

## 1. Participative management: From idealistic ought to economic must<sup>1</sup>

### Abstract

This paper traces the impact of social changes, economic forces, and managerial philosophies on the concept and practice of participative management during the 80's and 90's. It explores organizational disaggregation and the emergence of the network form of organization. It analysis the requirement of fit between managerial style and firm strategy, structure, and process and explains how new organizational forms are forcing the creation of new management approaches and philosophies, with participative practices becoming essential to effective performance.

### Introduction

In a paper prepared for a 1978 conference in Berlin, I brashly predicted that 'In twenty years or so . . . shifting market forces . . . will demand new organization strategies and structures, dependent in large measure on the wider utilization of the capabilities of all organization members. . . . Decision points will abound in such operations and the expansion of the number of members legitimately exercising influence will greatly modify traditional leaders-led

<sup>1</sup> This paper draws heavily from two sources. The first is a paper co-authored with W.E. Douglas Creed, (Miles and Creed, 1994). The second is my book with Charles C. Snow, (Miles and Snow, 1994). I am indebted to Professors Snow and Creed for their contributions to these ideas and their willingness to allow me to use them in this forum.

roles. . . . role change will become an economic must rather than an ethical ought (Miles, 1981).

Now, fifteen or so years later, my prediction, laid up beside the dramatic events of the past decade – and alongside the strident prescriptions of modern management best sellers (Davidow and Malone, 1992; Reich, 1991; Handy, 1990; Senge, 1990), – appears pallid rather than brash. Surging competitive forces (hyper-competitive according to some) have reshaped the global marketplace; new, complex, highly adaptive organizational forms (network organizations) are already in place and rapidly evolving; and participative management – including the design of greatly empowered jobs at the rank and file level and the development of self-directing work teams managing business decisions as well as operational requirements – is increasingly viewed as essential rather than optional.

Moreover, at least three major developments are occurring which go well beyond my 1978 forecast. First, there is a growing awareness that the management of external strategies is inextricably intertwined with internal leadership practices. Second, participative management concepts have extended across firm boundaries within networks. As a result, our concept of organizational development has now begun to include interfirm as well as intraorganizational process skills. Finally, a new philosophy of management appears to be emerging to define and rationalize the roles and relationships of managers and workers in the new network organizational forms.

In the following pages, I will first bring my earlier analysis up-to-date – the 1978 conference paper examined the interactive impact of social changes, economic forces and managerial philosophies on participative management only from the 1950s through the mid 1970s. I will then briefly describe the process by which environmental changes led to the emergence of the network organization. In the third section, I will use alternative network strategies to explore the new understanding that is emerging concerning market forces, organizational forms and leadership processes. Finally, I will illustrate the demands network organizations are placing on existing managerial attitudes

and behaviors and describe the shape of the new philosophy of management which appears to be emerging.

### Changes from the mid 70s to the mid 90s

In the mid to late seventies, the signs of declining productivity and effectiveness in many well known US organizations were already apparent and the growing power of European and Asian competitors clearly visible. Nevertheless, the speed with which the balance of competitive forces would shift and the impact of that shift on the long-term cost structures and profitability of US firms were not as obvious. By the mid 80s, however, the combined impact of foreign competition, debt-driven consumer spending, reduced investment in plants and processes, dramatic technological changes, and the removal of regulatory stability in the transportation, financial, and communications industries had completely changed the US corporate landscape. The average size of the typical fortune 1000 firm was significantly reduced by wave after wave of force reductions, not only at the rank and file level, but among middle managers as well. The managerial reductions were keyed not only to overall downsizing, but also to lowered needs for coordination and planning as firms sought to divest underperforming assets, refocus on core competencies and outsource low value added processes. Competitively lowered margins pushed firms to hold only those assets they could most profitably employ and to search for new technological and organizational solutions across the board. While virtually every firm took some actions designed to make it leaner, more efficient and more adaptive, many firms began to experiment broadly with totally new organizational approaches. Collectively, these experiments have become known as the *network form of organization* (Miles and Snow, 1992; Powell, in Staw and Cummings, 1990; Miles and Snow, 1986).

For some firms, extensive outsourcing along the value chain led to the creation of a *stable network*. The stable network consists of a core firm and a limited number of upstream and/or downstream partners linked in a long-term set

of relationships. While assets are separately owned and managed and interactions are driven by market forces, stable network partners recognize their interdependence and seek to provide high quality, customized goods and services, flexibly and efficiently. With firms in the network focused on their own competencies and managing more limited arrays of resources, overall costs are frequently reduced and response times significantly improved. A company such as Nike is able to produce and sell a wide range of rapidly changing athletic footwear and clothing products both cheaply and flexibly by utilizing a global network of suppliers and distributors, many of whom it had helped develop (Sports Illustrated, 1993).

In industries characterized by rapid technological and product innovation and change, e.g. electronics, biotechnology, the publishing and fashion industries, the experiments of many firms led to the creation of *dynamic networks*. The dynamic network consists of numerous firms arrayed along the value chain interacting temporarily with first one set of upstream and downstream partners and then another. A company such as Dell Computers interacts constantly with a wide range of hardware and software producers and distributors to deliver highly rated personal computer packages. Dell focuses on creatively packaging and assembling highly competitive computers and providing highly valued customer services (Tully, 1993; Emerson, 1993).

Finally, numerous US firms have sought to continue to hold a variety of interdependent assets, but to allow market forces to govern the flow of resources among them. In such *internal networks*, various supplier, producer, distributor, etc. units buy and sell not only with one another but with outside customers and producers as well. Corporate management's role in the internal network is to design and manage an economy, rather than make individual allocation decisions. For example, at Alcoa Separations, a division of Alcoa Corporation, almost 35% of R&D's budget is funded by work for external clients. At Clark Equipment, many corporate 'businesses,' including legal services, accounting, trucking, and data processing have been required to develop 50% of their business

outside and to earn their own costs of capital (Halal et al., 1994).

Today, network organizations, dynamic, stable, and internal are no longer the anticipated future, they are the leading edge of current practice. Clearly not all firms have or will transition to this new form, but virtually all will adopt some aspects of it. Networks, when they work, allow small firms to act large, to gain the benefits of efficient production by utilizing the specialized assets of an upstream or downstream partner. They allow domestic firms to act global, and global firms to accommodate unique country-by-country needs. Because they have the capacity to be both flexible and efficient, networks drive margins down while raising the level of product and service quality and overall customer responsiveness. A given firm may operate effectively outside of a network, but it must meet the new competitive standards being driven, in many industries, by networks and network derivative forms.

## Two types of network strategies

Implicit in the discussion above are two core strategies driving the formation of network organizations: (1) a cost reduction strategy based on finding cheaper, external sources of supply for many organizational goods and services and, (2) an innovation strategy based on creatively combining the distinctive competencies of several organizations to develop customized goods and services in a manner highly responsive to rapidly changing market conditions. The two strategies are not mutually exclusive, and indeed, frequently may occur and/or be pursued simultaneously. Nevertheless, we need to briefly explore them separately, because the priority with which each is pursued will, I believe, help explain both the long term success and failure of various networks and the future direction of participative management.

### *Cost-based Strategies*

Network forms driven primarily by cost-based strategies are most likely to be found in mature industries facing growing competition. Firms

which enjoyed oligopolistic security in the '60s and '70s were vulnerable to wasteful accumulation of plant and equipment. Moreover, as growth opportunities in traditional markets slowed, mature firms were frequently drawn into portfolio strategies with their accompanying expansion of middle and upper level corporate managers seeking financial and technical synergies across acquisitions. As noted above, in the light of growing competition and shrinking margins, underutilized assets and underperforming acquisitions became increasingly visible. Closing plants and outsourcing parts and components was a natural response, as was the divestiture of many subsidiaries. And, with a return to a more focused strategy, the opportunity was there to reduce corporate staff who now had fewer things to plan and coordinate.

In time, the cost reduction based network strategies followed by some firms produced cost reduction strategies across entire industry segments. Plant closures and outsourcing brought new players into the industry – the retreat from vertical integration lowered barriers to entry, often creating additional competitive pressure.

In health care, for example, excess capacity provides a cost-based opportunity for the creation of new care delivery networks. In other industries, small appliances, consumer electronics, clothing, etc., newly industrialized economies are coming on stream as suppliers of materials, parts, and components, providing a continuing source of low cost network partnerships.

In the long run, purely cost-based network strategies prove unstable and generally fail. Readily available sources of cheap supplies and materials are competed away – low-cost foreign producers ultimately become higher cost producers as demand drives up their prices and their own economies mature. In the short run, however, largely cost-based network strategies can and have created their own Schumpeterian engine of creative destruction, reshaping old industries and creating their own new set of social costs and benefits – what consumers and new entrants gain, existing firms and the workers and manager in them tend to lose.

### *Investment-based strategies*

While mainly cost-based network strategies can produce some real economic gains through the rearrangement of resources and the removal of unproductive management systems, the primary source of added value remains investment. Of course, investment can accompany cost cutting strategies in some mature industries – indeed, new, cost-saving capital investments may well be made by existing outsourcing firms and by new foreign and domestic suppliers. Moreover, the search for new managerial and consulting know-how to apply to the design of new outsourcing systems and approaches is a form of investment. Nevertheless, there are many settings in which the prime force driving network formation is competence rather than cost – the effort to utilize unique capabilities built through continuing investments. Such investment-based networks tend to develop most naturally in newer, high technology based industries.

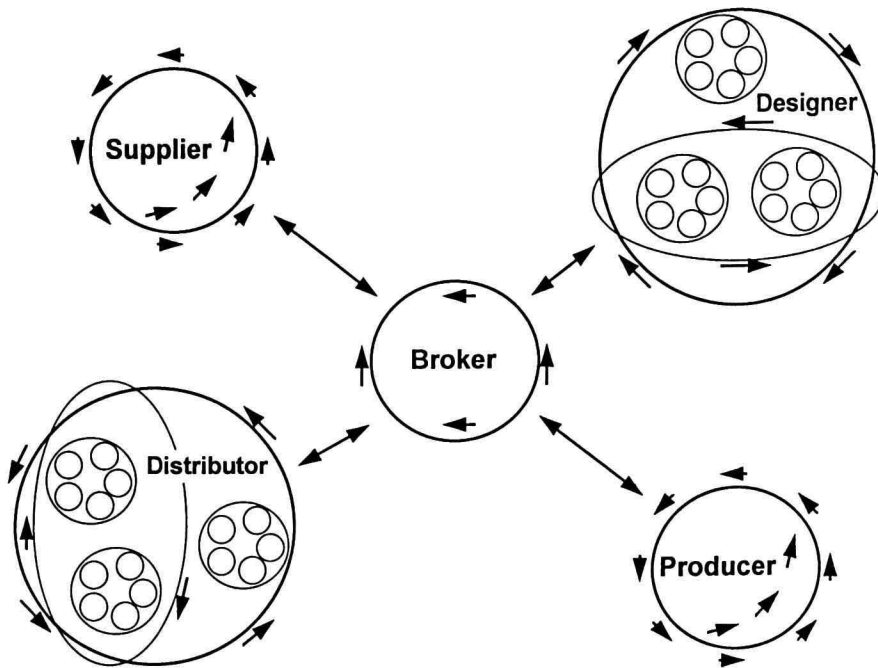
In new, high tech industries, firms collaborate naturally to share competencies along the value chain. Small firms with strong process skills seek out those with strong design capabilities. Even firms with similar strengths may well collaborate on a given product or service order, recognizing the value of sharing ideas and assets beyond those either one can presently hold. While proprietary concerns are real, in most high tech communities, individuals move from firm to firm with regularity and spin-offs are commonplace – the lineage of many firms can often be traced with near biblical precision to a relatively small set of common parents. Thus community codes and recognition of common sources of interdependence often make such industries natural breeding grounds for investment-based network strategies – strategies based on complementary linkages among firms who have each created substantive pools of assets, equipment, knowledge, and know-how by carefully focused investment in an area of distinctive competence.

In investment-based networks, firms are sought out for utilization not as the low-cost producer or distributor, but as the producer or

distributor with the skill level to match a particular product or service need. A designer of customized computer chips competes on the basis of expertise, not on price, and will seek out a producer for its new designs using the same criterion – investment-based competency. Similarly, a film producer seeks computerized graphics from a studio not on the basis of a cost advantage, but on the basis of a skill advantage for a particular need. Firms in such networks understand that their continued utilization depends on their ability to continually upgrade their own competencies. They also recognize that for them to succeed over time, their network colleagues must do the same – the ability to meet the rapidly evolving challenges of their industry is a requirement for all the firms in the network.

Mature industries can adopt a primarily investment-based network strategy. For example, small Italian textile producers have banded together to adopt common marketing approaches and to use common technologies – computer driven weaving machinery that allows numerous producers to rapidly adapt designs and share in the production of common large scale order (Johnson and Lawrence, 1988). Similar investments in flexible equipment and extensive technical training have helped mini steel mills collaborate with downstream partners to capture numerous niche markets for high quality, low-cost products. However, in the process of making these investments, such firms are, in fact, reshaping older industries so that they look and behave more like their younger counterparts.

Increasingly in network firms, internal and external investment strategies become commingled. Among high tech firms, Motorola in the electronics and computer industry and Novell in the interactive software industry follow investment-based network strategies. Both firms regularly help new upstream and downstream firms develop network partnering capability, providing not only technical assistance but often granting advance orders which give small firms the financial assurance needed for new equipment and training. In lower tech settings, Nike has provided technical assistance to numerous new suppliers without demanding



Source: Raymond E. Miles, & Charles C. Snow (1994). *Fit, Failure, and the Hall of Fame: How Companies Succeed or Fail*, Free Press, New York.

Fig. 1. Spherically structured firms in a network organization

exclusive buying privileges. Finally, there is a growing trend in the construction industry to invest in pre-project 'partnering' training to develop the problem solving skills and machinery to assist the various firms involved in large projects to coordinate their resources and settle disputes and claims equitably and efficiently.<sup>2</sup>

### Strategies, organizational forms, and management philosophies

In general, purely cost-based desegregation and networking strategies tend to contribute little to advanced management practice. Indeed, most cost cutting strategies are unilaterally imposed with little opportunity for feedback. Those

<sup>2</sup> The American General Contractors Association in Washington, D.C. offers a videotape to help train members in partnering skills.

managers and workers who are retained frequently have bigger jobs, but not necessarily better jobs – they are often simply stretched thinner in an effort to carry out the inefficient procedures previously handled by a larger staff.

However, in network organizations driven by largely investment-based strategies, a new managerial philosophy appears to be emerging, one which supports not only the innovative interfirm relationships essential to effective network performance, but also supportive to the development of the intrafirm management systems which are the necessary complements to the external linkages. That is, networks, like other organizational forms, demand a high degree of external-internal symmetry. A network firm can utilize the resources of upstream and downstream partners only to the extent that it can effectively link its resources with theirs. Clearly, those firms with the greatest flexibility, with the fewest hierarchical restrictions, with the most 'portals' for connection can link



themselves most creatively with other firms in a network setting. Indeed, most highly effective network firms have internal structures which feature collections of self-directing teams rather than centrally planned functional units – for example, work teams which can interact directly with upstream suppliers and design and marketing teams which can link directly to customers downstream.

As networks develop, each firm is pushed to enhance its own ‘connectability,’ and in the process, internal procedures are pushed further and further along the continuum for unilateral control toward broader and broader internal self-direction and self-control. In fact, we have recently characterized the internal arrangements of effective network firms as being more ‘spherical’ than pyramidal (Miles and Snow, 1994.)

The spherical firm can be approached at any point around its surface and has the capacity to either make an immediate linkage with internal resources at that point or the intelligence at that location to rotate the appropriate resources to the point for connection. Clearly, a firm can achieve this competence only by extensive investment throughout its systems to create broadly based, technical, business, and self-governance skills – skill levels that go well beyond the expectations of most current cross training models (we will return to this point shortly).

The necessary ‘fit’ between internal and external network design features has been highlighted by Vincenzo Perrone of Luigi Bocconi University (Perrone, 1992), who has done extensive research among Italian network organizations. However, his empirical observations are surprising only in their strength, not in their direction. Every earlier organizational form, as we have explored in detail elsewhere, has placed new demands on management attitudes and behaviors, (Miles and Creed, 1994; Miles and Snow, 1994). The functional form demanded that managers at least delegate short-term operating control to departmental specialists, coordinating them by central plans and budgets rather than direct supervision. Unless managers could accept this demand and ‘manage by exception,’ functional forms could not operate

with their anticipated efficiency. The divisional form demanded that corporate managers decentralize operating decisions to the divisional level and function primarily as allocators of resources and know-how based on divisional bottom line achievement, in line with jointly agreed on goals and objectives. Again, unless corporate executives could ‘manage by objectives,’ divisional forms tended to operate with all the costs of redundant, dispersed resources and none of the benefits of local responsiveness. In the matrix form, managers were faced with the demand to allow horizontal resource flows to occur through the interaction of project managers and functional departments and without extensive hierarchical review and approval. Matrix managers whose attitudes and behaviors could not accommodate these demands doomed matrices to costly coordination requirements that frequently destroyed their presumed benefits.

It is our belief, also argued extensively elsewhere, that the network form will flourish primarily in those firms whose managers possess or develop an accommodating ‘investment’ based philosophy, one which views human assets as the key element in a strategy of sustainable competitive competence (see Figure 2).

Managers in such firms will invest (as some already are) in ‘education’ for all organizational members extending far beyond all current existing and foreseeable requirements. Indeed, expenditures for current or clearly foreseeable needs are not investments at all, they contain little or no risk and may not give the firm the adaptive capacity that true educational investments may provide. A managerial philosophy supportive of such investments obviously places enormous faith in the learning potential of all organizational members and trust in their willingness and ability to use that learning for the future benefit of themselves and their colleagues, within the firm and across the network and/or the economy.

### **Some concluding comments on oughts and musts**

As we noted, not all organizations will adopt the network form. New functionally structured

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*Assumptions:*

1. Most people want to contribute and have untapped capabilities. They also have the potential to continually develop their technical skills, their self-governance competency, and their understanding of business issues.
2. Most people, both inside the network firm and across current and future partner firms, are trustworthy as well as trusting in their relationships. They can and will develop broad interpersonal and interorganizational communications skills with education and encouragement.

*Policies:*

1. The manager's basic task is to prepare the organization's human and technical resources to respond effectively and efficiently to current and future demands within the organization's scope of operation.
2. The manager must make both current and long-term investments in technical skills upgrading as well as general business and self-management knowledge for every organizational member.
3. The manager must give individual employees and self-managing teams every opportunity to practice new skills and exercise new knowledge; the manager must view human capabilities as a venture capitalist, investing in employees' long-term growth and developing competence.
4. Managers must be prepared to make investments in both technical and governance skills across organizational units within other network member firms.

*Expectations:*

1. Investments in human capabilities, including self-governance competence, builds adaptive capacity and creates a learning organization.
2. The more competent the manager's own organization, the more facile and effective are the network linkages it can make.

Source: Raymond E. Miles and Charles C. Snow (1994). *Fit, Failure, and the Hall of Fame: How Companies Succeed or Fail*, Free Press, New York.

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Fig. 2. The human investment philosophy

organizations, Wal-Mart for example, are still highly viable, as are purely divisional firms such as Rubbermaid, and matrix organizations such as Proctor and Gamble. And, not every firm which adopts the network form will have a supportive managerial philosophy, but it is our belief that network firms which enjoy long term success will – indeed they will have to, it is not a matter of choice. They simply will not be able to function within an effective network unless their managers' beliefs and behaviors accommodate its demands. But again, this has always been the case, it has simply not been as visible. That is, functional forms often failed to deliver because their managers over supervised, but

the costs were hidden internally. In addition, nominally decentralized and matrixed firms, in fact, were often micro-managed by corporate groups, but in a world of thicker margins, the added costs and lower benefits were burdensome but not destructive. In the network, a firm's inability to respond, to maintain its competence at the edge of the industry art, to contribute to its own and its partners' long term well being is not only absolutely essential but immediately and clearly visible throughout the network.

If a human investment philosophy of management is a 'must' in network organizations, is it a must in all forms? It seems likely that most

firms would benefit from increased investments in member skills, but it is not clear that all organizational forms can take equal advantage of such investments. Similarly, as suggested above, the cost of under-utilization of human assets may simply not be as visible or as immediately penalizing in other forms. However, overtime, highly effective network organizations will tend to raise the stakes for all organizations – to increase expectations for rapid, flexible, efficient performance. Thus, while managers in some firms may still view participative management and its supportive investments as ‘oughts,’ economic reality may ultimately achieve what neither government policies nor educational efforts have accomplished and make human asset investment and utilization a universally recognized must.

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