

Book The Spider's Strategy

Creating Networks to Avert Crisis, Create Change, and Really Get Ahead

Amit S. Mukherjee
FT Press, 2008
Listen now

- play
- pause

00:00
00:00

Recommendation

Dr. Amit S. Mukherjee, a brilliant corporate strategist, outlines why the networked structures that large firms rely upon can also create significant hazards for them if breakdowns occur. Given today’s interconnectivity, companies that cannot quickly adapt to their partners’ emergencies may themselves suffer catastrophic losses. Mukherjee details the four primary capabilities that networked businesses must possess and explains how to achieve them. *BooksInShort* advises that senior and middle managers will profit from this thoughtful book and its instructive case histories.

Take-Aways

- Many businesses closely network in a spiderweb of numerous corporate partners.
- If a linked company suffers a sudden catastrophe, the other firms in its network can experience immediate major losses or damages.
- In such a tightly networked world, organizations must be adaptive.
- A company’s “chief network officer” needs the business savvy to unite people.
- This executive is responsible for the firm’s adaptability and network operations.
- Adaptive organizations have strategic “plan-and-execute, sense-and-respond” capabilities so they can react productively to potential problems and opportunities.
- They collaborate closely with their partners to establish win-win arrangements.
- They value learning and ensure that their staffers have the information they need.
- They use the right technology to stay on top of their operations.
- Plan your adaptation program in “waves.” Begin with a single business unit and build.

Summary

Adaptability: “The Fire That Changed an Industry”

In March 2000, a lightning-sparked fire damaged millions of mobile-phone chips at Royal Philips Electronics manufacturing plant in Albuquerque, New Mexico. Archrivals Nokia and Ericsson were Philips’ two major customers for these chips. Philips executives told Nokia and Ericsson that it would take a week at best to get up and running again. Eventually, it took much longer.

“We live in a networked world in which each company partners with a set of other companies.”

Thanks to its internal expertise and its chip-inflow monitoring program, Nokia knew to track the Philips situation daily, and had the capacity to do so. Lacking a similar program, Ericsson maintained a business-as-usual stance. Nokia promptly instituted a three-part mitigation plan. First, it worked with Philips to fix the problem fast. The solution involved Philips rearranging its global chip-production activities. Second, Nokia redesigned some chips so Philips could easily manufacture them elsewhere, and so other suppliers also could make them. Third, it got other manufacturers.

“Distributed computer networks are driving the present epochal change by fragmenting work across time and space, engendering extreme product customization and blurring industrial boundaries.”

Nokia’s heads-up response enabled it to weather the manufacturing delay and, in the “third quarter of 2000,” boost its mobile-phone market share to 30%. In contrast, Ericsson reported second-quarter losses of \$200 million and a 3% drop in market share. Ericsson discharged thousands of employees and began outsourcing cellphone manufacturing. Within a few years, its revenues and employment were off 52%. Because Nokia had formal systems in place to adapt quickly to an operational emergency, it could move ahead despite the fire, but Ericsson was devastated. The lesson: Foresight is vital.

“Over the last 50 years, leading thinkers and top practitioners of management have worshipped at the altar of good planning and flawless execution.”

Most companies depend on intricate networks, but if something negative occurs in one sector, the ramifications can quickly affect firms systemwide. To become “adaptive businesses” like Nokia, companies should institute the new executive role of “chief network officer” so they can make someone responsible for network operations and making the company adaptive. The job, which amounts to being “chief operating officer for outside the company,” requires a savvy, imaginative, professional “consensus-builder” who is gifted at bringing people and companies together.

“Adaptive Capabilities”

Companies must adopt four principles to operate efficiently in today’s networked world:

1. **“Embed sense-and-respond capabilities within normal plan-and-execute processes”** – Prepare to diagnose and react to problems quickly, and to institute fallback plans.
2. **“Adopt strategies that promote collaborative action among network partners”** – Visibility fogs over as networks become more complex. Develop strong working relationships with your partners so they will alert you to pending crises or opportunities.
3. **“Value and nurture organizational learning”** – Learning is crucial now. Use your networks to transmit learning information.
4. **“Deploy technologies that enable intelligent adjustment to major environmental shifts”** – Set your organization up to respond rapidly.

“Not too long ago, businesses functioned as hierarchical entities internally and as linear supplier-customer chains externally.”

These “four principles are deceptively simple; stating them is far easier than applying them day after day.” Distance and sluggish communication once slowed transactions, so companies did not need to be adaptive and responsive. This changed because of “three epochal new trends”:

1. **“Decomposition of work across time and space”** – Work sped up tremendously with the advent of global communication technology. Now, designers, engineers and production experts can communicate instantaneously in real time.
2. **“Explosion in the variety of output being produced”** – Advances in computer networks, software and microprocessors enable extensive product customization.
3. **“Blurring of industries”** – Today, industries serve customers they never had before.

“Managing internal and external networks must become a focal point for key decisions.”

As a result, networked firms must now coordinate closely. Such networking “is the defining organizational characteristic of our times” because networked companies “win or lose together.” Thus, businesses must be willing to transform themselves to meet the challenges that complex networks entail. They need five capabilities: “plan, execute, sense, respond and learn.”

From Planning to Responding

Plan-and-execute means deal with the present. Sense-and-respond concerns the unexpected and uncharted. Companies must handle both well and in sequence. First, leaders must plan response mechanisms that they will be able to implement if needed. Then, they can create internal sense-and-respond capabilities to focus on opportunities or problems that require fast reactions. Executives and employees alike must accept responsibility for developing awareness and identifying new issues. This alone will transform most firms and make them more adaptive.

“Companies stumble when their planning and execution processes cannot match the pace with which changes propagate in a networked world.”

Creating and implementing response mechanisms is more challenging than setting up and using sensing mechanisms. Sensing a valid business concern involves separating it from background noise and understanding its significance. To do so, compare it with established benchmarks. Responding may involve reconfiguring how you work and assign jobs. Forming a response plan requires a coordinated effort so people know when to react to problems, move to resolve bottlenecks or handle unforeseen events. This does not mean developing “crisis teams.” Rather, as part of your normal operations, prepare for all eventualities. Develop these capabilities into standard routines all insiders can accept and use without turf wars.

“Organizational change and technological change have become the two halves of a self-reinforcing cycle.”

Make sure your company’s sense-and-respond capabilities mesh together without duplication. Executives must authorize appropriate, supportive technology. For example, Nokia uses radio frequency ID (RFID) tags to track its supply line. Its sense-and-respond system includes routinely explaining its expansion plans to its partners so they always know what Nokia expects and can orient their strategies accordingly. Nokia takes corrective action if a partner cannot keep up with its growth plans. Other adaptive firms have their own approaches to developing sense-and-respond capabilities. Do not overdesign a new system for your business. An imperfect scheme that works is preferable to a perfect system that is hard to use. A good sense-and-respond system depends as much on established relationships and informal networks as on new processes.

Collaborative Action Among Network Partners

The Prisoner’s Dilemma, a game-theory model, shows how and why businesses routinely work against one another. It develops like this: Police arrest two criminals and interrogate them separately. Detectives try to convince each felon to inform on the other to earn a shorter individual sentence. If neither informs, both get severe sentences, and if both inform, they each will serve medium-length sentences. Both partners assume that “regardless of what the other does,” a shorter sentence is optimal, so they sell each other out, though they would have had better results if they had trusted each other. Because companies “lack critical information about the consequences of their actions,” they tend to behave like the people in the Prisoner’s Dilemma. That leads to overall negative outcomes.

“Technology without strategy gives no competitive advantage.” (Tech expert Kim Clark)

Companies play this game when they withhold helpful information from their partners and, as a result, an outside competitor takes business away from them both. Or

they prevent vendors from earning fair profits by making stringent competitive deals with opposing firms. Such win-lose strategies result in negative consequences for everyone. Treating your partners poorly does not encourage them to alert you to upcoming opportunities or problems. Firms should adopt win-win strategies and base their actions on what works best for their partners, knowing that they must depend on each other in the future. This is not altruism. In a heavily networked world, it is “enlightened self-interest.” That’s how Nokia earns preferential treatment from its partners.

“Today, Apple is creating brilliant, iconic, highly profitable products and services by placing itself in the midst of a network of companies that span... (converging) industries.”

At first, adopt this win-win information-sharing approach with your business partners on a selective basis. Once people see how well it works, you can implement it more fully. This approach requires performance metrics that deal with “revenue enhancement,” not just “cost reduction.” Don’t expect immediate acceptance of a win-win approach. Recognize that trying to achieve collaboration and cooperation on every issue is probably impractical.

“Ensure That Work Teaches”

Organizations can thrive only if their employees learn. Adaptive companies institute policies and processes that enable employees to learn and, thus, perform well. Having individuals transmit their knowledge to other staffers is essential. The firm cannot use its network to maximum effect unless employees share their know-how. This is particularly critical when trouble strikes. Learning equips and enables people to translate the information they derive from the sensing component of the company’s sense-and-respond capabilities.

“Most companies still do not consider the ability to learn a key executive skill.”

Base organizational learning on “empiricalized” knowledge, combining conceptual information with familiar experiences. Ask learners, “What are we trying to prove or understand?” “Who will document what we learn and broadcast to all who might benefit?” Management’s goal is to foster a “learning engine” built on a shared understanding of relevant, important knowledge. Companies should provide continual educational opportunities and incentives that encourage employees to get excited about learning. To develop a learning organization, focus on:

- **“Processes”** – Use sound operations; embed vital data in your processes.
- **“Organizational structure”** – Your structure stores important information and determines whether certain knowledge is significant enough to teach and learn.
- **“Culture”** – Promote openness and willingness to learn from new approaches.

“Make Technology Matter”

Many businesspeople think of technology in terms of the “mushroom cultivation principle”: “Lock it in a dark cellar and throw manure on it and something valuable may sprout over time.” This is unfortunate. Today, technology is vital. The right technology will “provide visibility, support analysis, facilitate collaboration and enable mobility.” To become an adaptive business, your firm needs visionary people who can interpret internal and external events clearly, and it requires the right technology to implement their visions. For example, a Global Positioning System (GPS) makes it feasible to track shipping. Various analytic technologies, such as dashboards, can point out patterns – and pattern breaks — in your data. They let you measure current data against previous information. Collaboration technologies enable employees at diverse locations to work together. When the Philips fire occurred in 2000, Nokia used collaborative software to redesign some chips so its partners could make them quickly. Mobile technology gives workers portable access to company data.

“Your company’s success increasingly depends on the quality of its network relationships.”

To determine which technologies you require, figure out what your people need to become more capable. Plan the connections between technology and people. Do not “add and patch” to your basic technology. Involve experienced pros in your information technology (IT) projects. Develop tests that help you understand core issues. If you are a nonexpert who wants to understand technology better, *The New York Times’* Science Times and Circuits sections will teach you more than you could glean from highly technical IT publications.

Engage in Holographic Transformation

The hologram is a useful metaphor for a leader to use in trying to make a firm more adaptive. A hologram is a “three-dimensional representation of its subject.” If you cut a small piece of the hologram out, you can still see most of its original subject, though with a different perspective. Think of the company as a complete hologram. Business units are pieces of the hologram. Thus, everything “in each piece [i.e., each business unit] is in the complete image.”

“Many well-trained, well-disciplined, well-managed, well-equipped standing armies are finding their might tested by enemies that are changeable in form and battlefields that are not of their choosing.”

Your company adapts holographically when its business units share some corporate policies but maintain their “local texture and color.” Implement new adaptation policies on a unit-by-unit basis, instead of across the board. Take the lessons you learn in one unit and apply them to other units. Start with a unit that wants to reorganize. Implement new adaptive capabilities in “waves.” Begin with plan-and-execute, then sense-and-respond, and then organizational learning. Finally, establish win-win arrangements with your most important partners.

About the Author

Amit S. Mukherjee, Ph.D., founded an executive-education and consulting firm. Previously, he was a faculty member at INSEAD and at Georgetown University.
