re-engineering processes and empowering people. Why was there silence, and why the dissatisfaction?

Organizational structure: a perennial hybrid

Organizational structures are of two basic types: hierarchies and networks. In like fashion, the key players in hierarchies and networks are of two types: chiefs and shamans, respectively. Stories and artifacts give us Delphian descriptions of their rise and fall in ancient times. Whether hero or villain, they owe much of their success or failure to the interaction effect between hierarchies and networks: any network can unravel a hierarchy and any hierarchy can crush a network. A chief may rise in a pyramidal hierarchy as king, pharaoh or president. In a recent interview with a CEO (i.e., Chief Executive Officer), he shrugged and commented, "Everyone complains that it's hierarchical around here, but I don't see any hierarchy." He did not realize that his unobstructed view was a function of where he sat. Less visible but just as powerful are the shamans (shoguns, high priests). They are influential precisely because they are not on top of a hierarchy but nested within a network of close confidants. Shamans are the advisors - a Machiavelli or Sun Tzu.

Networks are self-organizing structures held in place by relationships of trust. In the aggregate, these relationships form reciprocal patterns of communication and exchange achieved largely through face-to-face interactions (e-mail, videoconferencing and letters augment the interpersonal aspect). Old-fashioned face-to-face negotiations are ancient and tribal because they are trust based, initiated by first seeking similarity and lastly by dismissing the different. If not properly managed, networks can defeat cross-cultural, global collaboration which requires a tolerance for differences. If, however, leaders are able to forge a compelling and unambiguous organizational context in terms of purpose and values, trust can become a function of the level of confidence that individuals have about others' commitment to and belief in the common purpose. This, along with demonstrated capabilities in others' competencies within the organization, operationalizes trust in terms that transcend (without denying or devaluing) cultural diversity. IBM's Tom Watson and ABB's Percy Barnevik exemplify this kind of leadership and its attendant trust. Hierarchical structure is formed from ascending and descending chains of individuals, with each

allocated different rations of authority, responsibility and status. Although it sounds counterintuitive, hierarchies are meritocracies. Why? Because policies are formulated around objectives such that a candidate with proper qualifications will be hired to perform a specified task. Thus the most qualified person will get the job in a pure hierarchy. The rule of law, not trust, is the crucible in which contracts are forged. When the job does not go to the most qualified person but is assigned to Person A, whose skills bear little or no relation to what the task requires, it is usually not the result of a hierarchy but the effect of a network (e.g., A is the boss's friend). Typically, organizational life or entrepreneurial beginnings start out as an amorphous network of highly accountable individuals with no procedure to guide them. Over time, networks absorb information about what works and what doesn't, codify this into procedures and rules, and climb the learning curve until they reach a threshold at which point they subdivide into levels of nested networks or a hierarchy. This replication will be duplicated again and again as the organization grows. In the course of this transition, control increases as authority cascades down a hierarchy. Thinking outside the bounds is discouraged. The result is a form of artificial intelligence: an efficient organizational machine of repeatable procedures and replaceable parts and people. Hierarchies harden when the rules and procedures abide long enough to become the givens that define (rather than guide) behaviors. These procedures and policies are essential for stabilizing hierarchies, but death to innovation which, by its very nature, is countercultural, unruly and dependent upon nonlinear thinking. Hierarchies work to systematically retard innovation. So people surreptitiously "go around" the rules to preserve it. Even when an innovation is accepted, hierarchies move at a glacial pace to incorporate it into its rules. Thus hierarchies, by their very rigidity, create networks. Networks contain the innovation which is incorporated by the hierarchy and thereby changes the hierarchy. Over all, the behavior of the organization is defined by this combination of procedural and ad hoc processes. In sum, hierarchies and networks are yoked together in the yin and yang of organizational learning.

Organizational integrity and authentic behavior

The purpose of a governance mechanism is to ensure organizational integrity, such that an organization's behavior is consistent with its strategic intent. In large organizations, the governance model most frequently used is the command-and-control system. In this model, orders are propagated down a chain of command from those who know what to do and how to do it to those who are supposed to do it. This "we know, you do" system, as IBM Sr. VP Bruce Harreld calls it, proved very effective for organizations operating in relatively stable environments or in environments determined by predictable variables. In

unpredictable and discontinuous change, this asset becomes a liability and has been abandoned in favor of a "communicate-and-hope" management system in which a large amount of time is spent communicating the organizational mission/vision/values, decentralizing operations, and hoping your employees are smart enough to figure things out.

Clearly, command-and-control and communicate-and-hope are not adequate mechanisms for large and increasingly virtual organizations to sense and respond to unpredictable events. To ensure that an organization's behavior is consistent with its strategic intent, the Advanced Business Institute at IBM has developed a governance system called Context and Coordination. In this model, the coordinating mechanism is a universal language protocol used to define, negotiate, perform and assess commitments made between people, that is, to ensure consistent behavior among and authentic communication between people. The protocol, which can be rendered in software, keeps track of the evolution of commitments "who owes what to whom" including the renegotiating of chains of commitments when unanticipated events make it impossible to deliver on a single commitment and to confirm that each commitment is performed consistently with policies in a manner established by the leadership.

But its successful application requires authentic dialogue and negotiation between people. By "authentic" we mean nothing more than that people say what they mean and mean what they say. This is not easy for three reasons:

- We have adopted modes of communication that systematically defeat authentic dialogue, and have created tacit incentives to discourage it.
- Before people can say what they mean, they must know what they mean. This requires reflection if the subject is complex or filled with nuances. A natural preference for action over thinking is reinforced by increasingly short windows within which to respond to opportunities or threats.
- People who know what they mean must be able to express it with clarity. In the interest of terseness and "getting to the point," bulletized syntax-free speech and presentations have displaced the rigor of sentence structure as the norm in business dialogue, adding ambiguity about what is meant. Ambiguity is a mortal enemy of authentic dialogue, although it is often a prerequisite for creative thought.

Authentic dialogue and the openness to renegotiate objectives is predicated upon trust. Trust is the basis of networked organizations and a challenge for virtual organizations. Ancient records speak from the past about how ceremonies and rituals indoctrinate initiates at organizational entry, and at subsequent times in their promotion through hierarchical levels (with the rituals becoming increasingly bizarre the higher one goes in the hierarchy, e.g., among

the Arioi in Tahiti, the initiate must change his name and kill his children; in executive circles, the initiate must establish "executive distance" from previous colleagues and kill crazy ideas). Sustained coherent behavior is held together by the social glue of trust in systematized reciprocal exchanges. Whether those exchanges are door to door or face to face, they consist of gifts ranging from the crown jewels to the simple and mundane behaviors of "you scratch my back and I'll scratch yours." But what happens when personal communication becomes virtual communication?

Consider an early example of virtual communication: the telephone. Compare the experience of speaking by telephone to someone you have never met, to speaking by telephone to someone you have known for years and trust. When trust is in place, powerful primordial forces are at play in transmitting information. So much more comes through the telephone line than just content when trust is the medium of exchange. Even in electronic commerce, humans have developed a grammar to communicate affection, that is, to approximate facial expressions and mood in an attempt to electronically replicate the body language that is used to develop trust. Digitized pictures of oneself are postindustrial attempts to build trust around the campfire. Only now the campfire is replaced by the light of a computer window or screen.

Networked organizations are a millennia-old response to coping with unpredictable change. These organizations need a different form of governance. We have proposed a governance model which emphasizes coordination, context and commitment, and which utilizes the following prescriptions:

- To be effective as a virtual team or organization, one must plan the time it takes to develop trust because even after three thousand millennia, the face of culture is still a human face. Use experiential learning to catalyze trust and shorten the time it takes to get trust established.
- Consensus is catalyzed by trust. But contexts change and, when they do, you need a management system that is adaptive: sensing and responding to unpredictable changes. Often problems arise in introducing consensus management where hierarchical command-and-control was a pre-existing condition. A common example is when commitment is negotiated horizontally but accountabilities are assigned and counted vertically. This interaction effect between networks and hierarchies divides responsibility from authority and can lead to bureaucratic bungling.
- Globalizing or virtualizing operations means a recognition that other people do things differently from how it is done in the "home" office, and that differences are authentic. This means that accountabilities between people and cultures must be negotiated, not assigned. And it means that

commitments can be made and then renegotiated later. As some uncertainties are resolved, others might arise, giving birth to a context which is different from the one in which the original commitment was forged. When this happens, it is incumbent upon the person who first recognizes that events have invalidated the context of a commitment to inform the other partners. This will not happen without trust.

Looking to the future, large organizations will require authentic dialogue to successfully navigate the real world of a virtual world. Only through a sustained pattern of authentic communication can we build the trust necessary to make commitment-based governance systems work.