

## The quest for the agile enterprise - 2



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We live in a networked economy. The Internet, e-mail, mobile telephony, they all make our way of communication easier, faster and independent of time and location. But is it also getting any better?

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### The networked economy

Today, most organisations do operate in a networked business environment whereby external parties are responsible for the execution of the tasks that are viewed as not being part of the core business. Most often, the objectives are very straightforward, such as cost reduction and quality improvement. A recent and very visible example of this trend has been the outsourcing of IT-operations.

However, some analysts argue that this is only the start of a much more fundamental paradigm shift. In the coming years, organisations will operate in a dynamic network of partners, continuously adjusting their relationships according to their evolving business needs. In one of our previous Views, we already briefly discussed this concept of the "[agile virtual enterprise](#)".

Whether this will really become the next successful organisational form is yet unclear. Nevertheless, it is obvious that such evolution will introduce a number of challenges for today's management teams. Some of these challenges have to do with partner management and risk management. However, this will also mandate the deployment of new approaches for communication and decision-making, as traditional approaches cannot cope with this new paradigm.

Let us take the example of the IT-outsourcing. One of the popular variants on this theme is the outsourcing of (parts of) the application development to companies based in less-developed countries such as India and China.

This is already a somewhat "proven" approach and the results seem to be good. Nevertheless, it is interesting to see that most management teams still prefer to go "on site" to finalise the contract. Given the travel time and the associated costs and the fact that all of this happens in a late stage of the negotiation, it is unlikely that this is really an action with a lot of added value. Still, seeing the business environment of the partner with their own eyes and discussing face-to-face with the other management team seem to be mandatory actions in order to build the necessary level of trust and to remove the remaining issues.

It all seems very normal and human, but it is not exactly the type of approach that fits well with the needs of our virtual organisation concept. Let me explore this a bit further by telling you about a recent personal experience.

### Beerbusts

As some of you know, I have spent almost 9 years of my career at Tandem Computers. Tandem has always been an organisation with a very open, communicative business culture. One of the more visible aspects of this culture were the Friday beerbusts, an outgrow of the heroic starting years when Treybig and his gang got together at the end of the working week for some chat and a couple of beers.

Later on, this tradition got exported to every new Tandem location and became a notorious part of the Tandem culture. Every Friday afternoon, at 4:30 PM, employees got together in every Tandem location world-wide for some informal chat and a drink before driving home.

Whatever the added value of this type of socialising, reality is that it created or reinforced something like a "Tandem feeling". Moreover, even after leaving the company, some of this feeling remained.

Therefore, it came as no surprise when, a couple of weeks ago, we (the ex-Tandem Belgium employees) got an e-mail from one of our ex-colleagues, with the suggestion to organise some kind of get-together-again party. We all welcomed the idea, so the only thing that had to be done was to make some practical arrangements regarding the date, the location, etc.

Now, getting an agreement on this does not really seem to be a major challenge. Two years ago, we already organised a similar party with a lot of success. Therefore, everyone expected that it would only be a matter of days to get things organised.

But we were wrong.

I won't go here into details on the sequence of events that finally led to this failure. As often, not properly setting expectations was the main reason.

However, a more interesting observation is the fact that our group's communication mechanism (e-mail and some phone calls) and the decision-making process (consensus, if not, majority) were both completely unsuitable to address the issues that emerged at a given moment.

In theory, there was not a single reason why the group wouldn't be able to agree on the practical aspects of this reunion. As said, there was a lot of interest and enthusiasm, and the few discussion points were easy to deal with. Unfortunately, our group did not have a suitable "method" to handle these issues. Consequently, initially small problems were not dealt with adequately and gradually became insurmountable obstacles. Exit beerbust.

## The virtual organisation

Above story is only a small illustration of the reality that each organisational form does require its own specific approach for communication and decision-making. In addition, it is also an illustration of what you might face in a virtual business environment. Indeed, our little ex-Tandem group has several things in common with a so-called virtual enterprise.

In such virtual business environment, a group of companies co-operates, on a peer-to-peer basis, to achieve some common goal. Of course, there will be some companies with a predominant position that play some kind of "lead role". In addition, there will be some formal and contractual agreements between the participating parties. Nevertheless, all parties remain independent and act according to their own strategy and business objectives.

Similar to what we saw in our little group, there is some kind of "common feeling". Here, it is the common belief to gain some kind of advantage by participating in this (temporary) eco-system of companies, although the type and the size of the advantage will not be equal to all participants. This means that the commitment of every party to achieve the common goal will vary significantly.

In a similar way, the interaction between involved parties will follow similar patterns as what we saw in our reunion project:

- Communication will be largely asynchronous, this for a number of practical reasons and also because it will often involve multiple senders and recipients.
- There will be a main stream of shared information, visible to all parties, but there will also be several parallel information exchanges between individual parties whereof the details remain invisible to the rest of the group.
- In general, communication to and between a group of participants will not be identical to the communication that would occur between individual parties.
- Decision-making is likely to be delayed by searching for unanimity or the necessity of a minimum quorum. In addition, the asynchronous nature of most communication further causes delay.
- All participating parties have a common objective, but also a private agenda.

- In reality, a network of parties always consists of sub-networks that all experience a higher degree of community than the global group.

So, these are only a few of the challenges we are facing while entering the era of the virtual enterprise. Addressing this with the mindset of a traditional management team will not solve the puzzle. Some examples:

Most of the previous points do introduce some level of risk. With a traditional approach, organisations will try to address or limit this risk, e.g. by adding specific contractual terms and conditions. Unfortunately, such approach does not fit well with the variable nature of a virtual organisation, neither with some of the basic objectives, such as speed of deployment and flexibility.

Moreover, traditional organisations will often try to reduce complexity and cost by limiting the number of partners. Once selected, this little group of (mostly larger) partners then remains the preferred choice for a longer period of time. Such approach is in direct conflict with the concepts of a virtual organisation where relationships only exist on a project-basis and recruitment is done in the widest possible group of (also smaller) candidates in order to create advantages of quality, cost, speed and innovation.

In addition, traditional organisations typically communicate on an "as needed" basis. They only share that part of the information that is really indispensable for the interoperation with the partner. In a virtual organisation, information sharing is the default mode of operation.

These are only a few examples where traditional management approaches are likely to be out-of-sync with the needs of the virtual organisation approach. In general, the challenges of a virtual organisation are unlikely to be addressed by traditional methods. Therefore, the deployment of a more suitable method must start by recognising and accepting the cultural differences that do exist between both approaches. Once this step is taken, it becomes much easier, even for an "old fashioned" management team, to develop a workable approach.

Adding contractual terms can reduce risks, but having a better process to identify and select potential partners can also reduce the same risks. Working with a small group of preferred partners that are willing to reduce their margins can reduce cost, but using the right partner for the right job will also reduce cost. Sharing of information does give us an uneasy feeling, but even in a traditional business context, there are ample examples where extended information-sharing created significant advantages of productivity, cost and innovation.

Therefore, all of these complex challenges can certainly be dealt with one way or another. However, the most important question to answer is whether you do need such type of organisational form.

Virtual organisations do not exist because they are sexy or "the latest and the greatest". Virtual organisations do exist because they are the best solution to address specific business needs. Typically, such needs do exist in dynamic markets that have a high degree of turmoil, complexity and technological evolution. If your organisation does operate in a completely different business context, then you might better stay out of it. After all, some informal chat and a drink can be found in many places, also outside the get-together reunions of your previous employer.

Have fun!

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