

# management news

FOR HANIEL GROUP EXECUTIVES

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## organizational fitness

OPTIMAL STRUCTURES FOR A COMMUNITY

**HANIEL**

# Finding a balance – forming networks

ENTREPRENEURS AS MANAGERS OF INSTABILITY



**A**t no other time in human history have communication and information become so instantaneously dense as today. “63 million mobile phone users in Germany” and “Latest fad in school: cheating by SMS” are the headlines. In addition, different networking technologies are networked to each other: mobile phone to PC to PDA to GPS – new standards create new opportunities.

### INCREASING DEMANDS

The density of connections on the internet is increasingly reminiscent of the networking in the human brain. Activities gain more and more impetus. A single person’s opinion can reach many million interested people within a short time. The Web is radically changing the information behaviour of people. Patients become engrossed in symptoms and amaze their doctor with detailed knowledge. Customers exchange views on the strengths and weaknesses of a product and drive salespersons to despair.

Psychologist and consultant Professor Dr. Peter Kruse described the consequences of these developments in his lecture. The environment is becoming more complex. Possible feedback effects increase the dynamics. Forecasts become nearly impossible. His conclusion: whenever networking increases explosively in density and complexity, nothing remains the way it was. Industry and society are undergoing a radical change.

### PROFOUND CHANGE – THE TSUNAMI EFFECT

What does this mean for companies? Performance and innovation pressure mounts. Protective zones cease to exist. The law on discounts in the German retail trade has been overturned, brand loyalty in the automobile trade has vanished.

Essentially four things are changing. Firstly, margins are dwindling away. Secondly, volatility is rising. Small niche players can rapidly grow in size and big global players can disappear from the scene just as quickly.

### HOW TO FIND THE RIGHT BALANCE?

- Agree on basic standards so you are capable of forming links at any time.
- Provide for an unobstructed flow of information so as to guarantee maximum transparency.
- Agree on binding values and rules in order to establish a company identity.
- Provide room for manoeuvre and give open-minded thinkers a special career opportunity.
- Do not rely on prefabricated concepts, but trust in the creativity of your staff.
- Create a strategic balance between stability and instability in the company.
- Bring the right people together with the right topics in a free exchange.



### MANAGEMENT SUMMARY

Increasing complexity, irritation and instability characterise the current situation in industry and society. The internet is changing our information and communication behaviour in a revolutionary way. Markets are transforming, customer behaviour is becoming unpredictable. According to Kruse, these challenges can only be tackled with networks.



“Unfortunately many people still believe: known distress is better than unknown joy.”

Thirdly, unusual business ideas are emerging. A grocer becomes a car dealer and a coffee roaster an insurance agent. Fourthly, customer binding is becoming a problem. The competition is only a click away.

The situation on the market can be compared to the Tsunami effect known in the field of geology. Tsunamis are created when a seaquake triggers a rapidly spreading shock wave. First the surface of the sea looks completely calm. However, when the shock wave approaches the shore, a wall of water reaching a height of up to 30 metres builds up in the shallow water within a short time. The energy released in this process is enormous.

#### **CHANGE BRINGS ABOUT UNCERTAINTY**

How do people deal with such changes? The answer given by brain researcher Kruse: “Typically people react with irritation and uncertainty.” Trend guru Matthias Horx proclaimed the economy of uncertainty for the year 2004. Companies attach increasing importance to risk management, employee loyalty drops. The ‘war over talents’ intensifies. And customers hold back on consumption because they are overtaxed by the complexity. How can companies reach people in this state? On the one hand, through simplification. Those who position themselves via the price are understood – the discounters demonstrate this. On the other hand, through feelings. A widespread misconception is that people are controlled rationally. Kruse: “Kindle feelings! When in an irritated state, people look for emotional stability because that is how the brain functions.”

#### **OFF TO UNKNOWN CONTINENTS**

Managers have learned how to steer companies in a stable condition. Kruse compares this to sailing to known shores – with precise targets and plans that can be implemented down to the last detail. At the same time the process is subject to a constant target vs. performance comparison. But how can a company be managed in unstable and complex times, what has to be considered on the voyage to unknown continents? The answer: self-organisation is an important aspect. Curiosity and fascination, a capacity to withstand pain and suffering and tolerance towards uncertainty are called for. The risks are always great and incalculable. The ship is only safe if it stays in the harbour. An important aspect in the management of instability is: small cause – big effect. Instable systems are highly sensitive. No one has development under control.

### STABILITY CAN ALSO BE RISKY

Why should one, nevertheless, agree to taking the risk of setting off to unknown continents? “If the environment fundamentally changes, the risk of stability is always greater than that of instability,” says Kruse. “The ultimate state of stability is death. Not only the dinosaurs have missed the boat in the course of history.” In the end every change occurs according to the same basic pattern. The process goes from stable to instable and back to stable. Kruse’s prognosis: in an increasingly complex world the management of instability will grow. “If you want stability, establish rules, symbols, identity, vision and information. In the wake of the disaster on 11 September the Americans intuitively celebrated their national identity. However, if you want instability, break the rules.”

### REDUCING COMPLEXITY

Stable or instable – do companies have to decide between these two states? No, what is needed is a viable balance. Always enough stability to be able to act; always enough instability to remain adaptable. However, who can establish this balance? Managers? On their own, it is difficult in a complex world. Teams? A team is very good for reducing complexity, but, on the other hand, it is not so flexible. The best answer, therefore: networks. Something that will be in demand in the future is network intelligence. “Bring individuals and groups together in a horizontal network,” recommends Kruse. Networks are by far the best answer to complex dynamics because they themselves have such dynamics. And the answer to network building on the market should be: network building in the company.



#### ABOUT PROF. DR. PETER KRUSE

As a brain researcher, psychologist and management consultant, Professor Dr. Peter Kruse has been examining the processing of complexity in intelligent networks for decades. As the managing partner of nextpractice GmbH in Bremen, he advises leading enterprises in all branches of industry on change management. Furthermore, Kruse is honorary professor for general and organisational psychology at the University of Bremen.

