

VIRTUAL ORGANIZATIONS AND BEYOND

Discover Imaginary Systems

Bo Hedberg
Göran Dahlgren
Jörgen Hansson
Nils-Göran Olve



Wiley Series in Practical Strategy

 WILEY

Virtual Organizations and Beyond

Series Foreword

The aim of this series is to provide managers with books on strategy, strategic management, and strategic change, which are helpful, practical, and provide guidance for the practical application of sound concepts in real situations.

In the mid-1960s when the subject of planning began to emerge, the whole literature could have been listed on one or two sheets of paper. It was easy to decide which books to read, because so few were available. This state of affairs changed rapidly, and the scope of the subject has moved from a focus on formal planning to a broader view which merges with the literature of leadership, change management, strategic analysis and organization. Modern writing sees the organization and its strategies in an integrated way, and there are many, often conflicting, theories about the “right” way to formulate strategies and practice strategic management.

Management does not take an academic interest in theories, but is concerned about what works best in the situation in which it operates. Hence this series. Each book is conceptually sound, and gives proper acknowledgement to the originators of concepts and ideas, but the emphasis is on using the concepts or methods, rather than academic argument.

Business school faculty and students are also concerned with the application of theories and will find much in these books to supplement the more academic texts.

In this series the aim is to give the reader clear guidance on how to make the subject of the book work in his or her own situation,

while at the same time taking care to ensure that the books do not over-simplify situations. Check lists and questionnaires are included when they aid the aims of the book, and examples are given. The experience of the author in actually applying the concepts, rather than just knowing about them, is intended to show through the writing.

The series will make complex matters understandable. We hope that it will become a catalyst that helps managers make a difference to the strategic performance of their organizations.

David Hussey
David Hussey & Associates
Editor of Journal of Strategic Change

Preface

This book is the combined result of our research and training as researchers and our interaction with business as consultants and corporate advisors. Our ambition is to combine these two worlds; the one of studying and revealing new patterns of business through scientific research and the one of organizing, strategizing, and structuring business through management. We attempt to tie these two worlds together through some conceptual models and also through a number of short case studies which are based on our ongoing research.

This is a book about the “virtual enterprise” or, as we prefer to say, “imaginary organizations”. We want the reader to discover imaginary organizations (IO) *as a powerful perspective on business*. Many *new* enterprises could easily be described and analyzed as imaginary organizations. They were built that way from the very start. But imaginary organizations are also embedded in many *old and mature* enterprises. Or better, many existing companies could efficiently be restructured or combined with partners through IO arrangements. The IO perspective then serves as a blueprint for business development and renewal.

The research program on Imaginary Organizations began at the School of Business at Stockholm University in 1992 and is foreseen to continue at least until the turn of the century. When the program began, we were not aware of the term “virtual organizations” that later appeared in the international management literature.

But we were aware of the fact that a growing number of organizations, in business and in public administration, began to escape the language of accounting, the practice of management, and the laws and regulations that were set up to guide business, labor relations, and investment management. In short, business was about to leave the field of business administration behind.

As teachers in business schools we were disturbed by the fact that textbooks and curricula by and large neglected these emerging new realities. As researchers we saw numerous interesting challenges. The perspective of imaginary organizations turned many established knowledge areas upside down. Imaginary organizations existed far outside their “boundaries”. Leaders were expected to lead and inspire people whom they did not employ. The real assets of these companies were not accounted for, and what was accounted for was not always very important.

Anyone who was able to see this in the IO perspective would share our excitement about the business opportunities which are opening up and possibly also our concern about the need to develop our language on organizations and management so as to identify and account for these new aspects of organizing for modern business.

This book is primarily written for people who are interested in business development and business renewal in the age of the information society. Particularly we want to reach those who find it difficult to see development opportunities in current organizations. We are also eager to strengthen those entrepreneurs who are about to start new enterprises and who possess good ideas and a lot of motivation, but who lack capital or other necessary support structures. We want to show them blueprints from which colleagues in other industries and in other parts of the world have built rapidly growing businesses using others’ manpower, others’ capital, and others’ production facilities. There are ways to grow without becoming bigger. Of course, we also want to address bankers and investors so that they see and understand these new patterns of growing business and dare to venture capital therein.

We wrote this book in Swedish two years ago. It sold very well and opened up a world of contacts with industry and public administration. We also discovered that the book was useful in teaching organization design, strategy, and organization behavior in business schools, although the book is primarily written as a management book.

This book is the result of team work, first, within the group of authors and then within the OD Group at CEPRO Management Consultants, in Stockholm, our joint practice and endeavor. We also owe many thanks to our client companies. Bo Hedberg has worked closely with academic colleagues and doctoral students within the research program at the School of Business. Benevolent research funding for this program has been given by the HSFR (the Swedish Foundation for Research in Social Sciences and the Humanities), NUTEK (the Swedish National Board for Industrial and Technical Development), and KFB (the Swedish Transport Communications Research Board).

Gunilla Gustafsson coordinated the book project, first in Swedish and then for an extended, international version of the original book. To her, to our CEPRO colleagues and clients, and to our fellow researchers and, of course, to our publisher, many thanks.

*Bo Hedberg, Göran Dahlgren, Jörgen Hansson, Nils-Göran Olve,
Stockholm, 1997*

CEPRO Management Consultants,
Box 440, S-101 28 Stockholm, Sweden
Telephone: +46 (0) 84029800
Fax: +46 (0) 8105469
E-mail: Company@cepro.se
Homepage: www.cepro.se

Contents

Series Foreword	vii
Preface	ix
1. The Imaginary Organization: Discover a New Perspective	1
2. The Imaginary Organization: Related Theories and Perspectives	23
3. Patterns of Creation, Renovation, and Extension	39
4. Examples of Successful Creation, Renovation, and Extension	49
5. Creation	53
6. Renovation	67
7. Extension	79
8. Observations from the Case Studies	99

9. Focusing Strategy on Core Competence	107
10. Cultivating the Involvees	127
11. Management Control	141
12. Financing and Ownership	163
13. Leadership: More Managing by Fewer Managers	177
14. Creation, Renovation, and Extension: A Summary	195
Appendix: Background Information on the Companies in our Case Studies	209
References	227
Index	231

1

The Imaginary Organization— Discover a New Perspective

INTRODUCTION

What we see tells us where we are and what to do. We chose the illustration on the back cover to symbolize our principal message. This work of art, prepared by computer and entitled *Two Hands*, appears at first glance to represent a rather intricate pattern of blue, white, and red, repeated in something resembling rows. The superficial pattern may retain the viewer's interest for a short while, but it hardly gives an impression of being a work of art. If there were nothing more to it, *Two Hands* would not merit further thought.

But there is more. If you concentrate on the center of the picture and try to focus in depth, you will find after a while that the image changes. Suddenly the superficial pattern disappears and you see what the picture actually represents: two hands reaching towards you. The picture has become three-dimensional. Your eyes relax, and you restfully contemplate it in depth. Now it is all so simple and obvious. And if you have experienced this transformation once, it is easier the next time you look at the picture. We can train our eyes and our imagination to see what lies beneath the surface.

The purpose of this book is to present a new a way of looking at organizations, a new perspective. We call it the perspective of 'the imaginary organization'. The organizations/companies presented both exist and do not exist. On the surface there are a number of

units which function together in some way. Only when the viewer focuses on the in-depth dimension does the exciting transformation occur. The pieces of the puzzle fit together to form a clear, obvious and cohesive new organization: an imaginary organization.

This book is thus partly about the new companies which are often referred to as virtual companies. But mostly it is about a new way to look at old companies and make them grow, and to create new companies which transcend conventional boundaries. The book is intended to develop a perspective that will enhance the reader's ability to understand companies and to develop them further. The latter task becomes easier when you focus on the true image, as is the case with the cover illustration of the book. When the conventional structure fades out and the in-depth structure emerges, existing boundaries disappear and new relationships become obvious. There is no mystery to it, no hocus-pocus. Just a new and powerful way to view reality and to interpret it. It is a matter of reframing (Watzlawick et al, 1974).

Let us begin with examples of some companies.

Skandia AFS

Skandia AFS (Assurance and Financial Services) is a group of companies within the leading Swedish insurance company, Skandia AB. While the parent is a fairly conventional service enterprise, AFS is a highly successful, fast-growing, and very interesting imaginary organization.

Skandia AFS prospers from the growing concern of people in many countries that retirement systems and other welfare arrangements are endangered and may not deliver on their promises. Therefore, families and individuals are increasing their savings. Skandia is able to collect a portion of these savings and places them with fund managers who promise to beat inflation. Skandia AFS is a global savings organization with unit-link arrangements to tie those savings to growth investments.

In 1996 Skandia AFS operates in 14 countries on four continents outside Scandinavia. Some 60-odd people make up the headquarters, and they are mainly located in Sweden and in Shelton, CT, USA. An additional 2200 Skandia employees run the national companies.

But, these people engage some 70,000 partners in various countries in the enterprise. The partners are mostly money managers or financial consultants. In Spain a major savings bank collects household savings for placement through Skandia. The outer circle consists of around 1,200,000 customers, or “contracts” as described in Skandia’s *Supplement* to the 1996 Annual Report to the shareholders (Figure 1.1).

The leadership of Skandia AFS often uses the term “*federation*” to describe the way the business is organized. The company operates in between a global market for savings and a global market for investments. The core company acts as an exchange system between these two markets. Partners interact directly with clients (households) and investment opportunities. AFS, like the Skandia group in general, is of course a publicly quoted company with shareholders, boards of directors, and directives from the top executives and downwards. Thus, the financial capital works through a hierarchy; and so does the structural capital—the knowledge, procedures, and manuals

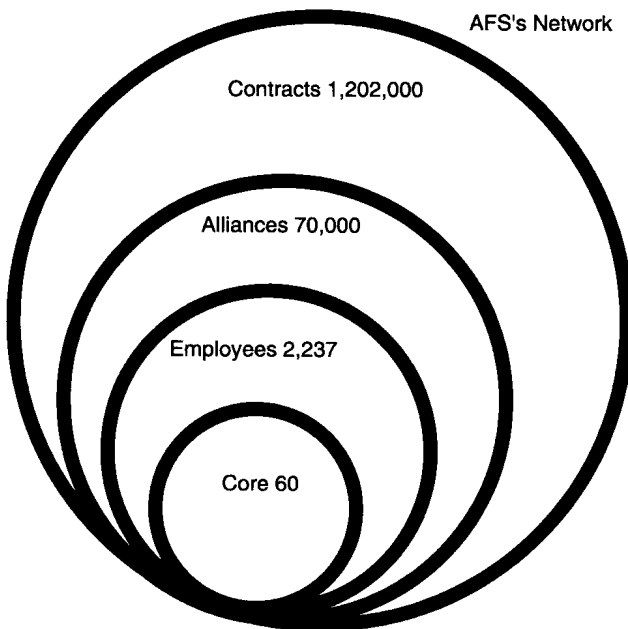


Figure 1.1 Skandia AFS as an imaginary organization (Skandia Annual Report 1996: Supplement)

which AFS has managed to formalize and store in its structure and processes. However, the market capital (customers and local networks) and the knowledge capital possessed by money managers and fund specialists in the partner network, work from the market and upwards in the hierarchy. In the latter sense, one could claim that Skandia AFS is a federative organization in which the power and dynamics come from the markets and are delegated upwards according to the principle of subsidiarity (Figure 1.2).

With around 2300 on the payroll, another 70,000 partners, and more than 1,200,000 customers, CEO Jan Carendi says that in order to lead the company he has to realize that he is managing a “voluntary organization”. If these people around the world do not give their best by their own free will, he has no power to command them. In order to keep the AFS network together, he attempts to create a challenging vision, fast feedback on performance, and a “high-trust culture”. Everyone in this voluntary organization has to be a “trustee” who deserves the trust of others and who trusts his/her collaborators.

Another way to “glue” the organization together has been to provide money managers and representatives on the market with excellent IT support. Thus, 18,000 CD-ROM copies of a system called ASSESS were distributed in the USA before Christmas 1995.

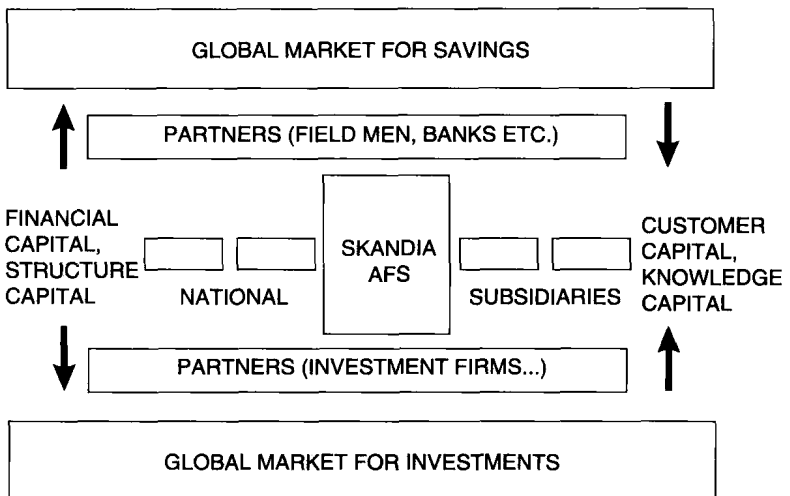


Figure 1.2 Skandia AFS, a combination of federation and hierarchy

The ASSESS system contains a multimedia presentation of American Skandia (the US branch of AFS), but its real value lies in the sales-support system. AFS experts and other national expertise help the salesman to explain various savings programs and tax consequences to the client. Also, the fund managers appear on the laptop screen to describe their business, their track record, and their investment policies. The ASSESS system does an excellent job in helping the salesmen to make the financial products understandable and to make the investment experts human and trustworthy. A new release of ASSESS with more storage capacity on CD-ROM will also contain a “virtual university”, with short courses for the continuing education that financial advisers are required to take, pass, and have recorded in order to remain authorized.

A global management information system is another way to keep the world-wide organization together. The IT infrastructure also allows existing national companies to provide, e.g. back-office support for newly established subsidiaries. Thus, the back-office work for the pioneer company in Mexico and in Japan is managed from Shelton, Conn. Connecticut. In general, when new national companies are formed, AFS subsidiaries in other countries, together with headquarters, provide the financial products, the organization, market communication systems, and administrative programs. As a consequence of its ability to move rapidly and to be very flexible, Skandia AFS has been the first company to establish itself on national markets in many countries following deregulation. AFS’s rhetoric uses the term “process edge” and pictures AFS as a mediator (product development, packaging, and administration) between fund management and distribution which is handled by partners (Figure 1.3).

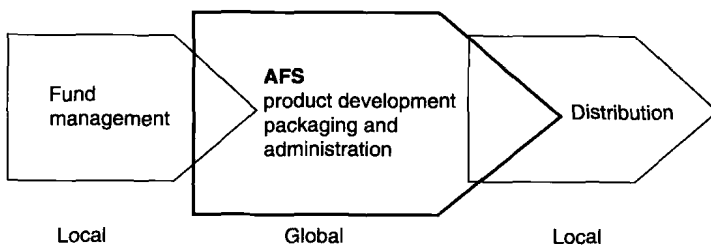


Figure 1.3 Skandia AFS's process focus

Multi-dimensional reporting, as expressed in Balanced Score Cards—which account for intellectual capital—and in the special Skandia version called “The Navigator”, have been used to enrich and develop the feedback and reporting systems (see also Figure 2.2 in Chapter 2).

GANT

In only a few years GANT gained an interesting position on the market for Swedish ready-to-wear men’s clothing. From this Swedish base GANT is now growing from country to country in Europe. Few men of lower to upper middle age can have missed the appeal of GANT’s advertisements or catalogs. GANT brings what looks like American college and East Coast fashion to Europe and makes it available to male consumers with money to spend and a certain feeling for quality.

Many Swedes see GANT as an American manufacturer of ready-to-wear clothing. The two seasonal catalogs bring to mind America’s East Coast. You see handsome men with pomaded or tousled hair and dazzling smiles, dressed in casual and rather colorful rugby jerseys, yachtsmen’s pants, and windbreakers.

It is true that the GANT clothing factory and trademark originated in the USA; careful search will sometimes turn up GANT articles from the old American days. And the USA was where the owners of Pyramid Sportswear, the driving force behind the idea known as GANT, bought the license and the rights to the brand name. But the GANT articles which we Europeans know and wear do not come from American clothing factories, but from an imaginary organization based in Sweden. The center of operations is a Swedish company, Pyramid Sportswear AB. The brand name, collections, production, and retailer network are all the work of Pyramid. Pyramid Sportswear finds designers, identifies trends, contracts out quality-assured production, and cultivates a retailer network using catalogs, advertising, image-creating activities, and sales support in the form of a customer data base, active inventory and tracking systems, etc. (Figure 1.4).

A systematically designed customer data base, and extremely detailed and up-to-date reporting of shipments and current sales,

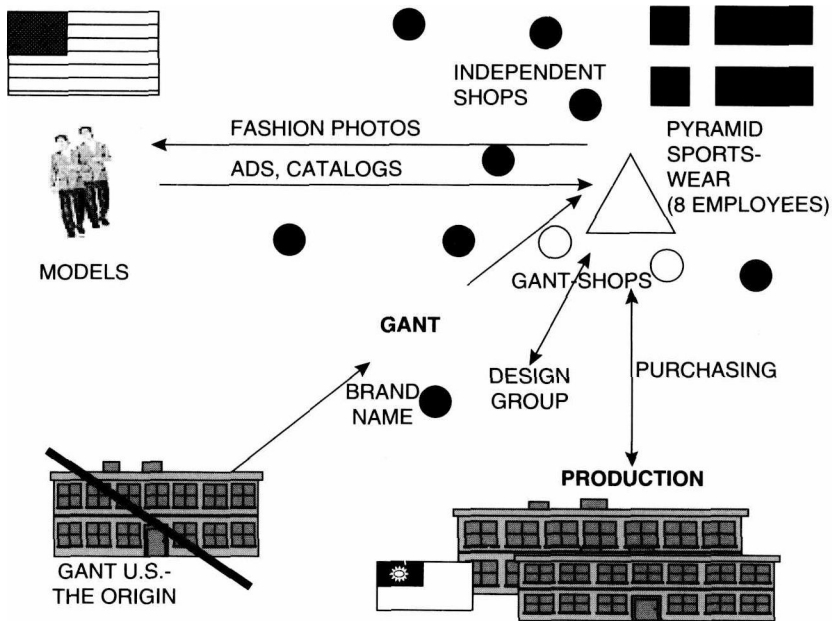


Figure 1.4 An imaginary perspective on the GANT organization

are two central elements which enable the imaginary GANT organization to exist and thrive. Remote quality control in interaction with temporary partners is another ingredient. Without modern information technology this supporting structure could not work.

GANT may be regarded as a rather clear-cut illustration of how one or more persons with a business concept but with limited resources—or at least a desire to limit the resources committed and to concentrate on essentials—can build an enterprise around an idea. The brand name, fashion creators, models, catalogs, stores, factories, customer lists, and inventory systems are co-ordinated into what appears to the customer as the successful GANT company. But behind the scene is Pyramid Sportswear, a number of selected men's clothing stores, freelance photographers, designers, catalog producers, and ready-made-clothing factories, the services of which are procured and quality-controlled from time to time. The whole is considerably larger than the sum of its parts. The partner enterprises and the individual actors in the GANT network are linked together

in a variety of ways, from commercial contracts to personal contacts and personal chemistry. GANT is in no way unique in the new clothing industry. The new textile industrialists are “tailors without thread”. Other Swedish examples are Peak Performance, Boomerang, and Jockey. Benetton in Italy, BOSS in Germany, and Bogner in Austria are others.

Organizations like these, as we perceive and describe them, have existed for quite some time. They need not be especially sophisticated. And they can sometimes function without computers and telecommunications. As a matter of fact, the garment industry is somehow returning to patterns which existed during a pre-industrial era where patrons traveled with horse and carriage to connect production, which took place in farms and cottages in the countryside. And the “virtual university” existed long before connections were measured in bytes per second. An example of this is Liber-Hermods.

Liber-Hermods

Since the turn of the century, 4 million Swedes have studied at the Hermods Correspondence Institute. In 1965, when the institute was doing best, the correspondence courses were arranged so that 25–30 regular employees could engage 400 “temporary” teachers throughout the country to correct examinations, etc. Thereafter, the Hermods concept of business lost ground as new kinds of schools were established; strictly speaking, only one upper secondary correspondence school remained of the previous 14. But the institute still had its reputation and the loyalty of customers and former temporary teachers.

The Liber publishing group bought Hermods in 1975, primarily for the latter’s publishing operations. The new owners seemed to find Hermods a little outdated and tried to give the name a low profile. Hermods still fulfilled the important function of providing education to the children of expatriate Swedes serving in the diplomatic corps, companies operating abroad, and the missionary societies. But the home market was declining.

For several years in the 1980s, Hermods was involved in a highly publicized co-operative arrangement which included educational radio and TV and a number of colleges and universities. Courses