

## Network Organizations

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Today's business problems – shortfalls in quality, innovation and cost-effectiveness – defy solutions offered by traditional organizational concepts.

These problems will intensify as customers expect ever greater levels of variety and customization. Products are becoming more design intensive and more service intensive. Examples range from cars (increased engineering content of four-valve/cylinder engines) to computers (value added shifting from standard hardware to software) to sweaters (Benetton's infinite variety).

Design and service tasks are best accomplished by small, multi-disciplinary teams that are created specifically for the immediate problem, positioned to interact intensely with the customer and each other, and then left alone to do the job. Senior management provides the vision and capability. It can also establish incentives and measure progress. But it can't manage the team process closely, and it shouldn't try. The impatient, independent, and talented person who, for truly creative tasks, outperforms ten well-qualified drones, can only thrive in a lightly managed environment.

Such an organization works like a computer network: many autonomous, intelligent work units interacting rapidly with the outside world and each other, and quickly rearranging themselves to solve new problems. The corporate center supervises the network, but it does not pace the work or filter the information moving from one working unit to another. Instead, the center focuses on building the capabilities of the work units, setting overall goals and strategy, and monitoring progress.

### The Traditional Organization

Traditional organizational thinking seeks the structure that works best for the company's business

and strategy, with resource coordination and decision-making coming from the top. In the 1950s and 1960s, for example, many companies followed G.E.'s lead to profit centers, an effective response to increasing company size and product lines. In the 1980s we shifted again to greater functionalization as a way to consolidate staffs and take advantage of scale.

Two assumptions underlie the traditional approach:

- *The business strategy determines the organization's structure.* Every strategy has its optimal organizational structure, which in turn dictates optimal decision systems, staff composition and so on. Once discovered and implemented, this structure is expected to function over a number of years.
- *Whatever the structure, a management hierarchy must aggregate and screen decisions, funneling the key ones to the senior officers at the top.* Hence the typical diagram of an organization is an upside-down tree, or a matrix, which is two trees entangled together.

### Network Organizations

Designing and managing a network organization requires overturning the old assumptions:

- You can't reason *linearly* from strategy to structure and on to systems, staff, etc. Instead, the process is iterative: a team is formed to meet a strategic need; it sizes up the situation, develops a specific strategy, and reorganizes itself as necessary. What's more, the structure is temporary. The organization needs to be ready to change its configuration quickly to respond to new needs and circumstances.
- The organization's purpose is not to control from the top; it is to *empower* a group of people to get a job done. Management occurs through training, incentives, and strongly articulated goals, strategies, and standards.

# Perspectives

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... NETWORK ORGANIZATIONS

Network organizations are found most often in businesses that are driven by product development and customer service – electronics and software companies in particular – and often in smaller, younger organizations where traditional boundaries are weaker. Some large-scale models exist: parts of Honda and Panasonic in Japan, 3M in the U.S., and also, in some ways, G.E., which has shown extraordinary flexibility in recent years in reshaping its organization and pushing authority down to front-line managers.

Network organizations have obvious drawbacks: they lack tight controls, they're ill-suited to exploit scale or accomplish massive tasks in large organizations, and they depend on capable and motivated people at the working level. However, companies that can not use the full network model can appropriate aspects of it, like new product development teams.

Some large companies (such as IBM, Digital Equipment, and Dow Chemical), with the need for both innovation and coordination of resources among markets, product lines and technologies, often use the network concept in modified form.

They frequently change the focus of resources and control by reshuffling product groups – shifting power among the parts of the organization – or using ad hoc teams. IBM is quite close to the network concept in the *fluidity* of its approach – reorganization is the norm, with frequent shifts keeping the organization focused on current problems (such as the recent changes that put strategic decision-making closer to the market in the U.S.).

Western economies are moving toward industries based on product innovation and services. Success will require creative reasoning, quick reflexes, and constant communication with the customer. Managers have to empower their people and live with less control to make this happen. A high-tech CEO recently put it this way: “The less you sign, the more you achieve.”

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