



THE INVISIBLE HIERARCHY

If you just look at a company's organizational chart to understand how it works, you are missing the point.

KAREN STEPHENSON, professor of management at UCLA and president of NetForm

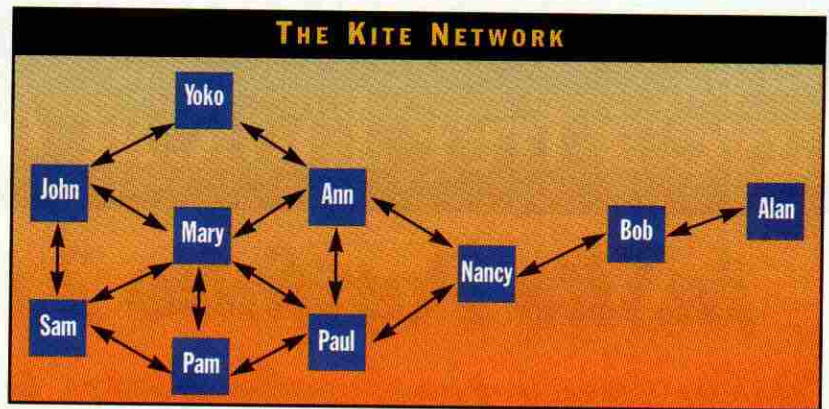
JPM: Much of your research has been on the informal networks that exist in organizations. Why are these networks important to a company?

Stephenson: The formal organization of a business is usually a hierarchy with the CEO at the top of the pyramid. Hierarchies show you where the power is, but often not how a company really runs. Networks are the unofficial, self-organizing structures that provide the paths for much of the communication and knowledge within a company. Network relationships are based on trust and depend upon the encoded and entrusted knowledge—usually face to face—to operate.

For example, when you get a phone call from an old friend you haven't talked to for years, it often seems as if you are just picking up from your last conversation. You have trust in that person, which taps into knowledge that you are probably not even conscious of and permits effective communication.

JPM: How do these social networks function in a business?

Stephenson: There are three pivotal positions in each network: the hubs, the gatekeepers, and the pulse takers. The hubs are the most highly connected individuals in the network (Mary in our example). Hubs have



the most direct ties to other individuals in the network. Gatekeepers (Nancy in the example) function as transition points between the hubs of an organization. A gatekeeper can either help or impede the flow of information. Pulse takers (Paul and Ann) are the most indirect links in the network. They are not sources of information so much as interpreters: indirectly influencing how information is perceived.

JPM: How valuable are these pivotal network positions in the way a company operates?

Stephenson: Networks are key in effecting change—especially rapid change—within an organization. If a company wants to implement a new policy, it should be sure that the hubs in its organization understand and support that change because they will be the ones who unofficially “explain” it to the rest of the staff. Also be sure that gatekeepers support the change, or the work flow between teams will suffer. Finally, once the change has been implemented, do a “reality check” with your pulse takers to be sure that the change is working well and has team support. By using the informal networks, even a company as small as 15 people can improve its internal efficiency.

JPM: What happens if you ignore the network?

Stephenson: If a company attempts to reorganize and institute new policies without the buy-in of the network, in many cases nothing happens, processes do not change. In other cases, a reorganization destroys a network, and work processes can deteriorate. That does not mean that you cannot promote someone who is a key network member, but that person must be given the opportunity to mentor another individual not only to do the job he or she once did, but to understand the subtleties of the network, key contacts, who to watch, and how to handle them. It is the nature of this pivotal individual's relations within the network that gets the work done. A company has to be careful not to destroy that. It is also important to understand that if an individual is promoted over his or her existing relationships, that person may become less effective in the network, but potentially more effective in the hierarchy. It is a natural yin and yang.

JPM: Are networks always beneficial to an organization?

Stephenson: Not always. Sometimes a network may impede work flow,

especially if there are not good connections between different hubs. Then it may be necessary to set up a line of communication between the two groups.

In other instances, if a negative network is undermining the organization, it may be a good idea to move or even promote a key network individual to limit or impact the network.

JPM: What functions does a network perform beside improving internal communications?

Stephenson: Networks are also a source of innovation in a company. Understanding networks and connections helps management see where ideas in a company grow.

Over time, networks learn what

works and doesn't work. And because there is trust among members of the network, they can make adjustments to improve work processes and match network-member skills with the work that needs to be done.

Networks are the opposite of bureaucracies, which are essentially dysfunctional hierarchies that work to preserve the status quo. Bureaucracies are based on power and status rather than on innovations, products, or services. The members of a bureaucracy often act as gatekeepers to prevent change. Innovation, on the other hand, generally exists outside of the traditional hierarchy or bureaucracy.

JPM: It certainly seems as if networks are important. How can a manager

understand the networks that are present in his or her company?


Stephenson: Over the last 15 years, I have been developing a software program for executives and managers that creates a graphic representation of a company's social network (see simplified sample). When executives or their managers are trained to use this software, they can map out links that send knowledge and ideas through a company. It will also reveal gaps in communication.

The first step is an employee survey to confirm ties and provide the raw data for the analysis.

The questionnaire asks four core types of questions focusing around work, expert knowledge, innovation, and social interaction. Questions are individually tailored to fit the goals and composition of the company.

Then data is analyzed using mathematical algorithms to create maps of the organization's culture and help companies harvest knowledge and innovation. It is a valuable diagnostic tool. Key members of networks may not be apparent without this mapping. They may be experienced or relatively new on the job and can have positions at every level of the hierarchy. Mapping and measuring give you a "hardwired" version of this soft, but very valuable, corporate asset.

Social networks are thousands of years old. Although technology has decreased face-to-face communication, the trust and sense of belonging to a group that networks represent is as important today as when our ancestors gathered at the campfire.



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	EXPANSION		VACATING	
	1998	1999	2000	
Floor 19	Strang & Strang 410000	Laughter/Beite 65000	Wheolo Group 30000	0 0 0
Floor 18	Porter/Prince 80000			0 0 0
Floor 17 <small>Major expansion - 5th year</small>	Leaky Consulting 100000	Leaky Consult 100000	Vacant 100000	Lindsay & Assoc 70000
Floor 16	Brentwood Associates 80000	Marshall Focks 70000	Martt Cinema 30000	1,995 0 9,306
Floor 4	Glax & Cohen 90000	Nelson 100000		0 0 6,212
Floor 3 <small>Argonaut expansion - 8th year</small>	West Block & Associates 10000	Meun & Beach 10000	Argonaut Publishers Corp 20000	0 3,104 0
Mezzanine	Santa Barbara Bank 100000	Kelly & Card & 50000	Sasannah East 100000	0 1,720 0
Ground Flr <small>ground floor, primarily for retail tenants</small>	Leasing Office 10000	Inside Cafe 10000	Black/Berner 10000	Fifth St/W 10000
	Car Insurance 10000	VACANT 10000	IBC Plaza 10000	Concier Office V 10000
Building Totals:	14,559	14,100	15,515	

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