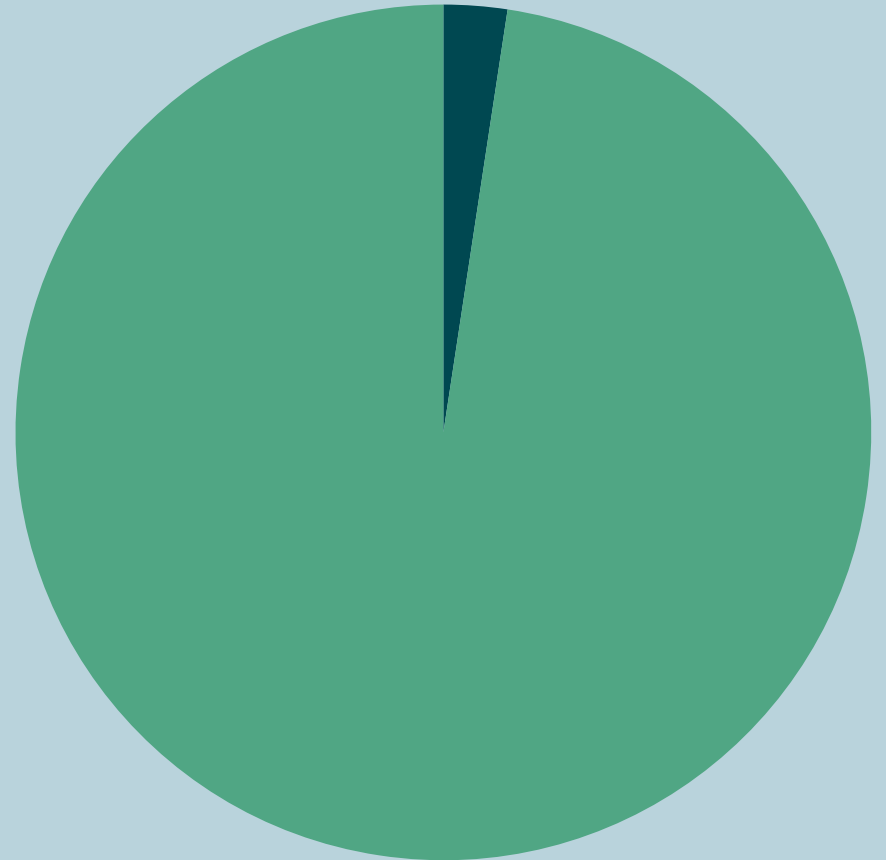


MAKING $1 + 1 = 3$

hierarchies and networks

Just **12%** of
companies that
comprised the
Fortune 500 in 1955
were still around by
2015.



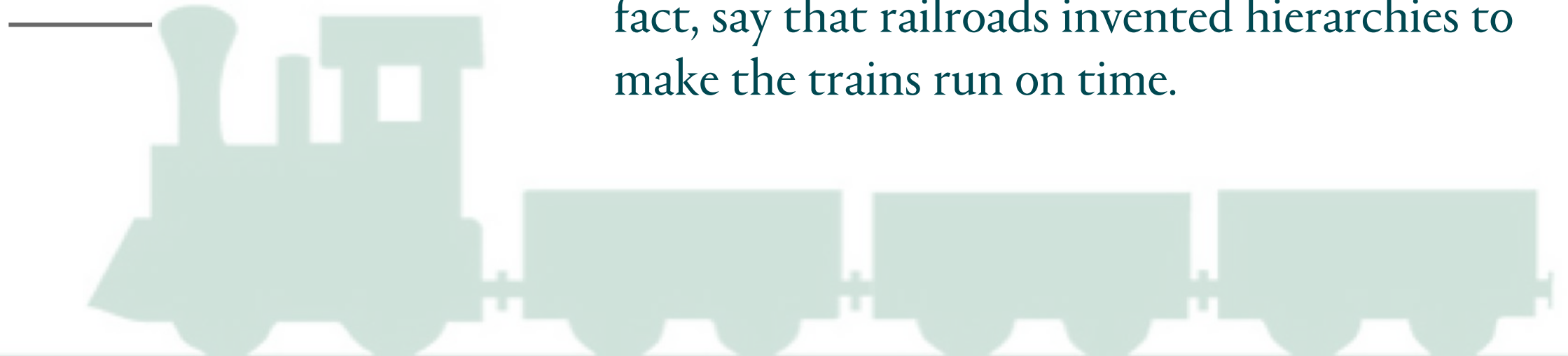
There are *many* reasons so few organizations endured: markets transformed, industries consolidated, business models evolved, new competitors arose, and so on.

Forty years of Harvard Business School research suggests, however, that one under-appreciated reason so many organizations faded is **they lacked the organizational structure to adapt to the world as it changed more and more rapidly.**

How can your organization avoid the same fate? Let's start by taking a look at the traditional business model...

Hierarchies

Since the late nineteenth century, companies have been organized into hierarchies. Big business was a new phenomenon in 1870 when America industrialized and laid railroad tracks. Managers developed hierarchies to administer the complexities of business' daily life. You could, in fact, say that railroads invented hierarchies to make the trains run on time.



WHAT ARE
HIERARCHIES
NOT DESIGNED
TO DO?

*pivot. innovate.
react. change.*

**SO...THEN ORGANIZATIONS NEED A NEW
STRUCTURE TO SUPPLEMENT HIERARCHIES?**

new structure...yes.



In a 2012 Harvard Business Review article, “*Accelerate*,” John Kotter, introduced the concept of a well-organized **network** of volunteers to assist an organization in more rapidly and nimbly adapting to fast-changing external and internal factors. Organizations need hierarchies to “run the business,” but networks can help “adapt and change the business.”

WHAT WE
DON'T MEAN
WHEN WE SAY
'NETWORK'

leaderless team.
boundaryless organization.
holacracy.

**RIGHT NOW YOU MIGHT BE ASKING: HOW DO I
REPLACE MY HIERARCHY WITH A NETWORK?**

you don't.

Organizations need *both* a network *and* a hierarchy.

They must work closely together to be most effective.
And the network must be organic, not strictly architected, to be authentic and encourage volunteer participation.

Through our research and our experience, we've found the two main pitfalls that **trip organizations up** when trying to implement a network approach:

1
COMPANIES TRYING TO *replace*
HIERARCHIES WITH NETWORKS.

2
COMPANIES *over-engineering*
THE CREATION OF NETWORKS WITH
PRESCRIPTIVE, FORMULAIC
APPROACHES.

We sometimes see organizations attempt the wholesale replacement of hierarchies as a prescribed remedy for the ailments within their structure.

Faced with a rapidly shifting market or a host of new competitors quickly gaining market share, leadership decides old management structures must go. They're then replaced by a "leaderless" or "collective" organization that "breaks down silos" and "empowers" employees. What results?

confusion. frustration. lackluster results.

The Zappos Story

Zappos began to implement a holacratic structure in place of a more traditional organizational hierarchy in 2013. This highly ordered network structure transformed 150 departmental units into 500 “circles” to accomplish the same tasks, but with the goal of enhanced collaboration and fewer silos.

While some of these goals were realized, the wholesale shift from hierarchy to holacracy generated considerable confusion among employees.

By 2016, frustration with the system led nearly a fifth of employees to leave the organization, fueled 30 percent turnover rate, and saw the company excluded from Fortune’s 100 Best Companies to Work For ranking for the first time in eight years.

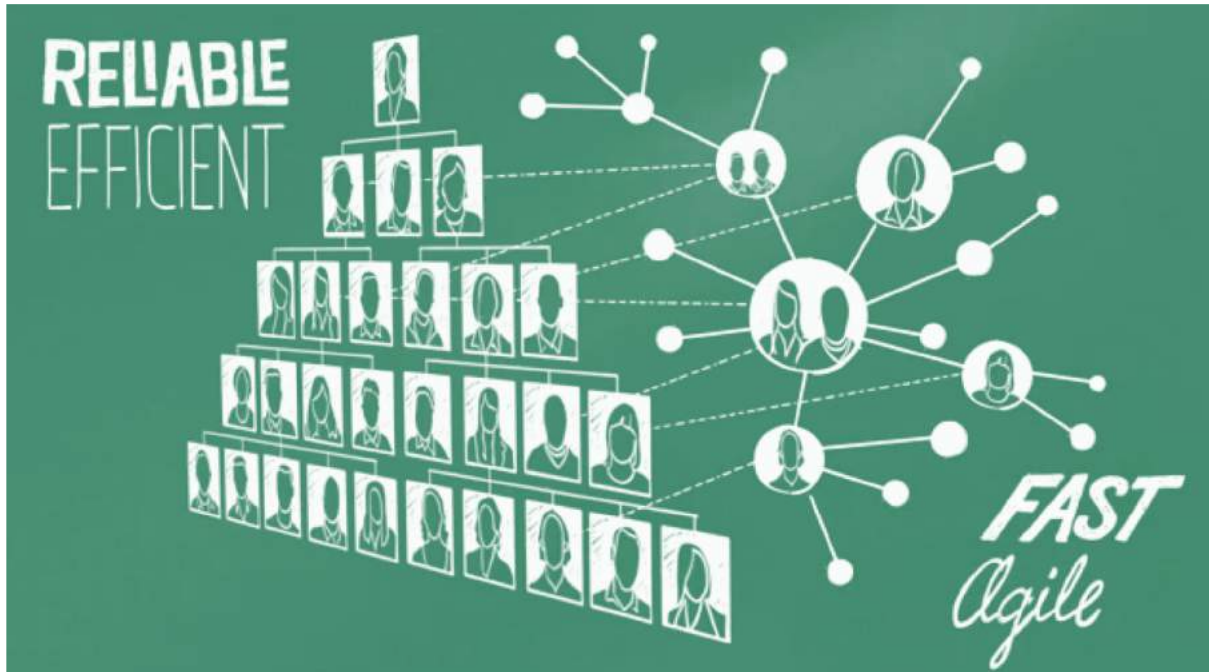
WHAT DID THEY GET WRONG?

they abandoned their hierarchy.

A silhouette of a hand holding a glowing orb against a sunset background. The hand is dark, and the orb is bright yellow and orange, matching the colors of the sunset. The background is a gradient of orange, yellow, and green.

THE IMPORTANCE OF “AND”

A network is not a replacement for the hierarchy. Most organizations today need a hierarchy to effectively deal with size and complexity. Where the real magic happens is through **leveraging** the hierarchy and network together to accomplish more than anyone believed was possible. Networks and hierarchies have inherently complementary strengths, so if organized properly to work together, they can produce results far in excess of what either is capable of achieving on its own.



Hierarchies are the product of nearly a century of management science. Their effectiveness in the day-to-day managerial needs of organizations has been proven to be unmatched.

Hierarchies do not pivot well. In many ways, they are designed to resist change, as most change introduces inefficiency and uncertainty – both of which hierarchies seek to minimize.

Networks, conversely, excel at tackling uncertainty and change. To get the best of both, the equation must be “both and” rather than “either or.”

**THEN HOW DO I CREATE A NETWORK TO
SUPPLEMENT MY HIERARCHY?**

look beyond the usual suspects.

Many firms today are happy to provide a blueprint that starts with defining the mission, delegating responsibilities, assigning strong team leaders and encouraging cross-collaboration among teams. And this can lead to better results, initially.

Yet this approach, driven top-down by an executive team and drawing heavily on known leaders will often lead to a highly-architected second hierarchy rather than a true network.

over-engineered networks can produce more bureaucracy!

Who Belongs in the Network?

Rather than assuming the answer based off title, tenure, subject matter expertise or those who have historically called the shots, you must ask, “Who is willing to go above and beyond the call of duty?” These are the people who should be in a network, but aren’t always.

By assigning leaders to the network from the same pool of executives leading the hierarchy (or *their* typical go-to appointees), you miss the opportunity to see who has the passion to raise their hand and step up to the plate in a time of possibilities.



CREATE CULTURE

rather than command change.

The network structure must come together organically, depending on the unique conditions of the organization, and not be over-engineered at the risk of simply creating a supplemental hierarchy. To accomplish this, you must focus more on creating a culture that supports network structures and empowers their agility (through active engagement, psychological safety and the celebration of short-term wins), rather than dictating network design, assigning team roles and delegating missions.

Senior leaders should tell the network what needs to be accomplished and why.

→ then trust the network to figure out how.

A background image showing a group of children playing basketball on a green court. A basketball is suspended in the air at the top center. The scene is outdoors with trees and a clear sky.

At their core, networks are collections of humans who freely choose to organize around a *common purpose*.

Even children on the playground are fully capable of deciding what game to play, agreeing on the rules and picking teams - all without undue adult supervision. All they really need is a safe place to play and permission to do so.

Not unlike this, networks within organizations are fully capable of a high degree of self-organization. All they really need is permission from senior leaders and a clear sense of direction to give them a shared purpose.

The First Step

To truly empower people to passionately raise their hand to get involved, you must consciously **create the conditions for networks to develop by purposefully jumpstarting a cultural shift.** By generating an environment that values entrepreneurialism, inclusiveness and volunteerism, you can build a culture from which networks can naturally and organically form and flourish.

While the hierarchy *runs* the organization and maximizes efficiency, the network *changes* the organization, enhancing agility and adaptability, and enabling the organization to pivot quickly in response to shifting markets or new competition.

These combined strengths create a potent competitive advantage - one that can help organizations thrive where others flounder, and generate $1 + 1 = 3$ results beyond what may initially seem possible.

When achieved, imagine how many more Fortune 500 companies today

... will be around in 2075?



The world's organizations turn to Kotter when they need to lead complex change.

Ready to learn more about leading change in your organization?

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