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REINVENTING MANAGEMENT

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SMARTER CHOICES FOR GETTING WORK DONE

Chapter 3

Coordinating Activities: From Bureaucracy to Emergence

Network Model

Unlike the internal market model, where all relationships are managed within a single company, the network model is a way of coordinating activities between independent companies and individuals. It is intended to create high levels of collaboration and trust between parties.

Eden McCallum, the London based consulting firm, is an interesting example of a company built on network principles. Founded in 2000 at the tail end of the dotcom boom by Liann Eden and Dena McCallum, the company offers strategy consulting services through a network of freelance consultants. Most of these consultants have experience with the big strategy houses like McKinsey, Bain, and BCG, but they value the flexibility of working as freelancers, and this gives Eden McCallum a much lower cost base than traditional consultancies have. By 2010, the firm had grown by more than 50 percent per year, with revenues of more than £16 million, 26 full-time staff and over 400 freelance consultants, making it the second biggest strategy consulting company in London after McKinsey.

Eden McCallum decided to target clients who were put off by, or could not afford, the fees of McKinsey, Bain or BCG. The value proposition was straightforward—we have consultants with the same high-level skills and rigorous approach at approximately half the cost. And we don't have any proprietary methodologies—instead, we will use whatever methodologies are appropriate to solving your problems. And you get to choose the appropriate consultant for your project.

On winning a bid, Eden McCallum puts two to three consultants from its talent pool in front of a client. The client then evaluates who they think will be the best fit, which gives the client a vested interest in making the relationship work. On the completion of projects there is an extensive feedback process focused on the individual consultants and Eden McCallum's performance.

All this makes good sense for the clients. But what about the network of consultants—how does this flexibility help them? Consultants are not employees, nor are they entirely freelance contractors, but they lie somewhere in-between. They have considerable loyalty to Eden McCallum, and they get most of their work from the company, but they define their own terms of engagement. This includes choosing which sectors they will accept projects in, how many days per week and how many months per year they work, the logistics around travel, and many other elements as well. To be sure, this arrangement requires constant balancing to keep everyone happy, and it is not for everyone. But by letting their consultants choose their own terms of employment, Eden McCallum generates enormous commitment—turnover among the consultant pool is very low.

Eden McCallum's business model is essentially one of brokering a match between its client base and a talented pool of consultants. And the value-added of the company is in large part about knowing how to scope projects and the quality of the match. Consequently, about a third of its in-house staff are fully employed ensuring that the consultants are the right people in the right jobs, while a half are totally dedicated to developing and nurturing client relationships. It is the ability to match top-quality consultants with the right projects that is the defining capability of Eden McCallum, but, unlike other consulting companies, it is not hindered by capacity management.

The company also invests a lot of time ensuring that the network of consultants feels well treated. One issue is the fee structure which is now entirely transparent: it is based on a banding system whereby consultants are paid according to their seniority and consulting skills. Another common concern in network organizations is how the available work gets shared out. So Eden McCallum tries to be clear about the likely levels of demand for people with different skills sets. It is about "calibrating expectations"—the company's and the consultants' as well.

The rise of the network model. Freelance networks of this type are on the rise, fuelled by two major trends. One is of course the Internet, and the emergence of on-line communities (some pursuing commercial objectives, others based purely on personal interests). The other trend is the increasing willingness of people to pursue self-employment, and to take charge of their own careers. Far fewer people in the X and Y generations expect to spend their lives working for the same company as did the baby-boomers. Many more are exploring freelance work, setting up their own companies, and so-called "portfolio" careers, working part-time for several employers.

Consider how the BBC, the UK's publicly funded broadcaster, tapped into this trend.[1] In the early 2000s it was confronted with the challenge of the new digital media environment. How should it deal with this major change in its marketplace—by trying to second-guess a massively complex new world through the efforts of a small R&D group? Or by trying to engage a rich variety of players in those emerging spaces via a series of open source experiments?

Their answer was BBC Backstage—a project that sought to do with new media development what the open source community did with LINUX and other software development. The model was deceptively simple—developers were invited to make free use of various elements of the BBC's site (such as live news feeds, weather, TV listings, etc) to integrate and shape innovative applications. The strap line was *"use our stuff to build your stuff"*—and as soon as the site was launched in May 2005 it attracted the interest of hundreds of software developers and led to some high potential product ideas.

The network model offers several important benefits over other models of coordination. The first is *flexibility*—the ability to scale work up or down without making dramatic changes to employee numbers. Of course, the swings in work volume are then absorbed by the community of freelancers, but this is understood to be part of the deal when people work for themselves.

Second, the network model provides a level of *discipline* in structuring relationships with workers that traditional employment contracts lack. If a freelancer doesn't work out, he or she doesn't have to be sacked, but is simply not invited to do any more work.

Third, an important benefit is *simpler management processes*. It is inconceivable that Eden McCallum would ask its community of freelancers to participate in the types of meetings and discussions that preoccupy full-time employees. Which is not to say that the company has gotten rid of all processes—it requires its consultants to do a detailed review at the end of each project, for example. But the point is that freelancers have almost zero tolerance for non-value-added meetings or procedures, which puts the burden of proof on the manager to justify what purpose a particular meeting or procedure serves. The result: simpler and more value-added processes.

Risks of the network model. While there are enormous benefits in having a flexible labor force, the network model is far from easy to manage and it brings with it a host of additional risks.

The first risk is that *it is hard to maintain a vibrant network*. Eden McCallum's consultants are free to sell their services to others, so if they don't feel they are getting the interesting work and opportunities they need, they are likely to go elsewhere—with the best ones being the first out the door. As a result, Eden McCallum's managers spend a lot of time investing in their communities, looking for ways to make the work more interesting, and listening to their concerns.

The second risk is that by outsourcing the work, *you are giving up control of many of the core competencies* that are essential to your offering in the marketplace. Eden McCallum does not employ consultants, and it does not have any proprietary methodologies, the traditional mainstays of any consulting firm. But it has to have sufficient expertise to evaluate the competencies it is buying, so there is an internal group that stays on the leading edge of practice and ensures that the consultants who are hired are genuinely top-quality.

The third risk is that by creating a community of independent experts, *you are potentially creating competitors*. In theory, Eden McCallum's consultants could sell their services directly to the clients in question. In practice, this won't happen as long as the company continues to do its job well. But there have certainly been cases in other contexts where this has happened. Magna, the Canadian auto parts manufacturer, used to see itself solely as a component manufacturer, a subsupplier, to the likes of GM and Ford. Now, at the time of writing, it is looking to buy GM's European assets and become a fully-fledged manufacturer.

In an entirely different context, Sun Microsystems created its Java Developer Network in the early 1990s. The company initially thought to control the activities of its partners (the independent software companies who were writing Java code). But it quickly realized this would not be possible. "We had no idea of the magnitude of what we were creating," observed George Paolini, the chief architect of the Java initiative.[2] So instead, Sun created an open-source community, which quickly took off and took on a life of its own. It is an important reminder that business networks, like ecosystems, cannot be controlled by any single player in them.

In sum, the network model is quite a challenging one to manage because it means relying on partners that you don't control, and it requires constant adaptation as those partners needs and capabilities evolve. It also means getting to grips with exactly what your own *raison d'être* is as a company is. If you are increasingly subcontracting or outsourcing all the key services you offer, what role are you really playing? Box 3-1 provides some thoughts on this point.

Some Final Points

In this chapter we have looked at the pros and cons of three different approaches to coordination, and we have discussed the management challenges associated with each. As we will see with all the other dimensions of management, there is no right solution; it just depends on what fits with your company's immediate circumstances, and with how you want to be viewed in the marketplace.

The single most important message to take away from this chapter is that less is more. In other words, less attention paid to formal management processes will typically lead to more individual initiative and engagement, and in turn greater levels of flexibility and responsiveness. Most companies can benefit enormously from a critical review of their existing processes. Are there processes that can be simplified or rethought? Are there some that should be got rid of altogether? These are important questions that most companies do not spend enough time on.

The second broad message is that the potential for getting work done through networks of loosely-affiliated partners is increasing all the time. And as companies move toward the emergent end of the coordination spectrum, the company's purpose must, of necessity, evolve as well. Many companies are becoming more "virtual" by increasingly getting work done through the types of network relationships discussed here; and there is a burgeoning economy of freelance individuals who are willing and able to sell their services to large companies without becoming employees (this is very common in the Information Technology sector). But even though all this is happening, the predictions that some observers have made about the demise of large, traditional companies are certainly overplayed. In my view, we will continue to see all these different models of coordination existing side by side for many years to come, depending on the particular circumstances faced by each company.

Chapter 3: Key Points

The traditional principle for coordinating work in large companies is *bureaucracy*: the use of formal rules and procedures for transforming inputs into outputs. The alternative principle is *emergence*: spontaneous coordination of activity through the self-interested behaviors of independent actors.

This chapter describes three coordinating mechanisms in detail. The *flexible bureaucracy* offers most of the benefits of a traditional bureaucracy with more freedom for personal expression and greater transparency. The *internal market* model encourages emergent processes of coordination within the boundaries of an existing company. With the *network* model, managers create non-binding ways of encouraging companies and individuals who they don't formally employ to work closely with them.

There is an overall trend towards the emergent end of the coordination spectrum, driven by technological changes that make it easier to share information widely, and by social changes that are encouraging individuals to become free-lance workers. But the increasing use of emergence-based approaches to coordination will be tempered by the security and stability many people get from formalized rules and procedures.

Each of these three coordinating mechanisms has its own pros and cons. Your challenge as a manager is, (a) to understand the relative merits of each mechanism, (b) to evaluate which is the most appropriate one for your particular circumstances, and (c) if you believe there is scope for improvement, to envision and experiment with new mechanisms for coordination that build on these ideas.

BOX 3-1.What is your real value-added in a networked world?

If there is a trend toward the pure market and network-based models of coordination, then where does this process end? Hypothetically, you can outsource or subcontract just about any activity, and if you take this process to its logical conclusion you end up running a virtual company: yourself, your assistant, and a network of partners doing all the real work. Does this mean you don't have any real reason to exist? Actually, no. It turns out that there are still three value-added roles your company can play regardless of whether it actually makes or sells anything. These are:

- Promoter and guardian of a brand. Product companies like Nike and Dell are happy to use freelancers and subcontractors to do the work, but they are committed to retaining control over their brand. The brand represents a particular value proposition to customers, and indeed to those working for the company, so one of the key jobs of the company's top executives is to nurture and sustain that value proposition.

- Network broker. One way of viewing a company is as a network of relationships, and over time enormous amounts of social capital builds up in such relationships. So one of the intrinsic qualities of a company, especially network companies like Eden McCallum, is the value they create by brokering relationships between different parties with very different needs and objectives.

- Systems integration. This refers to the capability of bringing together and coordinating the actions of many independent people. It is often said that Boeing's core competence is project management, in that the development and assembly of an airplane, much of which is done by independent contractors, is perhaps the most complex project-management job known to man. At a more mundane scale, Eden McCallum and TopCoder both need to be good at managing complicated systems, to ensure that their freelancers are working on the right things in the right order.

Notes

[1] This examples was taken from: Julian Birkinshaw, John Bessant and Rick Delbridge, "Finding, Forming and Performing," California Management Review, 49 (2007): 67-84.
[2] Quote taken from Julian Birkinshaw and Michael Mol, "How Management Innovation Happens," Sloan Management Review, 47(2007), pages 81-88.