

Communicative Leadership

Modern leadership in value-creating networks

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Introduction

Communication is not visible, but it is noticeable. When it works well, one often sees dramatically positive effects, but it can be difficult to see exactly what has taken place. When someone tries to take credit for positive communication, critics are often quick to argue, “Sure, that went well, but you were helped by...,” pointing out that there were additional factors that contributed to the positive result at hand. When communication goes wrong, critics’ arguments are the opposite, “Look what you have done!” They want to appoint a scapegoat. The result is that positive communication is rarely rewarded, but faults in communication are often punished. Consequently, we rarely speak openly about communication, which is a paradox in itself.

This book is the result of a long research and education process that has focused on developing communication as an aspect of leadership. For me, this work began as early as the 1980’s, when I was a specialist in business intelligence. At the time, I found that it was difficult to predict how business intelligence influences organizations. Sometimes, special functions for businesses intelligence worked well and were a force behind preparations for societal changes. In other cases, companies would create ambitious monitoring functions for gathering information, but the more they worked on the issue, the worse things turned out for the company. In these cases, communication of intelligence caused various extreme reactions, including internal panic, dejection or false security –“We know what is going on out there, but it won’t affect us”!

In other cases, I saw companies with no organized business intelligence at all that were aware of what was going on around them and were able to conduct business wisely and proactively.

These experiences allowed me to realize that organizing a communicative activity doesn’t necessarily lead to the desired effect. The reason for this is clear: When a communicative process is started, it will always be part of an environment where all aspects of it contribute to the communicative situation. Thus, the effect of communicative measures is equal to the effect of the whole of the context that impacts that communication. As a result, communication can never be limited to being an instrumental issue, instead, it concerns creating a communicative whole.

The background to this book reaches nearly 30 years into the past, but my latest research project (Hamrefors, 2008), has been the most important platform for this book’s message. The research for the project has been carried out in the form of open cooperation in a knowledge network; nearly 1000 people have contributed to the development of information in some capacity. It is my wish that this book will function as an inspiration for practitioners and academics alike, and that it can contribute to making the ways in which communication can be used as a leadership tool more tangible.

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Outline

This book is meant to be a journey with a beginning and an end. For that reason, I recommend that it be read as such. It has not been my intention to create indisputable facts, but to provide perspectives about possible forms of communicative leadership in an increasingly interactive world.

In chapter 1 I present four basic factors of organizational institutions that exist in our way of viewing an organization: organizational operations, hierarchy, trust and networking. These are all components in our conceptualization of organizations as we enter the network society and create conditions for complex cooperative patterns.

In chapter 2 I cover the organizational theories that I consider to be the most meaningful for viewing organizations as communicative units. They deal with relationships between organizations and the world in which they exist. I observe that there are some theories which have been especially important, in particular those dealing with the tendency of organizations to create habits and define principles, as well as theories that deal with the importance of activities for creating perspective.

In chapter 3 I highlight the dynamic nature of leadership where being present at the organization's activities and participating in them are the most important components of effective leadership.

In chapter 4 I describe the new organizational environments that have been organized as networks for creating value. I discuss the demands that such an environment places on the performance of those involved and their ability to deal with the complexity of the network.

In chapter 5 I merge the content of chapters 3 and 4 and observe that, in a world where one must interact in complex networks, leaders must develop two types of communicative leadership: an ideological form that shapes the ability to communicate the role of the organization in the network and a contextual form enabling communication within the various relationships created by the network.

In chapter 6 I study the characteristics that must be developed by the organization in order to be able to create its own business opportunities rather than simply being directed to existing business venues.

In chapter 7 I turn from the organizational perspective to human cognition to examine which qualifications we have, as humans, for perspective-making. I find that we do this through our ability to categorize items in our memory and through our capacity for curiosity.

In chapter 8 I return to the organizational perspective and describe how combinations of organizational variables can give the prerequisites for different forms of perspective that support an organization's ability of business creation. I find that there is an optimal type of perspective formation; I call it the developmental perspective.

In chapter 9 I present a basic model for communicative leadership. This model is built on a chaos-theoretical perspective, which means that development occurs in a system where order interacts with chaos.

In chapter 10 I apply the chaos-theoretical model to communicative leadership. I find that this type of leadership should contribute to communication of stable concepts while stimulating variability in activities. I develop four conceivable roles for contextual leadership: system builder, mediator, coach and influencer.

In chapter 11 I discuss the dimensions of organizations in which leaders should develop organizational communicative abilities: processes, structures, social interaction and external relations.

In chapter 12 I look toward the future and ask how communication can contribute to the ability of an organization to create more radical innovations. I find that it is possible, but that it places even higher demands on communicative leadership.

Chapter 1

Organizational Development

An organization is a strange thing. Everyone has an idea of what an organization is, but no one has seen one. There are aspects of organizations that can be seen, such as the organization's name, trademark, leadership structure, board, employees or machines etc. Additionally, even though organizations do not exist as visible entities, from a legal perspective, we view them as persons. Consequently, organizations occupy an independent status in society and can enter into contracts; they have rights and obligations. However, even if organizations are seen as independent actors, they only exist as long as we regard them as existing. An organization that does not show a certain level of credibility will be put into question as an organization, at which point the confidence it needs to take its responsibilities ceases to exist. The social construction that comprises the image of an organization depends on certain basic premises. These premises have become so ingrained in our consciousness and our social constructs that they have become institutionalized. Additionally, the image of a given organization is affected by its surrounding environment – the context in which it is found.

There are several components that build our perceptions about organizations. I have chosen four elements that, I believe, form the lynchpins of an organization's traits as a communicative actor in its surrounding societal system. These elements are the notion of organizations as:

- Operative units
- Hierarchical structures
- Entities that instill trust
- Networking entities

Organizations as operative units

The idea of organizations as operative units can be traced back at least 1000 years to the region which is now Northern Europe. The society that could be found in there at the time had a relatively flat structure; the population consisted mostly of peasant proprietors. The absence of a strong government authority meant that people collected into cooperative project groups which consisted of people who lived near each other, as a rule. People created various types of teams to accomplish concrete tasks. The climate was fairly harsh and starvation and freezing were constant threats, so the people in each group did their best to fulfill their duties. The social structure that was created there can best be described as a type of "functional democracy" where anyone who could contribute was accepted. For those who couldn't contribute, the situation was bleak; it was no society for the weak. The Æsir beliefs that characterized this society also contributed to creating a culture with members who were achievement-oriented and willing to take risks (at death, one simply moved to another branch on the tree of life - Yggdrasil). Some of these farmers sailed to faraway lands to trade and conquer; we call these men "Vikings." Characteristic of the leadership in the Viking culture was that it followed an idea of functional designation. There was no single leader; instead, leadership changed hands according to the situation. If the group intended to sail a ship across the sea, the one who was best at navigation would be the leader; if they arrived in a town they wished to plunder, the best plundering expert would lead. There is an illustrative anecdote about this idea. It tells of Hrolf Ganger, also known as Rollo, and his Vikings as they sailed

up the Seine in the year of 911. The French King, Charles the Simple, was frightened by the Vikings' progress and worried that they might try to capture Paris. He sent a negotiator who suggested that they could instead have Normandy. Since this was an issue that affected each Viking in the group, the negotiator was obliged to deal with each one individually. He was successful; Normandy became a settlement for the Vikings and Hrolf Ganger was given the title of Duke of Normandy. King Charles might not have been as simple as his name implies. He understood that his proposal would lead the Vikings to create defenses to the north for France.

Thus, an operational organization is divided into functional units gives rise to the idea of an organization as a separate unit, apart from the physical persons involved in it. The people involved are only functions, not physical bodies. When this idea had taken root, the "company" was born as a social construct. As a result, the world's first shareholding company was created in Northern Europe – the Falu Copper Mine in Dalarna, Sweden. Mining the ore in the mine was begun as early as the Viking Age; by the end of the 13th Century the activities had been organized into a sort of company where shares in the mine could be bought and sold. The first known privileges were given to the copper mountain by King Magnus Eriksson in 1347. Later on, the company was called *Stora Kopparbergs Bergslagsaktiebolag* and exists today as part of Stora Enso.

Later, when England began expanding its domains to encompass an empire, the concept of the activity driven unit was carried throughout the world. The British Empire to a large degree became a trading empire, traces of which still can be seen in the commonwealth today. The Netherlands also contributed to the spread of this idea through its colonies.

The notion of organizations as operational units was spread throughout the world and contributed a great deal to preparations for the coming industrialization through Adam Smith's famous work "The Wealth of Nations" in 1776 (Smith, 1991). The foundation was laid for the social construct that defines an organization as a functional unit with a specific purpose through which it shows some type specialization.

Organizations as hierarchical structures

While Northern European society was a flat phenomenon, the societal structure in Central and Southern Europe was very hierarchical due to influences from the Catholic and Orthodox churches. According to their ideals, a stable world order was one where decisions are made and passed down from above. The religious notion of an omnipotent god-like figure created the feudal societal structure in which the sovereign became the profane incarnation of the religious god-figure. The idea of the omnipotent sovereign created a similar notion of organizations as stable constructions that are capable of housing various activities. Power games were among the most important activities for these sovereigns, as described splendidly by Niccolò Machiavelli in his classic, *The Prince*, first published in 1513 (Machiavelli, 1997).

Of course there were advantages to this form of organization. In the absence of a strong central government that could create order among the competing sovereigns, it created a type of security in that it could defend itself against aggression from other sovereignties. Other advantages were the stability itself and the ability to control complex systems.

The idea of organizations as hierarchical systems was spread around the world, primarily by the French, Spaniards and Portuguese during their colonial efforts. Later, the idea of hierarchy gained a global renaissance due to industrialization. When industrial organizations expanded during the end of the 19th century, the functional model was no longer viable. It became necessary to find ways to rationalize the decision-making process. As a result, it was during this time that the German philosopher Max Weber gained popularity with his ideas about organizations as rational bureaucratic systems in a free market (Weber, 1958).

Thus, the notion of hierarchy is ever present in the social constructs we call organizations. In more recent years, the notion of the “flat organization” has been put forth in order to counteract the stiffening influence of hierarchy on organizations, but it has been shown that hierarchies arise spontaneously in one form or another anyway. This indicates that the institution that we call hierarchy is here to stay and that it is one of the lynchpins of our way of seeing organizations.

Organizations creating trust

The relationship between leader and subordinate was not particularly trust inspiring in western organizations. In fact, most of these relationships were marked by contractual attitudes where the employer had a major advantage. These relationships became more extreme due to Fredric Taylor’s ideas about “Scientific Management” (Taylor, 1911), and through the way his methods were implemented by large industrialists such as Henry Ford. Later, this trend led to a counter-reaction in the form of the spread of Communism, among other things. Ruthless exploitation of people also led to protests, such as Charlie Chaplin’s critical portrait of the modern factory in the film *Modern Times*. Change did come, however; after the Second World War, personnel departments, whose mandate previously had been limited to paying out salaries were given new duties under the designation, Human Resource Management. These included taking care of personnel in order to create well-being and social capital. Though the inspiration for this movement came from many sources, it came primarily from Japan.

For centuries, trusting relationships between leaders and subordinates had been developed in Japanese society. These relationships were rooted in the Japanese feudal order, which was based on Zen Buddhist philosophies. According to their beliefs, all life is connected and the feudal lords, called Shoguns, were charged with caring for the well-being of their subjects. The responsibility was given to them by the emperor and was primarily a duty toward providing military protection. When Japan started the industrialization process during the mid 19th Century, those same traditions carried over into companies, which meant that they could grow to very large and stable units. The engrained trust also strengthened the loyalty between leaders and subordinates, which contributed to increasing efficiency. As a result, the conditions were created for large hierarchical organizations that were able to exhibit a better capacity for adaptation than their Western counterparts.

This view was adopted in the West and various communicative tools were created for increasing trust between employers and employees. Today, this set of circumstances is natural in most organizations. As a result, trust is here to stay as a basic institution in modern organizations.

Organizations as networks

Organizations have always cooperated in various forms of networks but the tendency has increased during later years. However, this type of cooperation in networks has not been the ideal; rather, the traditional organizational literature has stressed the importance of organizations maintaining independence from their surroundings. I will be returning to this later. At this point, I wish to focus on an important influence from China.

Chinese society was originally based on a Confucian notion that it is important for citizens to perform the tasks that have been assigned to them by the authorities. China was also a decidedly feudal society with an Emperor and feudal lords, called Mandarins, at the top. These lords were charged with creating as much value as they could for the Emperor. Thus, unlike their Japanese counterparts, they were not focused on the well-being of their subordinates, rather the opposite, resulting in ruthless exploitation of the people. In order to survive this environment families began to cooperate in various network constellations in which trusting relationships were formed that spanned generations. During the 18th Century, some of these cooperative agreements developed into resistance movements, called triads, which I will return to later.

As the Chinese have immigrated to other parts of the world, they have taken the habit of working in networks with them, inspiring others to do the same.

Context dependence

The four institutions which I have described have arisen in various contexts, but have spread through the world and are now established organizational institutions. However, local influence makes more of an impact than one might think. The same type of organization will develop differently depending on the local context. Thus, there is a general influence on organizational design which works more or less the same on similar organizations and a local influence that affects the design of the organization. To illustrate this point, I will use a very specific, distinctive organization as an example, the mafia. This type of organization is interesting from a number of perspectives. In general, mafia organizations are rational. There are few organizations which exhibit the same level of focus on their objectives as the mafia. At the same time, these organizations strive to be different from their contexts by having a business philosophy that is to be criminal. As a rule, they show a high level of innovation and entrepreneurial efficacy even if the value they produce is generally of a dubious nature. Considering these factors, one might expect the mafia to be wholly different from its context, but upon examination, one finds that they are also a product of their contexts.

Let's begin by looking at the Italian mafia, the most famous of which was formed in Sicily and is also the source of the term *mafia*, which has become the most accepted term for this type of organization. The feudal structure of Italian society was very instable; as a result, the feudal sovereign could not provide the protection they were charged with providing. This problem was particularly troublesome in Sicily due to their geographical location. Originally, the Sicilian mafia was created as a defensive organization, to create the protection that the higher powers could not offer the people. Because the mafia developed in a strictly authoritarian environment, it gained an extremely hierarchical design, a multi-tiered leadership structure with the highest boss, the *capo di tutti capi* or "boss of all bosses", at the

very top. As a result, the mafia developed as a local force which held the community in an iron grip. After which they began to concern themselves with diverse criminal activities.

The next logical step after the Italian mafia is to describe the American mafia, which formed due to immigration by people from Sicily who met with immigrants coming from other countries in the melting pot which made up American society. The meeting with Irish and Jewish immigrants was a particular influence that brought with it the concept of operational organizations. The two institutions of hierarchy and operational utility blended into a new type of mafia organization that concerned itself with business operations. Paradoxically, their businesses created more than misery, some actually benefited society. One example is the development of Las Vegas. The entire project was run by the American mafia, in particular a very entrepreneurial mafia member, Bugsy Siegel. What has happened since is that mafia businesses in the US have become more integrated into society as they have become increasingly transparent.

Moving on from the American mafia, we turn to the Russian mafia. It has been very much inspired by the American mafia and it is business oriented, with the key difference that Russian society has a weaker base concerning institutional norms for ethics. Further, Russian society has not developed the transparency of American society, which means that the Russian mafia does not have the same inhibitions about sources of income and tend to be very violent. There is an aspect of the Russian mafia that is quite unique, its ethnical orientation. Each mafia group in the Russian mafia has its own ethnic identity. This comes from the Russian tradition that ethnic groups tend to stick together due to the fact that for hundreds of years, in actuality nearly a thousand years, Russian society has had difficulty feeding its people. As a result, people have worked together with those closest to them to survive.

The Chinese mafia comes from the Chinese tradition of families cooperating to create value together in Confucian spirit. The triads which were formed began to participate in criminal activity successively and lead to a global mafia organization with very efficient forms of cooperation and high productivity that is able to remain nearly invisible to the rest of society. For hundreds of years they have practiced hiding their activities from the view of sovereign forces. This is what makes the Chinese mafia so inaccessible and feared.

Finally, I will touch on what is possibly the most interesting mafia organization of them all, the Japanese Yakuza. It consists of groups of men who, for various reasons, hold a lower status in society. Members of the organization show their membership openly; a Yakuza member is tattooed over his whole body and has a shaved head. This Japanese mafia is as complex as the large Japanese companies and has a strict internal moral code. Additionally, the Yakuza is just as institutionalized as all other businesses in Japan. A remarkable occurrence which illustrates this fact is the earthquake in Kobe. In the rest of Japanese society there was a dominant expectation that Kobe would not be hit by an earthquake. So when it came, Japanese society became paralyzed because so many people had "lost face." As a result, aid work did not commence, except that which came from one group – the Yakuza. They ran brothels and gambling halls in Kobe and were on site with blankets and soup for people the day after the quake. The reason, of course, was that they reacted much more rationally than the rest of the society. They hadn't been involved in any discussions about earthquakes, so when the Kobe earthquake occurred, they were able to acknowledge the fact that they had to act quickly to build up their organizations again. The logical starting place was providing blankets and soup to the victims so they could start working.

This digression through such an unusual organizational form as the mafia was intended to show that all organizations are context dependent. However eccentric one wishes to be, we are still children of our time. At the same time, one must be a bit different in order to avoid being completely without image. Thus, the secret to good leadership is being able to guide one's organization within its context in a way that provides the best exchange with that context. To illustrate this idea, we will make another digression into theories concerning how organizations work.

Chapter 2

Organizational Theories

There is a rich flora of theories on organizations; the purpose of this book is not to provide a complete selection of them. Rather, I have chosen those theories that I believe have relevance for communication issues.

Institutional theory

I have already touched on this theoretical structure through discussion of the term *institution*. The basis of institutional theory comes from sociology and the fundamental element of an institution is that people create reality through social interaction. Using the sociological point of view, we humans create rules and perspectives surrounding our identity and how we should act. A leading figure within institutional theory is Professor Nils Brunsson (Brunsson 1989, 2006, Brunsson & Olsen, 1993); this review is based to a large extent on his theories.

As described previously, there are several social constructs that influence our view of organizations. One very strong institution that has long been dominant is the notion of *rationality*, which emerges from the perspective that organizations are operational units. Consistent with this basic perspective is the economic perspective, which is built on the notion that participants in an economic system act according to three basic rules:

1. They endeavor to maximize their profits.
2. They can only influence their own production function (because price is determined by the balance between supply and demand).
3. They all have perfect information about the market.

The strange thing about this perspective is that while no one acts strictly according to these rules, there is no other theory that better describes the cumulative behavior witnessed. It seems then that the economic perspective has created a reality rather than describing one.

For this reason, rationality is a rule which permeates our view of organizations; its greatest function is to serve as a norm for businesses operations. It describes a conceptual ideal situation which cannot quite be found in reality.

Hierarchy is also a term that we have attached to the notion of organization. At its foundation, it is a concept that describes *power* and it is a very strong institution. No matter how one tries to create organizations based on equality, power structures arise spontaneously just the same.

There are many rules that regulate our view of organizations; there are general ones such as rationality and power as well as ones that are specific to particular situations. The more general rules are often stronger and the more situational ones can vary depending on the times. Further, there are more stringent restrictions on how people talk, than on what they actually do. A difficulty with rules is being able to follow them strictly so organizations tend to disengage what one does from what one says. Accordingly, there is room to influence others by communicating differently in different contexts. As a result, activities between participants do not follow the rational rules but are instead the result of interaction between many different rules, a fact that makes communication very complex.

Consequently, the institutional view gives an image of leadership in organizations being very complex as a result of the fact that one must run several communicative processes with different content parallel to each other while maintaining a common denominator. Here, rationality works as an institution according to which one must behave, for example a dream that can lead to improvements. In reality, organizations cannot be entirely rational but they can become more rational than they are at the moment.

As an institution, rationality is often coupled with another institution which has grown stronger during recent years, the concept of entrepreneurship, which originated in France several hundred years ago. At the time, French society was marked by a feudal, hierarchical structure as described above but the northern area was dominated by the more rational operational culture. This proximity subjected French activities to comparison with the efficiency shown in similar organizations to the north. As a result, those in power created a new role, the entrepreneur. This person was charged with carrying out activities for which those at the top of the hierarchical system were responsible. In essence, it was an attempt at implementing increased rationality into the system without having to disrupt the stability of the hierarchical system. Entrepreneurship became an increasingly separate institution over time. The effect of the entrepreneurs on the economic system was observed scientifically by Austrian researcher Schumpeter, who viewed entrepreneurs as innovators through “creative destruction” (Schumpeter, 1934). Today, entrepreneurship has become an institution on all levels; the term is discussed as a type of behavior that can be found in all kinds of contexts.

Again, institutions are the ideas we hold about reality that create reality themselves. These can apply to anything and can cause people to take certain relationships for granted. It is for this reason that all forms of social constructs, from general impressions and rules to concrete institutions, have such a strong influence on how organizations communicate internally and externally.

Theories on external dependence

Of course, institutional theories are theories of external dependence, but there are theories dealing more concretely with this aspect. These are theories that describe how organizations depend on their environments from an operative perspective.

One such group of theories describes how organizations become dependent on external resources. Pfeffer & Salancik (1978) describe this as an organization adapting its structure and processes according to the opportunities that are available in their market. American researcher Michael Porter (1985) took this perspective a step further and described how companies should form their strategies according to the principle for reaching maximal negotiating strength toward different external forces in his 5-Forces Model. Porter suggests that a company should base its own value chain on knowledge of its possibility to adapt to its surroundings and restrictions. The ultimate consequence of this view is that organizations are entirely at the mercy of their surroundings, which may lead to a one-sided industrial structure. This phenomenon is called the Dutch Disease due to its discovery during the 1950's when the Netherlands' massive income from natural gas caused activities that were not directly involved in natural gas to be forced to the side in the economy. This effect is particularly notable in countries with one-sided dependence on a particular resource. It might be a natural resource, (e.g. oil production), a production resource (e.g. automotive production) or some other resource that produces a one-sided dependence.

Another interesting aspect of this external dependence is the phenomenon of successive acclimatization. It occurs when an organization acts in a certain way towards its surroundings resulting in formation of a network of mutual dependencies that create a tendency to act in a particular way which lasts long after the conditions for acting in that way have ceased to exist. This is called *path-dependency*, a term that was introduced by economists in the 1950's, particularly Edith Penrose (Penrose 1959). This dependence can mark an individual organization or an entire industry. One example of path-dependence is exemplified by the development of the western auto industry, the problems of which are first-page news as this book is being penned.

The western auto industry's production logic can be traced to Henry Ford's car production in 1908. His method, which I describe in more detail below, was the dominant method for producing cars for about 50 years. Additionally, despite the fact that relationships have been different for many years, there are certain dominant automakers which have avoided being affected by the changes specifically because they have become prisoners in their own path-dependency. The larger and more dominant one is the worse path-dependency tends to be; one tends not to see when a winning concept has turned into a losing one.

The past ten years have shown the arrival of a mass of theories on organizations' external dependency that examine the reverse situation. In *Blue Ocean Strategy* Kim and Mauborgne (2006) present the idea that companies can create their own success more effectively through breaking new ground and not becoming dependent on present conditions. According to their view, a successful strategy is more about creating a new reality than adapting to an existing one.

Structural theories

Structural theories attempt to explain how organizations' structures are formed. A group of classical theories on structure fall under the label *contingency theories*; these are theories on situational adaptation. According to these theories, an organization's structure is a question of correspondence between the structure of the external world and a company's own structure (Morgan, 1986). The external structure can vary from stable to turbulent (Lawrence & Lorsch, 1967), and can be changed by various factors, such as technological shifts. Organizations' methods of adapting can also vary greatly, for example by differentiation of internal assignments (Perrow, 1986). Thompson (1967) developed the term *task environment*, inspired by Dill (1958), meaning an environment over which the organization has some influence. It is in this area that organizations meet their daily challenges (Pearce & Robinson, 1985). The method an organization chooses for interacting with its task environment affects its strategies for navigating to gradually new task environments (Bourgeois, 1980). The term also relates to the term *enacted situation*, referring to the domain of an individual's actions, which I introduce in chapter 8.

The predictability of the external environment plays a major role in theories concerning situational adaptation. If an organization cannot predict changes in the world, its efficiency can profit from built-in structural flexibility in that will protect against threats and allow it to take advantage of business opportunities (Tuggle & Gerwin, 1980).

Another group of theories focuses on the idea that the structure of an organization is built on gradual internal development. Sociologist Anthony Giddens has developed this concept using the term *structuration* (Giddens, 1984), pertaining to the idea that an organization's structure develops successively through the interaction that occurs between its members. Activities lead to decisions being made and to measures being implemented for developing the business. The combined effect of all these measures leads to a structure that has been more influenced by its various parts than by any comprehensive strategic idea. When the structure has grown it will affect continued development and lead to certain opportunities that had been experienced in the past being limited, while other past opportunities disappear. There are similarities between this view and the theories on path-dependence. In this particular case, one can discuss structural dependence. Further, structuration affects communication. If structuration has become homogeneous and strong in the organization, all information will be processed according to set rules, a situation which can lead to decisions being made based more on the chain of decision making than on the actual content of the information. In turn, this can lead to the wrong decisions being made. However, if structuration does not entail rules that are quite so imperative, it can lead to more efficient chain of decisions since it leads to rapid, flexible processing of information.

A special situation occurs when structuration is partial that results in sub-groups with different focus formation within the organization. Coalitions are then formed that can be driving forces for communication of various issues. Also, a power struggle may arise between groups, the results of which will influence change. The coalitions' definitions of problems have a great effect on the result, which in turn affects the organization's ability to create value within its present and future domains (March, 1991, 1999).

Structuration is a force affecting organizations' ability to change their environments, just as it affects their ability to allow themselves to be changed by the environment. For this reason, it is an important factor to consider during formation of organizations' external relationships.

Another group of structural theories deals with organizations' contract structure. The recent Nobel Prize winner Williamson (1985) has described organizations' structures as a function of contract structures that contribute to more efficient decision making. In a market, all relationships must be negotiated, but within an organization, these agreements can be created as a stable network; cooperation then becomes more rational and efficient – one need not negotiate everything over and over again, the conditions are already given. This type of theory builds on the trust-creating effect that was covered above.

Process theories

Another group of theories describes how processes are affected by technical and organizational factors and by the environment in which they exist. The collective term for these theories is *operations management*. The central idea is that certain activities build a certain type of delivery system, depending on whether what is being done can be duplicated or not. Knowledge-intensive consulting services tend to be performed differently each time they are supplied while, for example, natural gas and gasoline are supplied the same way every time. Hill (2004) describes organizations' processes being a function of the delivery systems which are possible as well as the market where the given company finds itself. Often, functional divisions must be created according to the traditions of business activities described above. On one hand, this kind of functional division creates opportunities for

specialization and streamlining, on the other hand, however, it can contribute to the inability to respond to the demands of the business environment. For this reason, it is important that transformation of resources is made according to a strategy that allows for the most efficient value creation (Roos et al., 2005).

Activation theories

The traditional view of decision making has long been built on a technically oriented, rational thought model. This model originates in the idealization of the rational decision maker who works sequentially and creates order (Ansoff, 1984). According to this view, decision makers at first find out all about the existing alternatives, weigh these against one another and finally make an intelligent decision by choosing the best possible alternative. Much of the research during the past 30 years has focused on scuttling this view; it is obviously not without its faults. While it is true that certain decision makers are better than others at understanding the complexity in a given decision making situation, the ability does not necessarily depend on whether an individual has taken a long time to weigh all the alternatives.

One researcher who has done a lot to bring clarity to how decision makers can develop their abilities is the social psychologist Karl Weick. He proceeded from another model that builds on the idea that the degree of activation that one has in a situation provides the basis for judging it. Weick coined the phrase *enactment*, meaning activation that affects reality in a situation. Weick (1979, 1995) suggests that decision making occurs in a cooperative situation between inner psychological driving forces and external stimuli. It follows that thought and actions are two processes occurring parallel to each other. Consequently, action does not follow thought, everything occurs in an interwoven now-experience.

The importance of activation is supported by what is known about the importance of *tacit knowledge* in decision making (Polanyi, 1958, 1967). Tacit knowledge is knowledge that a person holds but cannot express. Often, the individual is not entirely aware of its existence. Such knowledge can therefore only be evidenced when a person is confronted with situations where it is of use. The major part of knowledge that humans use in decision making is tacit knowledge and activation is an important triggering factor for its use. In a later section I will provide a possible explanation for how such tacit knowledge is amassed and used in situations where it is activated.

Much of the modern research on decision making is influenced by the view that enactment is the triggering factor for decision making and, therefore, for leadership. The theory on communicative leadership presented in this book is no exception.

Theories of organizational memory and epistemology

Organizational memory, defined as a system of interpretations of reality, is stored in the organizational structure (Walsh & Ungson, 1991). It is an evolutionary effect of the common notion that is the product of the variation of individuals' interpretations of reality (Daft & Weick, 1984). Because this organizational memory becomes absorbed by the organizational structure, it is no longer limited to the memories of specific individuals and continues to develop even when members of the organization are replaced (Weick & Gilfillan, 1971). Organizational memory can affect individuals in an organization in several ways, including

affecting the formation of their perspectives. In principle, the mechanism that creates meaning can reach individuals through all types of processes, but the most important processes are those built into information storage and conveyance (Simon, 1976).

In theories on organizational autopoiesis (Roos & von Krogh, 1995), cognitive change in individuals is the result of concepts' reproductive mechanisms that have been stored in the organizational system (Varlea, 1979; Luhmann, 1986; Van Twist & Schapp, 1991). Knowledge in organizations takes the form representations of reality that create perspective; these are produced and owned by individuals and not by the organizational memory. In theories of autopoiesis, organizational development is viewed as an effect of the system's own ability to transfer knowledge between its members. According to von Krogh, *et al.* (1994) this ability is dependent on the appearance of knowledge connections that are made up of language usage, an epistemology that has been formed in the organization. This language is not only meaningful for how an organization's members categorize occurrences in the present, but also for categorization of future occurrences (Luhmann, 1990). In this way, a common frame of reference is created which also entails that certain parts of reality are not observed (von Foerster, 1982). These constitute a type of blind spot. According to Luhmann (1990), only people who come from the outside are able to interpret the meaning of these areas since there is a collective blindness for them within the organization.

In light of these theories, it is clear that organizations create frames of reference and grounds for interpretation that affect formation of perspective and which are connected to the concepts and expressions that will be dominant in the organizational culture.

Chapter 3 Leadership

Leadership is a difficult concept to capture because it doesn't lend itself to routines or categorization. The effects of good leadership are clear, however, just as the effects of bad leadership are. In preface to the analysis of leadership that I will perform here, I provide two examples of good leadership. The first was related to me in a reflection by one of my course participants in "Communication Executives Program," Erika Brundin, who works as the development manager for the Church of Sweden and describes a spontaneous occasion of leadership during a crisis on an airplane.

On the morning of December 27, 1991, Danish captain Stefan Rasmussen welcomed 128 passengers onboard flight SK751, Scandinavian Airlines System, Dana Viking, a McDonnell Douglas MD-81. The plane was headed for Warsaw after a stopover at Kastrup in Copenhagen. It was a cold and snowy morning and the deicing trucks circled the plane to remove all the ice. Visibility was low at Arlanda and there was only one passenger sitting right next to the wing who saw the icicles that the deicing trucks hadn't quite removed.

Forty seconds after takeoff, warning indicators began to blink in the cockpit. However, no warning lights were necessary for the passengers to know that something had gone terribly wrong. The loud bang that resounded when the icicles broke away, entered the engines and damaged them was impossible to misinterpret.

Per, who was a pilot and flight instructor, was among the passengers that day. He realized immediately that the plane might have been about to crash. Due in equal amounts to training, instinct, courage and personal incentive, he left his seat and walked to the front of the plane. Per approached the pilots in the cockpit and played a role there that saved the lives of 128 passengers and the crew. He found half-panicked pilots who were searching hysterically among all the lamps and indicators, turning switches on and off and trying to restart the engines. Per's voice is heard repeatedly on the audio from the black box. From behind the pilots, leaning over them in their seats, saying, "Look forward... Fly the plane... Look forward, watch where you are flying... Fly the plane... Look forward. Fly!"

After a few tumultuous minutes in the air, the plane was back on the ground, broken into three sections leaving a lane of broken trees in its wake. A shocked group of people stood in the middle of a snowy field that cold December morning. The passengers were evacuated and the crew did a count. The people applauded when Captain Rasmussen announced that everyone had been evacuated from the aircraft and that everyone had survived. Someone ran to a house nearby and called emergency services. The couple living in the house made coffee for everyone. A tragedy had been avoided.

The inquiry commission later established that insufficient deicing had caused the accident. Icicles had destroyed the engines when they fell off and were sucked in during ascent. The investigators established as well that Per's role in the emergency landing had been as important as the pilots'. In the hard-pressed, multi-stimulated situation the pilots found themselves, a calm competent person came in and helped them to do what they knew how to do best: fly the airplane.

The second story comes from an interview I did with a person who has been the commander of a Swedish peacekeeping force in Bosnia.

The preparations for the mission had been rigorous; everything was organized down to the smallest details. Routines were established, duty descriptions were prepared; everything was planned.

The mission was organized strategically and the troops were placed at points where they would serve together with the other peacekeeping forces. The troops were integrated with each other and the mission was quickly integrated into the environment, which by definition was a war so it was generally chaotic.

The commander organized his own activities according to plan as well, establishing a command center at a suitable distance from the field. Orders were given through a planned chain of command and everything was functioning as it should. After a short time, however, it became clear that something was missing. The commander felt a lack of reliable feedback about what was actually happening in the field. However, he followed the same routine during the next few days, orders were given and relayed while the lack of feedback became increasingly problematic.

It was then that the commander got in his Jeep and drove out to the soldiers at the front. He found troops in crisis. The soldiers had been isolated in their own world that was more integrated into the world the warring parties found themselves in than the world aimed at peacekeeping. As a result, the forces that were supposed to be keeping peace had begun to engage in war themselves. Chaos had taken over and shifted focus from the peacekeeping mission. The commander decided to close his command center and work from the front lines among the soldiers. During 2½ years, he traveled the front lines and preached the message of peacekeeping in order to prevent chaos from taking hold in the conscious of the soldiers. He participated personally in peacekeeping duties such as removal of mines and negotiations with the warring parties.

His command exercise was successful. To this day, the soldiers who served under him talk about the legendary leader who created meaning for their mission.

These two examples show the inner spirit of leadership: it occurs in the present and fosters understanding of the purpose of the activities at hand. With that in mind, let us perform a more detailed analysis of the essence of leadership.

Leadership, in contrast to management, is characterized by exercising influence over others' work in a way that develops the external effect of the organization. Leadership is broader than management and can only be judged according to the effect that it has on the organization's efficacy in its environment. This is generally described using the term effectiveness.

Management is influencing others' specific work tasks and relates, therefore, primarily to the actual efficiency. For this reason, it is easier to measure the efficiency of management than of

leadership. Hence, leadership is associated with a genuine and immeasurable uncertainty, while management is associated with measurable uncertainty.

Tyrstrup (2002, 2005) has noted a distinction between leadership and management using two dimensions, the degree of uncertainty and time perspective.

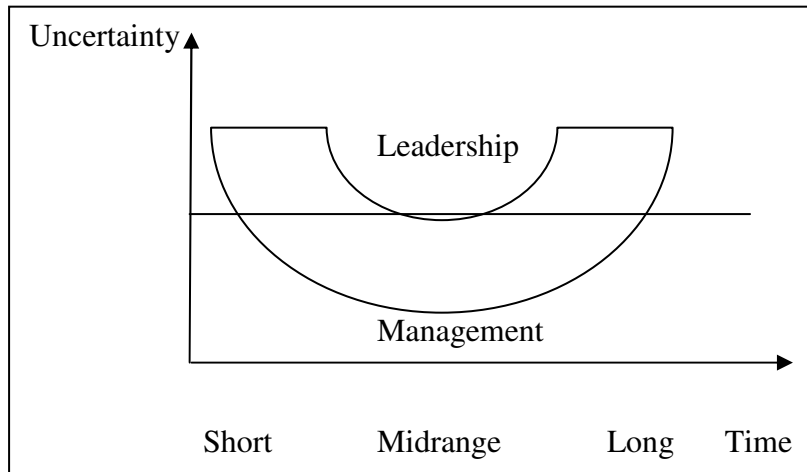


Figure 1: The difference between leadership and management

Leading others in planned processes entails a degree of certainty. One knows the plan and there is a goal. One can even anticipate how resources will be allotted during the process. In our culture, the planning horizon is generally about a year, which, in terms of business leadership, is midrange. The present is unpredictable; coincidence plays a part and a lot can happen that hasn't been planned for, or, to use John Lennon's words, "Life is what happens to you while you're busy making other plans." There is also much uncertainty in the extremely long term, since one cannot predict just how many conditions will contribute to how situations develop in the end. In short, there's no telling what might happen in the present or for eternity.

Consequently, the ability to improvise is important to leadership. This notion challenges the traditional image of leaders as people who lead at a distance. However, the revised image of the essence of leadership is supported by the two examples I provided earlier. In the relationship between leadership and management, leadership provides a model for how one should view one's work from a strategic perspective so that all processes, programmed and spontaneous, adhere to a comprehensive perspective. At that point, management can specialize in leading programmed activities so their results can be placed into a greater perspective.

Because leadership is driven in situations where there is much uncertainty, being able to absorb uncertainty is an important trait. It is an art in itself because it doesn't relate to diminishing the importance of uncertainty, but to being able to communicate the importance of the organization's own abilities. A leader must be able to instill self-esteem that opens the door for initiative in all aspects of the organization.

Chapter 4

Value networks

Not long ago, there was a belief that economic systems could be isolated and planned well in advance. This was the foundation for the rational decision-making models that dominated during much of the 20th Century. Herbert Simon (1947, 1976) questioned this model and introduced human complexity into the context. That was the beginning of the view of economic activities as a part of complex human cognition. Man has created the economy and has built human complexity into it as a result, but has difficulty understanding the complexity.

Thus, there has been a long-held belief that organizations can be dealt with apart from their contexts and that one can break down activities into various precise functions. This is how traditional organizations are. Moreover, this view has given rise to a number of organizational rituals such as functional divisions, budgets, job descriptions, and so on. As long as the organization is separate from its environment, at least in part, such rituals can be functional. However, when the organization begins to open itself to a broader cultivation of external relationships problems arise. These routines can become purely ritual without basis in reality.

Real world organizations have never been completely separate from the environment and, in recent years, they have become even less so. The past 20 years have shown a dramatic development in the organizational world that has been driven by two basic factors. One is the advent of information and communication technology (ICT) and the other is the importance of knowledge as a production factor.

ICT has increased in importance because growth of computer networks has moved individuals closer together. The Internet has contributed to the common man being able to gain access to knowledge, or to people with specific knowledge, relatively easily. As it becomes more difficult to assert copyrights, sources of information are more open. One reason for this is that the networks themselves have become increasingly connected to the Internet. Another is that search engines have become more intelligent (Landqvist & Hamrefors, 2006). As a result, one can now start to talk about a thinking network; those who understand that being able to think intersubjectively with such a resource have an important advantage for building relationships. We have only seen the beginning of the importance of this resource. The effect of the technological revolution is that transparency has increased greatly, resulting in an increasing diversity. All opinions can be heard, perspectives grow faster and values are spread through blogs and other opinion forums. The result is that the rate for exposure has decreased and much information has a short sell-by date.

The second factor, knowledge, relates to ICT. The fact that it has become easier to obtain alternative perspectives to problems and solutions has created an innovative engine in the network. The trick is to be a cog in the engine (Teigland & Hamrefors, 2005). As a result, opportunities for new development arise that aren't always driven by expressed needs. People and organizations have begun to do new things because we can, not because we must. Fewer organizations are able to create value alone, so they must be a part of the development of knowledge in their network. The most important thing isn't to have all the knowledge yourself, but to gain access to it by building relationships in the network (Allee, 2003).

A new type of production organization called *value networks* has arisen through the development of the two above-mentioned external factors (Christensen, 2003). In the past, organizational science has used a process called the *value chain* (Porter, 1985) to describe

how value is created within an organization or between organizations through cooperation that can be likened to a relay race. *A* does something that *B* refines and which *C* refines further. After several such steps, production or the service provided reaches a final destination where someone consumes the value. Much in our society is built on this principle, for example value added tax. The idea is that a country’s refinement processes should be taxed according to value increases in the various value chains. For this reason, there have been problems concerning value added tax when companies begin to cooperate in increasingly fluid forms over national borders. A value network can be viewed as a more complex value chain; the relay race is no longer straightforward (Normann & Ramirez, 1993). *A* might do something for *B*, who in turn does something for *C*, who does something for *A*. Internal loops are common in value networks; participants can play several roles in the network and may change appearance more rapidly in these kinds of networks, primarily because the growth of knowledge is so rapid.

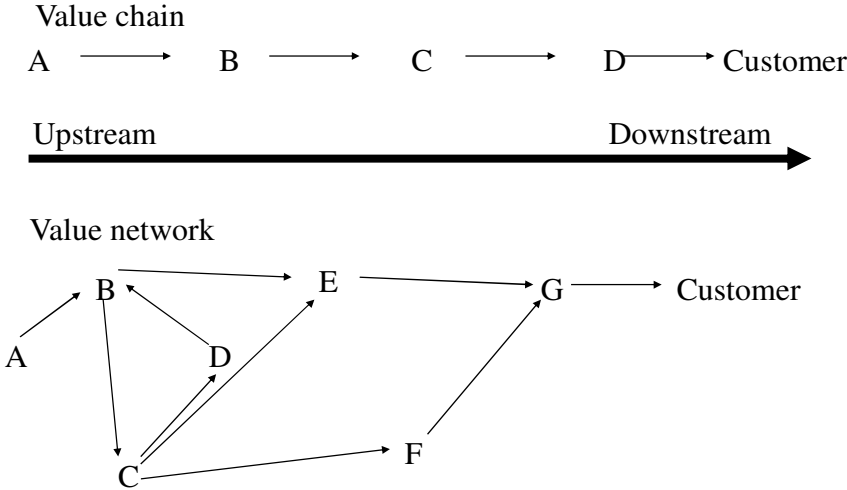


Figure 2: Value chain and value network

In a network economy, all the parties become more dependent on each other for creating value and uncertainty about what tomorrow brings in the form of opportunities and threats increases. The perceived pace of time (the one the ancient Greeks called “kairos” as opposed to measured time, called “kronos”) increases and it becomes more difficult for everyone to keep up. All of these factors become evident for every member of the network, but are more troublesome for some than for others, creating problems for some and opportunities for others. The big difference between those who experience such a reality as creating opportunities and those who feel it creates problems is whether one succeeds in positioning oneself effectively in the network.

Finding the right position in the value network becomes a central task for organization leaders. They must develop an idea about which position best fits the organization and the ability to request such a position by influencing the other parties in the network. Finally, they

must also function powerfully and proactively in the position they gain. As part of the strategic task of finding a position, the organization must decide which type of position they should work toward. Within business, there have long been prevalent terms for this. The two central ideas are: “first mover advantage” and “second mover advantage.” These are often jokingly described as “The early bird gets the worm, but the second mouse gets the cheese.”

It is important to be clear as to how this position is viewed from a strategic perspective. First, one must understand the risks and opportunities the position leads to. If the plan is to work to be a first mover, then the organization can benefit from the fact that the potential for creating an opportunity for value/business is substantial simply because no other company has been there and claimed the opportunity, mentally or physically. At the same time, the organization has to live with a low probability for being able to create value or business from the existing potential. The situation is the reverse for second movers. The potential for business or value opportunities is limited, since someone else has already been there, but the potential for creating value from the potential that does exist is bigger since one can gain an advantage from the knowledge which has already been developed through other activities.

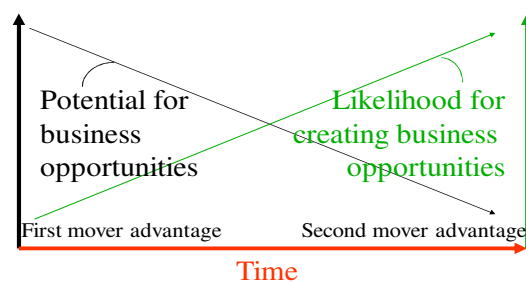


Figure 3: First Mover Advantage and Second Mover Advantage

The potential curve for business opportunities is universal; it applies to all parties who enter into a given business area. What impacts the situation is the time for entrance. An early entrance always offers an opportunity for utilizing a greater potential than a later entrance would. Thus, there are First Movers who have succeeded much better than Second Movers. However, the curve for probability for creating business opportunities from the potential (that is left over) is not the same for everyone. For example, a company might have particular experience that can be applied to the new situation and that they can convert into value creating activities. Toyota did not come up with lean production themselves, but they were able to apply that knowledge to automotive production since they had long been using similar production technology in the production of looms. Companies that are able to understand how their existing knowledge can be used in new contexts can begin a journey toward success from a better position than others. There are other qualities that can affect the ability to create business from the potential at a particular point as well; those concern the ability to take in and understand the situation at hand. Thus, organizational attention is an important component in organizations’ ability to create value. These two situations, First Mover and Second Mover, differ from each other markedly in several aspects.

Innovation versus imitation

A First Mover's circumstances are genuinely unsure. There is practically no knowledge available that is known to be applicable to the situation at hand. As a result, the company is left entirely to its own innovative abilities. As I pointed out earlier, it is necessary to understand how one's own abilities can be reutilized for a new context. The opposite effect arises when companies believe themselves to have abilities that they do not have. One example of such a tragic case is Babcock & Wilcox (Skinner, 1978). The company was a leading producer of energy production plants that use fossil fuels. Because of their market position, they labored under the notion that the company would have a competitive advantage on the newly established nuclear power plant market during the 1960's. After a number of mishaps, it turned out that the company's earlier knowledge was more of a burden in the new market and they suffered substantial economic defeat. An example of a company that didn't manage to take in and implement information on a new situation was Facit, during the 1960's (Torekull, 1982). Facit was a leader in the mechanical calculator market and was not unaware of the new technological advances in electronics that would lead to electronic calculators. Despite that awareness, the company showed an inability to realize it; they failed to see the opportunity perspective right in front of their noses. Clearly, deficient insight about one's own abilities and the corresponding lack of understanding for what changes in the environment mean can inhibit an organization's ability for thinking in innovative new ways.

Second Movers, have a broader palette at their disposal. They can choose whether to innovate or imitate; often a combination of innovation and imitation is chosen. The tactical choice is to understand what others have already done successfully, learn from them, understand what they could have done better and, finally, understand how one can use the unique abilities at one's disposal to contribute to improvement. Famed entrepreneur Richard Branson often acts as a Second Mover, but in an innovative way. He enters industries where there is much room for improvement because the organizations there have become bogged down in their old ruts. His central qualification in this context is his method for organization that leads to a more entrepreneurial point of view (Branson, 2005).

Available resources

A First Mover is generally left to its own resources since help cannot be expected from anywhere else. Additionally, it is difficult to see how other resources would be able to contribute to their creation of value. One might be able to get others to participate in the risky project by absorbing the risk oneself, but that is difficult. A Second Mover has a much easier time attracting external help since the situation is not as unsure, there is information available and there are concepts that can be shared. This position provides a platform for creating perspective with others, which makes it easier to discuss possible collaborations.

Strategy

Strategically, being a First Mover means that the organization must base its strategies on its own ability to change the world. A Blue Ocean strategy is used that is described in the literature as being *inside out*. In such a strategy, a company must create insight into which characteristics are organizationally critical for being a leading actor in the value network and which characteristics are possible to communicate externally in order to create an

infrastructure that attracts other actors. The organization becomes an infrastructure builder, an actor who is seen to create reality rather than adapting to it. As a Second Mover, one uses *outside in* strategies that build on the ability to understand external forces and adapt to them.

Business opportunities

The differences in strategic planning and in use of intelligence between a First Mover and a Second Mover lead to perhaps the most substantial difference: whether one is viewed as a creator of business opportunities or as a seizer of business opportunities.

A successful First Mover, per definition, has succeeded at influencing others' realities and has opened possibilities that were previously unavailable. Thus, the other actors will feel that this company is the one that created a business opportunity from which the others can benefit.

A Second Mover can have a great influence on and change the situation in its environment as well. One example of this is the case of the law firm Wachtell, Lipton, Rosen & Katz in New York (Starbuck, 2002). For many years, there were strong traditions for running law offices within the US legal system that had been developed over many years. One such tradition was that firms did not hire people with divergent backgrounds; rather, they primarily hired so-called WASPS (White Anglo-Saxon Protestants). Another tradition was that these firms conformed to a strict hierarchical system which entailed that associate lawyers did much of the work while the partners made more money. Also, partners in law firms weren't typically available to clients; clients generally met with the lower ranking lawyers or law clerks. Another tradition in the US system at the time was that a law firm would never accept a case against a past client. Still another factor in this context is that the legal system in the US was inherited from the British Common-Law system, where all previous court decisions are used for precedence. As a rule, laws are formulated relatively generally and insight into the application of laws is gained by interpreting precedent. As such, the interpretation of a law is more important than the law itself. Wachtell & Co. was established by Jewish lawyers who drastically changed the rules for law firms. First, they decided not to distinguish between partners and associates; all lawyers at the firm were personally responsible to their clients and were expected to be available to them at all times. The second thing they decided was that, rather than accepting clients, they accepted the individual case the client represented. As a result, the agreement with the client stated that the firm might take cases that were aimed at the client in the future. In other words, the firm wasn't "married" to clients anymore, only to the case at hand. This development led to the firm specializing in cases for which they felt they held particular competence so that they could create new knowledge and interpretations in the courts. Thus, the firm specialized in cases that dealt with acquisitions and mergers. Their divergence caused broad changes to administration of traditional law firms in a short time. The firm became known quickly as a creator of legal innovations. One such innovation was a contract clause used in articles of incorporation called the *Poison Pill*, used to prevent hostile takeovers. Later, the firm that found the legal remedy for the Poison Pill was, of course, Wachtel & Co. as well! Likewise, when Richard Branson enters mature industries and establishes a company under the Virgin brand, it occurs by making changes in the traditional methods of running organizations in order to create a marked difference for customers. Ingvar Kamprad entered the furniture business at a time when the branch was mature but he instated revolutionary concepts: low price, flat-packs and the customers' contribution to the production process.

Historically, it has been most profitable to avoid the First Mover position and cleverly wait for the chance to be a Second Mover, as a rule. “Only fools rush in,” as the Americans put it. However, the advent of value networks has modified this truth. The problems and opportunities which were found previously in these two positions remain, but a new problem has arisen: *the risk of being replaced*. Since alternatives increase continually in a value network, it becomes easier to change partners. The more of a First Mover an organization is seen to be (that is, a successful and efficient one) by the other actors in the network, the more value it will be seen to represent and the more power it will be given by the others. In fact, it becomes less dependent on the others. So, being a First Mover in network economies provides a strategic advantage that wasn’t as apparent in the traditional value chain. This leads to most of the members of value networks trying to become more like a First Mover in various ways, and there are quite a few ways. As shown in the examples above, the critical component may not be to be first in general, but to be first to introduce such elements that make a difference for the market. A First Mover must be seen to be one who has the ability to introduce innovations that create business opportunities first. It is the connection between innovations and creation of business opportunity that is critical here. Innovations that only allow a company to be better at winning business don’t have the same fundamental impact on the market.

Most of the old “truths” have been stood on their heads. One such truth is, “it is good to be close to the customer.” This rule doesn’t have the same impact anymore. In fact, being the one with a direct relationship to the end customer can be difficult when value is produced by a complex network. The one closest to the customer is forced to take responsibility for what many others have done and it can be difficult to deal with the relationships involved. On the other hand, having a key role in the network can much better; being the one that the others cannot do without for creating value can be a very powerful position. Bosch holds such a position for automotive ignition systems and Intel has a similar position for computer processors. In order to take such positions, the company does have to be mentally close to the customer, developing full insight into the context at hand. Also, one must have the ability to develop relationships with a number of actors who directly and indirectly influence the position of the organization. At the same time, one must develop a distinct ideology in order to be clear in the position. In other words, the organization must develop both breadth and depth in relationships with various types of actors.

Since the idea of hierarchy is always present in our view of organizations, value networks will be hierarchical as well. There is an automatic process that sorts organizations according to the principle of how much each party contributes to creation of value in the network. The notions of rationality and hierarchy are united in networks, so, organizations which are considered First Movers in the sense that they are seen as initiators of business opportunities will be placed at the top of the hierarchy. An organization that is viewed by the other companies in the network as a creator of business opportunities will gain respect, which means that it will gain power, which means that it can negotiate for a larger percentage of the value created in the network. Such an innovative organization will experience less uncertainty than the others and will be less dependent on the network than the network is on it. The ultimate consequence is that First Movers can exert great influence on the network which, in turn, further strengthens their positions.

In order for an organization to develop its ability to create business opportunities, it must develop its ability to understand the position that is best suited for it to establish activities. This means that the organization must understand which roll the organization is to play in the

network. The individual qualifications possessed by the company are critical here. Additionally, the organization must be able to deal with communication with the other parties in the network in order to understand which shape the establishment should take as well as how it can affect the other actors' view of the new venture so that their expectations are appropriate for a successful effort. When the organization has completed the establishment phase, the rule of thumb is that it must exceed the expectations of the network. If it gets too comfortable, there is a risk that it will fall from its position as a creator of value and instead be a seizer of business opportunities, dramatically increasing their risk of being replaced by another actor that appears to be more innovative.

Double complexity

There is a particular complex of problems that arises when organizations find themselves in double value networks. This situation occurs when the organization has one network structure on the owners' side and a different one on the operative side. These structures are common in today's society and are a reality for public companies, municipal organizations and government agencies (Asplund & Hamrefors, 2008).

For publicly listed companies there is a growing body of share holders of that is increasingly dominated by pension funds and industrial power structures. These companies are required to fulfill shareholders' demands for returns on investments, customers' demands for efficient performance and society's demands on public interest efforts. The relationships that the company must build in that environment are extremely complex and risk leading to a game with conflicting demands in which some constellations can grow stronger than others. The past years have shown increasing demands on creation of shareholder value for publicly listed companies. The result has been a financial market that is marked by quarterly perspectives, a fact that causes many publicly listed companies difficulty building organizations on a long-term basis. One way to solve this problem is by separating the creation of relationships. A lot of companies have created separate communications channels, using one channel for investors and directing others to other sectors. This practice separates leadership functions into various contexts (Brunsson, 1989). There is a substantial risk that the company may develop problems with external transparency and it can create opportunities for boards to hide disparity. This is reinforced by substantial bonuses awarded executives if they meet the share holders' demands for short-term return on capital. At present, we find ourselves in a financial crisis that is rooted in this type of faulty transparency. One effect of this situation is that publicly listed companies tend to be less efficient actors in their operative value networks. For this reason, there is a trend today for individual investors to buy out companies that they deem to be interesting development objects since they see greater possibilities for developing these outside the stock exchange, enabling them to avoid problems with power structures on the ownership side and minimize executives' channels for concealing disparity.

Government sector organizations have similar problems. Swedish municipal and federal operations have historically been run as natural monopolies and, in the past, there wasn't much problem with their having to take diverse political agendas into consideration. The organizations have been stable due to being surrounded by imperatives for how the exercise of public authority should take place in addition to development of these operations not being particularly rapid. In order to prevent political complexity to endanger operations, Sweden has long had regulations that limit political influence on state agencies. In other countries, such as France, the opposite rule is true; ministerial government rule is a reality. However, at the

municipal level in Sweden political influence is widespread in the operative activities and causes problems due to the operative activities becoming more complex (Asplund & Hamrefors, 2008). This has created a situation where municipal organizations have difficulty functioning effectively in their value networks, primarily due to communication difficulties.

An organization that wishes to act effectively in a value network must therefore be prepared to influence its network structure in such a way that its complexity doesn't become too cumbersome due to being made up of elements that aren't compatible with its external effectiveness. Therefore, one task for the organization is to choose very carefully which network to participate in!

Leadership in value networks

Effective positioning in a value network requires being able to communicate the organization's own individual competence effectively and simultaneously being able to communicate broadly with a wide range of actors. This places special demands on leadership, which must be able to lead the organization in activities that create value directly while being able to lead activities in relation to all the parties that can influence the position of the organizations in various ways. Networks consist of relationships of varying strength (Granovetter, 1973, 1983) where both strong and weaker ties are important. Strong relationships are those which are developed through direct collaboration in processes that generate value, while the weaker ones are those which are used to influence the environment more generally and how the organization allows itself to be influenced. Leadership in an organization that finds itself in a complex network environment must therefore be aimed at being narrow and wide at the same time, a point which I will describe in more detail under the next chapter heading: Communicative leadership.

Chapter 5

Communicative leadership

The ability to lead others is based to a large extent on the ability to communicate, which is influenced by the context in which one finds oneself. For this reason, effective leadership in one context can appear to be hopeless in another. In the Soviet Union, leadership was strongly dependent on adaptability to the political situation a fact which sometimes led to strange communication. One example of this was related to me by a Greek businessman who has been doing business in the Soviet Union and Russia since the 1950's. The story occurred during one of his visits to Moscow when he went to the Bolshoi Theater with one of the ministers for a purchasing organization. During intermission, they went out to the bar to have a glass of (Russian) champagne. The bar was very large, but there were only three people serving champagne and the line grew quite long. The businessman became irritated and complained to his colleague that there should be more people serving champagne so that there would not be a line. The minister looked at him knowingly and said, "Of course, I could point this out to my leading party comrades, but haven't you realized that we don't have enough champagne?" Leadership in that environment entailed participating in a game that should never show the faults of the system. It is for this reason that there were long counters in Soviet shops, but few goods on the shelves. In retrospect, one might assume that this is an expression of poor leadership and that would be a proper observation if you look at the problem from a systemic level. However, if you look at it from each individual leader's level, it took a great deal of creativity and daily improvisation to uphold fairly functioning leadership under those circumstances.

When an organization is part of a value network, the demands on effective leadership are more diverse and transparent. It isn't possible for leaders to hide behind a system. In order to perform positioning duties, one must develop one's communicative leadership skills to perfection. This is nothing new and there are examples that can be found throughout history, primarily in political network environments.

Historical examples

In this section, I will relate three good examples of how a focused, ideological and communicative leadership style has worked in conjunction with a leadership style that takes care of the broader perspective. After the positive examples, I will present one deterrent example.

Elizabeth I and Sir Francis Walsingham: When Queen Elizabeth I took the throne, she transformed England from an isolated island nation into a political superpower. She had the ability to keep discipline among her subjects in England (she was the daughter of Henry VIII, one assumes that her talent was genetically linked) but as she expanded her sphere of power to encompass the entire English Empire, she had a problem keeping such a heterogeneous group of subjects in check. As a result, she wanted to develop a complementary leadership to her own, one that could control and create multiple relationships in a heterogeneous network. This became an opportunity for Sir Francis Walsingham to develop England's intelligence agency. He worked thoroughly and systematically. In fact, the efficiency and efficacy one sees today in English intelligence authorities such as MI5 and MI6 are based to a large extent on the foundation laid by Walsingham hundreds of years ago.

Louis XIII and Cardinal Richelieu: Louis XIII, king of France, had similar imperialistic aspirations to Elizabeth I, but his problems were to be found at home. The political climate in France was marked by instability, which made it difficult for the king to pool his resources to build an effective empire. This became an opportunity for Cardinal Richelieu to redirect the rules of the political game in France. Part of that process entailed improving order; certain functions which he enacted can be witnessed today in France, such as the practice of ministerial rule.

Gustavus Adolfus and Axel Oxenstierna: Swedish King Gustavus Adolfus was intent on making Europe Protestant. At the time, Sweden was a relatively homogenous culture, but as other countries were incorporated into the Swedish empire, Gustavus Adolfus began to have problems much like the ones Elizabeth I experienced that led to administrative disorder. In order to ease communication in the new network environment that Sweden had created through its warring efforts, the king ordered Axel Oxenstierna to develop an administrative system, parts of which are intact to this day.

The cases above are positive examples of how an ideological leadership style can be complemented by leadership that is focused on making communication more effective in a broader context. In contrast, we can look at a less successful example: Hitler and Goebbels.

Adolf Hitler and Joseph Goebbels: As we know, Hitler wished to create a vast German empire that would last for a thousand years. To that end, he started a war machine that surpassed anything the world had witnessed before. Hitler's operative efficiency was fine; his problems were mental. He asserted an ideology that put one type of person in the center, calling them "Arians." The problem with Arians is that they are a fictional race. There is absolutely no possibility to determine under objective criteria who is an Arian or not. As such, it was difficult for people to relate to the Nazi ideology. Another problem Hitler had was that he wasn't particularly sensitive when he created networks. As a result, those who were subjected to intervention from Germany felt run over, literally. In this situation, Hitler needed someone who could supply communication in a broader context. This became Joseph Göbbel's job; he was a very adept at communication techniques and the propaganda products he created are in many ways unequaled in history. Still, this led nowhere; Hitler's thousand year plan only resulted in 13 years of misery.

These examples show that entering a network situation requires development of two types of communicative leadership. One is an *ideological* and positions the organization clearly on the map. This type of leadership chisels out the direct role of the organization in its value creating position and develops direct relationships with the partners with whom the organization creates value. Ideological leadership is a task for the highest levels of leadership and should therefore personify the ideology of the organization. Subsequently, ideological leadership develops primarily in relation to the direct partners with whom one creates value, but it is also shown for a broader audience in order to further reinforce the position of the organization. For this reason, one finds an increasing number of examples of organizations with leaders who personify the ideology the organization stands for: Ingvar Kamprad (IKANO), Richard Branson (Virgin) and Michael O'Leary (Ryanair), to name a few.

The other form of leadership that organizations must develop can be termed *contextual*. The task here is to deal with the complex relationships that organizations depend on in various ways. For this reason, the central responsibility for this type of leadership is to develop the organization's communicative capacity on all levels. This type of contextual leadership is

practiced on the broader and weaker relationships in the value network in order to support the organization's position in various dimensions.

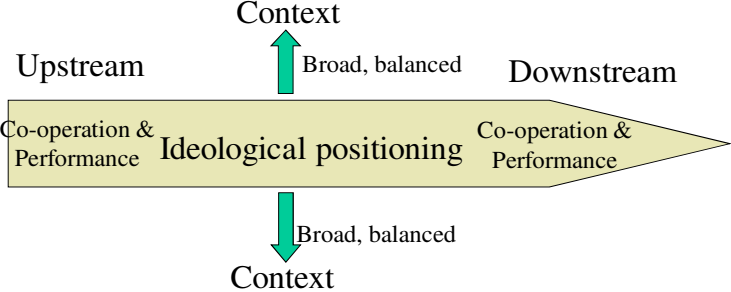


Figure 4: Ideological and contextual leadership

We are moving quickly toward an increasingly integrated network society that places demands on organizations' abilities to act as First Movers. However, in order for a company to create a lasting position as a First Mover it must develop both forms of leadership, ideological and contextual.

Chapter 6

Business Creation

To be an effective participant in a value network, an organization must be able to develop traits that support its ability to perform in a way that is perceived by others as making a difference. In order to succeed, one must develop the ability to plan business through developing dedicated processes for planning and through generally building this ability into all aspects of the company. US General Dwight Eisenhower coined the phrase, “Plans are nothing, planning is everything,” meaning that we must always plan for the future in order to develop our ability to meet it, but shouldn’t expect the future to follow our plans. This has long been a well-known fact among those who work with business planning. When an entrepreneur presents a business plan for a venture capitalist, everyone involved knows that the deal will not go according to plan. Rather, the plan is a type of communication about how the entrepreneur thinks and reveals something of his or her abilities. Plans are means of communication, partly by creating self-reflection about the strengths and weaknesses of the planner and partly through creating an external dialogue. A recent awarded-winning conference contribution catalogued a selection of successful entrepreneurial efforts in which the final results had nothing whatsoever to do with the initial innovation (Pouya & Esmaeilzadeh, 2008). However, the initial innovation did create a communicative situation that allowed the entrepreneur to start a dialogue with external partners and ultimately led to the final innovation and the development of the deal.

Example: 3M

One company that has developed a positive ability to spontaneously observe possibilities and create business opportunities is 3M. The company has shown a long history of successful business projects. One example of such a successful effort is the development of Post-it notes. Today, these small bits of paper are so well-known that they require no further explanation. Most of the description I provide below has been based on 3M’s own film describing the development of Post-its. However, before I get into the case itself I would like to provide a general picture of what has built this company’s ability to generate so many good business opportunities.

3M’s overall business concept can be termed “thin on thin.” The company’s core competence is being able to coat very thin materials with a very thin surface layer. Because 3M has communicated this notion very clearly externally, the company attracts people who think that these kinds of processes are exciting. As a result, the people interested in “thin on thin” apply for employment at 3M. The concept is able to guide the thoughts surrounding the organization. It neither instructs nor dictates – it says nothing about which “thin” on what “thin” or how it should be done. It simply guides thought without limiting action.

There is a policy at the company that all employees have the opportunity to do whatever they want for 20% of their paid work time. Additionally, they have developed a special function to produce and communicate funny stories about the failures that have occurred at the company. The effect of this combination is that a free space has been created for workers to try to do something other than what they usually do at work while reducing the fear of failure. They have even increased employees’ ability to remember earlier failures so that they aren’t repeated. Since most of the people who work at 3M are in some way inspired by of the subject

of thin on thin the probability is high that they, within the free space given, will do something that is relevant to that issue. On the whole, the company has created a situation where the first steps toward business planning can be taken without fear of failure.

Another function at 3M which is directly linked to communication is that they have developed a network where all employees are required to describe their qualifications, talents, interests and plans for the others, and make themselves available to others who may need their help. This is a strong culture that creates strong social pressure to participate in the exchange of knowledge and experience to the benefit of the company by creating transparency for knowledge and a strong motivation for participation.

Another interesting aspect is that role of business developer has been institutionalized at 3M; those positions are held by senior employees having profound experiences of successful business development. They are called “champions” and are accessible to everyone who has a new idea. What makes them efficient is that they have proven experience with business development based upon their possession of tacit knowledge (Polanyi, 1958); they can “smell” a good deal and they have been given the tools of business development. They are mandated to make decisions about seed financing of new projects and can initiate various types of testing activities.

In the case of Post-it notes, there were two key people involved in the development process. One of them was an engineer, the other was a pastor. The engineer was a specialist in different types of adhesives that can be used on various surfaces. During the development process for a new type of adhesive he and his colleagues tried one adhesive which turned out to be ineffective. They decided not to continue exploring that adhesive for the application intended by the product development group. However, the engineer felt that there was something exciting with this strange glue, so he took it to his laboratory and started experimenting with it within the framework of the free time he had within the company. He didn't have a plan for a particular result of his experiments; he worked with it because he was having fun. During his experiments, he came up with a thought that would be the unique technical quality for Post-it notes. That thought was: How can one get the adhesive to stick to the paper, but not be as sticky in the other direction? Since adhesives were his greatest interest in life, this question was particularly challenging to him and caused his experimentation to intensify. In time, he was able to get the adhesive to stick to the paper without adhering too much in the other direction and, since he was a loyal employee, he reported the fundamental features of his activities to the network, making him available to others.

The other key person in this case was a man who worked in marketing at 3M; he was religious and, in his free time (including the 20% of free time at work), he was active as a pastor in a church. When he preached, he used his Bible to quote passages in order to build his message. He used loose strips of paper stuck between the pages in his Bible to help him find the passages he needed quickly but he had a problem with the bits of paper not staying put and they fell out on occasion. He needed a solution to his problem. Through the company's network, he found out about the engineer who was experimenting with bits of paper that stuck gently to surfaces. By this point, the engineer had solved the problem with getting the adhesive to stick firmly on the strip of paper but gently in the other direction, so he was interested in finding someone who could test the strips of paper's practical use. The pastor was given a few of these notes and found that they solved his problem and, since he

was also a marketing professional, he saw that the innovation had a chance of being developed into a good product.

The engineer and pastor booked a meeting with a champion and presented their strange bits of paper for him. It didn't take long for him to understand their commercial potential. He arranged for the secretaries at 3M to test the notes as well and got a very positive response. After that, the company handed out free samples to all the CEO-secretaries in the Fortune 500 companies. Since that day, Post-it has been one of 3M's most successful products.

In the example, it is difficult to see a planned process that led to Post-it notes. Instead, it seems to be spontaneous. Of course, it was followed by a number of plans for launching the product, but the creation itself wasn't particularly planned. One might be led to believe that coincidence brought about the product, but in the words of Louis Pasteur, "Chance favors the prepared mind." Post-it notes are not the only example of the traits that have led to 3M's well developed ability to create business. In a quick analysis, it is easy to see that the components of these traits are: focus, exposure, contact and convergence.

- *Focus:* At 3M, there is a focus that permeates the organization: the concept "thin on thin." Because the company has communicated this focus over a long period of time, it has become institutionalized in the organization; one can begin to discuss the origin of a culture. Because it has proven to be successful, the focus attracts new employees who become increasingly taken with the idea, and it is supported by development processes that are a result of the successive learning process – even in failure.
- *Exposure:* By allowing employees time to participate in various activities and the freedom to do it legitimately, one achieves exposure for a diversity of situations where the concept can be challenged in a variety of ways. This creates a high degree of *enactment* and leads to discovery of problems and opportunities that can be related to the company's focus.
- *Contact:* The culture that has been created that entails exposure of the available qualifications and talents, creates an influx of knowledge and ideas which can lead to realizing potential business opportunities more clearly. In combination with the common focus and diversity of exposure to situations, this provides a basis for developing ideas into business.
- *Convergence:* When those who have been appointed as "champions" are always the natural addressee for new ideas, they also become a focal point where all ideas are collected. This means that these "champions" gain a good view of the innovative situation in the company. Additionally, they have a well-developed feeling for which ideas have potential to lead to business that provides them a basis for judgment which is able to analyze both broadly and in depth. Further, since no individual risks reprisals for approaching a "champion" they are given frequent exposure to new ideas and leads to a rich selection of new ideas.

Many of the qualities listed for 3M's organization deal with communication. In fact, the entire organization is built for communicating support for creating business, from the initial idea, to the development of innovations, to the business development process in itself. The organization can be seen as a business development process in itself that supports spontaneous and well focused creation of business opportunities.

Communicative leadership is responsible for developing the organization in such a way that every aspect of it supports innovation and development. Thus, this type of leadership does more than simply dealing with traditional communication processes; it is clear about which aspects of business planning the organization should support and in which ways. Above all, it is clear about: the “pain,” the offer, the market and the organization. Financing is also an important chapter, but it is often a result of the other aspects.

The Pain

When the engineer and the pastor discussed Post-it notes, the conversation did not center on the need for such a product in an office environment. Though, when the secretaries were confronted with Post-it notes, they experienced recognition because the notes filled a need that they had felt, but not been able to express. American venture capitalists have a term for this: *The Pain*. It is a feeling one has in a given situation without being able to express it. Real innovative business addresses needs at this level, thus affording the organization the position of First Mover. A Pain cannot be found by investigation, one must experience the recipient’s situation and understand how he or she feels.

A Swedish company called *Skolfoto*, provides a photography service for school students and produces school catalogues. This company came up with the idea to retouch school photographs so that the children in them would look “more attractive.” However, this met with strong resistance from the parents who were paying for the photographs. From a photo technical standpoint, retouching is an improvement on the photographic service but it was seen in this case as being offensive since the parents didn’t like acknowledging fixation on beauty and wanted documentation of how their children actually look. In this example, it is obvious that *Skolfoto*’s management didn’t understand their recipients’ pain. First, the parents hadn’t experienced their children’s photographs as being in need of correction, thus they did not have a pain in this respect. Second, retouching the pictures created a negative feeling in that the picture wouldn’t be authentic. Additionally, pain is context dependent, so the reaction that this company received in the Swedish context may not be the same as it would have been in other contexts. Styling children seems to be more accepted in the American context than in the Swedish one and might therefore be a successful venture in school catalogues in the American market. It will be, in fact, if the practice is compatible with the American parents’ experience of pain.

It is difficult to reason one’s way to the existence of a pain through a logical process. Often, a pain is based solely on a feeling that wouldn’t stand up to logical examination. This was the case for Absolut Vodka. From time immemorial, vodka, as a product, has been associated with the concept “Russian.” Historically, vodka brands have done everything they could to ensure that their brands sound Russian, even those that aren’t. For example, Smirnoff is a well-known brand of vodka that sounds Russian but isn’t. It does have its roots in Russia, but it was developed in the US and is British today. Up until 1980, it was an advantage to appear Russian if one would sell vodka, but then something happened that created resistance to all things Russian: the Soviet invasion of Afghanistan. All of a sudden, there was strong opinion against Russian vodka that caused problems for all Russian-sounding brands. Similar problems hit French wine manufacturers when France performed its final test detonation of nuclear weapons in the Pacific Ocean. Another example of this issue was when the Swedish-Danish dairy, Arla, had problems with export of dairy products to Muslim countries when a

Danish newspaper published satirical images of the profit Mohamed. All of these cases show that there often isn't a simple logical connection between events and the experience of pain. One can make serious mistakes by neglecting to acknowledge that such a connection may exist. A man I met in San Diego about 10 years ago (let's call him Charlie) neglected to understand the absence of pain in his potential market. At the time, there were no wireless computer networks, and the telephone system in the US is highly fragmented into a number of different telephone providers. Also, at the time use of Internet had begun to spread, giving Charlie the idea to create an electronic box that would make Internet available to all the guests at a given hotel, regardless of which phone company the hotel used. Charlie spent a lot of time and money developing the electronic apparatus that would solve this problem. After many attempts, he developed a technological solution that he presented to hotel owners. He had expected to be welcomed with open arms but, to his surprise, he was met with skepticism. He was not able to sell even one machine. When I met him, he was very irritated at the hotel owners in general and repeated several times, "All they care about is beds and heads!" He didn't think that hotel owners cared about their guests as they should. One might tend to agree with him, but the fact is that hotel owners didn't experience any pain over this issue. In fact, it was a non-issue for them, changing their minds would have been a costly procedure. Further, future developments showed that either wireless Internet likely would have taken the market from Charlie anyway or possibly that his box could have been an entrance for him into a market where he could have been an important participant in the development of wireless Internet. We don't know what might have happened but, for Charlie, this adventure meant that he threw money away. To live in one's own world this way and build innovations from one's own perspective (which one obviously feels is very rational) has been called the "window shade syndrome" by Leif Lundblad, inventor of the automated teller machine. The term refers to inventors who sit alone and pull down their window shades in order to be left alone with their inventions. When they finally raise the shade and present their products to the world, they are told that the product isn't relevant because the world changed while the shades were down. According to Lundblad, this behavior is common among inventors and prevents a great number of inventions from reaching the market.

Some pain can be difficult to understand because it contradicts a deeply institutionalized notion. This was the case for Body Shop. Cosmetics consumers didn't like the fact that the active ingredients in cosmetics products were tested on animals. However, the cosmetics producers viewed the procedures as being a necessary evil; without them they were at risk of causing their customers to have allergic reactions. Further, since it is such a strong rule, it influences the rule that companies must use animal testing. It is often this way in institutions – when a rule has become so strong that it becomes an institution, its strength influences other rules that follow the first one and then become institutions themselves. Sometimes the original institution has disappeared but the chain of institutions lives on, as is the case with the hat-rack. Originally, the hat-rack was invented to limit the spread of head lice in the home. Now, even though head-lice are no longer a major problem and the use of hats has decreased, the tradition lives on. Today, hat-racks are collection places for various items and cause more problems than they solve. But, let's return to the Body Shop from this digression. Anita Roddick, who started Body Shop in the 1970's, was not part of the traditional cosmetics industry and was able to rethink and question the dominant institution of animal testing.

The ability to understand a pain is vital to those who wish to become a First Mover in a value network. Basic characteristics for that ability are being active in areas where one's own competence is particularly developed as well as having the ability transform resources (Roos *et al.* 2005). According to Weick (1979, 1995) our ability to understand the world is a direct

function of how we enact it. For that reason, we have a greater capacity for understanding internal reality than for understanding external reality, but the internal environment gives us too much confirmation and causes us to take too much for granted. As a result, the optimal situation is to stimulate exploring the known in unknown circumstances. Wherever that knowledge or ability fits and makes a difference, we can see reality in a new way, which helps us to understand the situation. A pain is always a situation, when one understands that, it's time to ask which other people might be in that same situation. At that point, one begins to approach a market.

The offer

When understanding has been created for how a certain type of pain can be manifested in a particular situation and a hypothetical image of the market where the particular situation is common has been formed through analysis, the next step is business planning – preparing the offer. Since the central issue here is the situation, the offer must bring a pain into the consciousness of those who feel it. The feeling must be transformed into an idea. That is what happened to the secretaries at 3M when they were shown Post-it notes. Because they had felt a need for something like it, they understood the need they had in the past and Post-it notes were the answer. There are those who suggest that needs can be created with the help of intense advertising campaigns but that isn't the whole truth. A need cannot be created if there are no conditions for it but a need that has been felt can be brought into people's consciousnesses, thereby enabling conceptualization of it. This is why First Movers have such capacity for influencing their environments. They can create social constructions where there are none but where there is a need for one. One example of this is a toy that was launched many years ago called the pet rock. It was an ordinary little stone that was sold as a type of toy pet. The product was short-lived but the idea has been part of a number of similar products that meet similar needs. The latest is an electronic variation on the theme called the Tamagotchi. It has superior functionality to offer, since it is much more interactive with the child than a pet rock could be. However, one can ask why it is even possible to create such social constructions. The answer, of course, is that it is a function of the fantastic flexibility of the human mind.

In order to function as a *remedy to the pain*, an offer must be viewed as an embodiment of a pain that has been felt at the same time as it seems to be a good solution to the problem which one now understands. Again, the basic rule is that one can't fall into the rationality trap of looking for what one thinks the customer should appreciate based on some rational argument. The offer should be built from the best possible combination of emotions experienced by the customer in the situation and the opportunity for one's own organization to communicate credibility. In order to illuminate this point, we can re-analyze two cases that have been mentioned previously, Absolut Vodka and Body Shop.

In Absolut Vodka's case, a pain was felt because it no longer felt right to drink Russian vodka, leaving room for someone else to fill that need. In order to fill a need, the offer must consist of two qualities. The first is *qualifier* and the second is *order winner* (Hill, 2004). A *qualifier* is a trait which allows a company to be a supplier at all in the eyes of the customer while an *order winner* is the quality that allows one product to be chosen in the end. When it comes to Vodka, the alternatives to Russian or Russian-sounding vodka were the suppliers of this type of drink that upheld a certain quality. Swedish *Vin- & Spritcentralen* had a good-quality drink which had been developed over hundreds of years. It was a type of snaps called *Absolut Rent Brännvin*. The characteristics of this brand of spirits were fully comparable to

Vodka, even if it wasn't actually called vodka. However, this type of drink could have been offered by any number of suppliers, so that trait was a *qualifier*, but not an *order winner*.

The *order winner* in the context was the fact that the Swedish spirits were Swedish and Swedish is associated with political neutrality. For this reason, Swedish *Vin- & Spiritcentralen* held a trump card in the situation that arose and they played it well during their marketing campaigns. One thing they did was to spell Absolut the Swedish way; the Swedish spelling is fully comprehensible for others since it is only marginally different from the English spelling. Another thing they did was that they wrote "From the Country of Sweden" very visible on the bottle. Thus, they offered top quality, politically neutral vodka! Today, the significance of this order winner has decreased; Swedish *Vin- & Spiritcentralen's* decision to sell the brand to Pernod Ricard was a good one.

In the case of the Body Shop, the pain was that customers didn't like animal testing, but they weren't keen on having allergic reactions either. Anita Roddick solved this problem by making a very elegant offer. First, she realized that the cosmetic products that she offered would need to contain enough active ingredients to make a difference, so she placed her products in the mid-range for levels of active ingredients, which was where the largest demand could be found. Second, she chose only substances that had already been proven, that had been tested on animals and even humans – by someone else. Additionally, she prioritized the types of substances which came from sources that were viewed as being natural. This meant that she could provide a credible offer which contained a *qualifier*, high enough levels of active ingredients which didn't cause allergic reactions, plus an *order winner*: she hadn't tested her products on any animals during her production process. Afterwards, the impact of this order winner has decreased since the Body Shop impacted the industry, which has since drastically decreased animal testing. Today, the company is attempting to move on with offers in the same line, such as natural ingredients and environmental consciousness.

The surrounding world

In order to create business, it is important to be conscious of the organization's surrounding environment. Even more important is the ability to visualize the world as it will exist at the point in time the offer will be made. Because the company is a part of a complex network structure, there are many factors in the environment that can affect the result of what it is trying to accomplish. Analysis of the surrounding world can be divided into a number of sections:

- *Well-known factors that make a difference in the situation.* This is the easiest category to understand since it deals with known information and it is generally known how it will affect the market. A general downward economic trend is such a factor. We know that the demand for most products decreases but that demand increases on certain other products, such as credit-checks. Paradoxically, luxury consumption is affected positively by hard times, since those types of products can be a comfort in misery or as a safe placement for money, such as gold. We are affected in a corresponding way by economic upswings. Gold isn't as interesting at that point because people begin to favor capital investments that can give rapid returns on investment, like art and antiques.

- New factors that can make a difference in the situation.* This category is often more difficult to understand because people often do not have experience in how it affects the situation at hand. Such factors can work both as potential threats and opportunities. Often, it is more difficult to accept these factors when they are potential threats because of our innate tendency to reject that type of information. This afflicted the Swedish company “Isbolaget”, a supplier of ice, because they didn’t understand what kind of threat the compressor-driven refrigerator posed for them even though they were aware of the new technology. The same problem affected another Swedish company “Facit”, a producer of mechanical calculators. A more modern example is the entire American automotive industry that hasn’t understood what environmental considerations can mean for their success on the market. Typically, humans are not good at understanding threats that we haven’t experienced before, a point that I will discuss in more detail in the section on cognition. In contrast, factors that create new opportunities are easier to understand. Forestry companies Stora and Enso were given the opportunity to merge their organizations by an owl in British Columbia. Canadian forestry companies had cleared so much forest that the habitat for a particular type of owl was threatened in that area. It became a political issue and led to a business opportunity for the creation of a very large supplier of raw materials to the paper industry. This was a chance for Stora and Enso to merge, forming a real giant that was able to supply the large demand that the Canadian companies left behind them. The CEO of the company expressed it in a television interview, “It has been said that size doesn’t matter, but in our case it actually does!” The most important changing factors are those which create systemic changes in themselves. Today, we are witnessing the death of copyrights, at least as we know them. It is no longer realistic to prevent electronic piracy because people have not only gotten used to the idea that it’s possible to do it but also that it’s acceptable. Thus, there is an ongoing shift in values that will create new institutions surrounding copyrights. It is likely that some form of protection for the right to make money out of what one creates will be developed; otherwise it is possible that all artistic creation will cease, but the protection will not resemble what we are used to today. We don’t know yet what the situation will be but, for those who are interested in this market, there is every reason to watch for signs of change and ask oneself how the changes will affect the system. Often, the largest systemic effects do not occur in the areas where the most spectacular innovations occur, rather these are found in areas of consequential services and products that follow on the heels of the innovation, which is a natural consequence of the network society (Bhidé, 2008).
- Factors one will influence through one’s own activities.* There are often a variety of factors that are less visible, or latent, in the environment that can be activated by occurrences. Those with sufficient influence can activate these factors themselves, so it is important for them to understand the chain of events. A classic case in business development is that a company creates a law, a standard or political resistance to its own activities through its actions. In marketing this has occurred often; the entire creation of advertising legislation was a reaction to the questionable marketing methods that have been used. Another such factor is the reactions that are elicited from competition. Many deals have been launched in the belief that the competition wouldn’t be able to create a countermeasure quickly enough, but companies have often been surprised when it is evident how old, tired competition quickly wakes up and puts effective countermeasures in place. In today’s network society, it is more the rule than the exception that information about our own organizations spreads at lightning speed. While on a trip to China, one of my colleagues found the newly

developed versions of Apple's iPod before they had been released by Apple. Of course, this means that someone had committed serious patent infringement, but (as I stated) it is something that we have to count on in these times.

Organizing

I have already described the diversity of social constructions that surround our beliefs about organizations, as well as how they form strong institutions that dictate what organizations should look like (Brunsson & Olsen, 1993). This causes resistance to change in organizations. However, there is constant development of the organizational theme in society and it is this theme that lies behind the development of value networks. However, the strong institutions surrounding organizing affect what we say about organizations more than what we do. As a result, radically new organizations can be developed that don't seem any different from others on the surface. I have already described 3M, which in many ways is a traditional organization, but which also shows special qualities that make it so good at creating business. Later on in this book I will provide examples of organizations that are different; in this section I will simply describe the area schematically. There are some basic factors that should be considered during the organizing phase of business planning:

- *The right combination of diversity.* Diversity in and of itself need not simplify business creation but some combinations of diversity do. Diversity should include areas for knowledge and understanding of the surrounding world that are important in order to correctly anticipate, plan and carry out positioning in the value network. Too much mutual similarity between the people in the organization eases formation of opinions about the business but does not enable understanding of it.
- *Focus on business.* The organization should support an optimal focus on the perspectives it wishes to create as well as the tasks that must be performed. The problem is that these cannot be known precisely ahead of time so the organization must have the ability to navigate using adaptive teaching strategies in a moderately unknown landscape while keeping a relatively stable course (Carter *et al.*, 1996).
- *Organizations' interaction with the network.* One's own organization should be developed in such a way that it achieves the best combination of resources that are available in the network. The "best" organizational form is the one that gains support from many other organizations in the network without any of the companies in the network being able to overturn its organizational design. For that reason, a common form of organization is one that, from the start, doesn't contain certain functions that were common in the past; sometimes they contain so few that they have been called virtual organizations by some sources (Hedberg *et al.*, 1994).

Chapter 7

Cognition

There is a discrepancy between the traditional ideal within communication and the demands that dynamic network environments place on development of communicative leadership. In order to understand the basics for this type of leadership, one must gain insight into how humans function in their way of observing reality and how they build perspectives about it. In the literature this is called cognition. Since individuals' observations and formation of perspectives occur in social interaction with other humans, one must see these processes from a social perspective; in such a case, it called social cognition. A strategically communicative leader must have insight into social cognitive processes. In this section, I will catalogue these cognitive prerequisites. The presentation follows the basic model which I have developed in earlier research (Hamrefors, 1999, 2002).

There are two basic traits of human cognition. We humans seek out an image of reality we believe we already understand but we also need a few new images. Obviously, these two traits contrast with each other. Before we get into that distinction, we will look at a basic trait in our way of looking at reality and in our way of judging it.

An eye for opportunity

Humans have an extraordinary ability to adapt to all kinds of situations. In fact, we actively create environments where other beings have difficulty adapting but that are fine for us. Historically, the opportunism we have developed has been a basis for our survival and development. Paradoxically, it may be the foundation for our ruin as well. Because, while we have the ability to see opportunities, our ability to see threats leaves something to be desired, and we have a tendency to limit our ability to judge complexity. This problem has been described recently in an interesting book that examines how doctors reason when they make diagnoses (Groopman, 2008). According to Groopman, methods have been developed in the medical profession for asking patients questions that are intended to lead to a proper diagnosis. The point with the methodology is, of course, to create a routine for arriving at a diagnosis within a reasonable time frame since time is a critical factor in many cases. However, this method leads to doctors subconsciously being guided by their own tendencies to follow the possibilities they are used to seeing, which leads to their not paying enough attention to alternative clues. It has also been shown that the less proficient the doctor is, the stronger this tendency becomes. According to Groopman, this poses a direct danger in that many doctors will make incorrect diagnoses due to their excluding alternative points of view. However, it isn't just doctors who follow this pattern; it can be found in all people. We tend to see the possibilities we are used to judging and are satisfied with them when we make decisions. Peter Lynch, former head of an American investment fund, carried out an experiment where he taught preschoolers to play stock trading. He found that they made more rational decisions about buying and selling stock than stock market analysts did. The children specialized spontaneously, trading stocks in companies of which they had fundamental knowledge. Three types of companies dominated: hamburger restaurants, toy manufacturers and candy producers. In contrast, the analysts based their decisions on abstract key economic figures and made bad decisions more often than the children (Lynch, 1993). Now, one can say in the analysts' defense that they must be able to judge thousands of different companies, so it is reasonable to try to understand the organizations by looking at their key figures. That type of stimuli is just slightly removed from their reality, which makes a negative impact on their efficiency during the decision process. The renowned investor Warren Buffet has created a

philosophy in his finance organization that dictates that he never invests money in an organization he doesn't understand. Additionally, he has spiced up that rule with another more humorous one, "I only buy stock in a company that even an idiot can run because sooner or later one will."

Similar problems have been shown among psychologists (Meehl, 1954). They tend to follow their own theories rather than reality when diagnosing the status of their patients. Another example of limited efficiency in perspective-making is military intelligence services. They place limitations on their search for information in order to legitimize their role in society. The ongoing war in Iraq was motivated by Iraq's presumed possession of weapons of mass destruction; searches for such weapons came up empty. Despite that fact, the belief was so strong that war was waged anyway. One of the most feared intelligence organizations in history was East German STASI. In their case, the organization was run by such a strong political will to provoke images of threat to the East German state in order to create continued opportunities for the domination of the Communist party that they began to fabricate such information. When the Berlin Wall fell, people were allowed to read their STASI files; in all cases, they found that they had been depicted as being much more dangerous to the East German state than they ever had been in reality. We now know that while STASI produced fictional threats to the system the Communist regime didn't see the real threat that tore down the wall – the democracy movement within the country.

This cognitive issue affects all people who limit their perspectives to a narrow field while analyzing that field in depth. As a result, this is a problem that affects experts generally (Schön, 1983).

Belief in the appearance of reality can cause us to choose information selectively; at times, we don't actually have to see it to believe in it and, other times, we don't believe even when confronted with it. This depends on how much confirmation we see and how much opportunity we read into it. There is a pattern to the way we ignore threats that we don't understand:

- When we meet a threat we haven't experienced before, the initial reaction is that it doesn't exist at all. The greenhouse effect we are so clearly experiencing as global warming is new to us, which is why it has been denied for so long. There are still many who deny it despite the rapid increase of hurricanes and other natural disasters.
- If threats are so obvious that we cannot deny them, the next cognitive reaction is to confirm their existence but deny that they will affect us. This effect was a problem for Facit during the 1960's. It affects smokers every day due to their favorite argument, "Sure, it's dangerous to smoke, but it won't hurt me."
- If the threat has become real and we can no longer see a light at the end of the tunnel, we begin to blame others. At a meeting I attended with bankers a year ago a well-known banker commented on the current bank crisis, "It's the rating institutions' fault!" Hitler's apocalyptic extermination of the Jews was motivated by making them scapegoats for Germany's societal problems.
- If a threat is imminent and we understand that we will be affected by it, but we see an opportunity for influencing it, we turn to our friends for help. For this reason, the most

common category of investors in new companies is not comprised of professional venture capitalists; instead, they are the 3 F's: Family, Fools and Friends.

- If we have no one to blame or cannot find help from anyone we flee. This is called “changing strategies” in management literature.

It is only when a threat is imminent and we cannot react in any of the other ways that we actually do something about it. The deciding factor is not what the threat looks like, but how we perceive it. In fact, the concepts “threat” and “opportunity” are categories we make based more on our own perceptions than on reality. We can state, therefore, that threat and opportunity are two sides of the same coin. There are no threats that do not present opportunities and there are no opportunities that do not pose a threat. Our ability to react to reality and form perspectives on it that lead to progressive action is also connected to our ability to see opportunities in the given situation. Past experiences of having few opportunities make us expect a similar future, which creates passivity. This afflicts individuals as well as organizations (Ingvar & Sandberg, 1991). However, if our past experiences have shown us that reality offers opportunities, we will more easily perceive opportunities. Optimism tends to be fairly effective provided that it is based in reality and is not disrupted by our tendency toward reward dependency, which disrupts the image of reality in diverse types of addiction. The difference between realistic and unrealistic optimism is that the unrealistic type has influenced the most primitive reward mechanisms that isolate consciousness in a now-based state, a situation that occurs in various states of addiction (Ingvar, 1991). I will discuss this point in more detail below.

Thus, realistic optimism about the future leads to the ability to see opportunities, which in turn leads to the ability to create perspectives that lead to the creation of business. At this point, I will go into the mechanisms that are at work in that process. There are various social levels ranging from the individual cognitive plane moving through group processes to the organizational level. Let us begin by describing the cognitive prerequisites we have for forming a perspective that creates opportunities.

Individual cognition

Human cognition is a complex phenomenon. Our minds do not function like computers; instead, all information processing occurs in parallel processes that creates massive possibilities for combinations (Gärdenfors, 1996). If one also adds the complexity that occurs when human minds interact socially, it is easy to understand that humans have virtually infinite opportunities for creating perspectives. I will first list the conditions we have individually for forming perspective and, in the following section, lift the issue to the organizational level.

Influences from memory

We try to see reality from the perspective we already have that is based on our earlier experiences with reality. These are stored in our memories and form a ubiquitous frame of reference. In order to understand how this frame of reference affects our understanding of reality, we must first understand how memories affect our attention. Memories are constructions that create meaning by the way they categorize phenomena in reality. They have

to be sense-making; otherwise they lose their function as memories. Our memories are built according to a similar principle as building brick houses. Such houses are created by combining bricks so that the whole is something more than the individual bricks themselves. As we experience reality, we receive a large number of stimuli; these are the “bricks” which we use to build our memory constructions. We form our first memories when we are fetuses and when we are born we are subjected to a massive influx of stimuli that causes us to build a large number of these “houses.” During the first 18 months of a person’s life the memories constructed are particularly important and fundamental. It is during that time that we form our basic emotional memories. These are not connected to language since the child doesn’t have access to verbal language at this point. The memories are instead solely emotional and incorporated into the individual’s sense of self. As language becomes available as a tool for conceptualizing reality, memories can develop more intellectual content but the emotional character of these memories remains throughout life. Therefore, these memories are intellectual and emotional guides for how we expect reality to be constructed. Like ordinary brick houses, our brick house-like memory constructions must be maintained. The bricks, our experienced stimuli, tend to disappear from the brick houses of our memory, which is why there are often “holes in the houses,” so to speak. Slowly but surely, of our memories’ ability to create meaning deteriorates, at which point, memory cannot be used as the guiding instrument that it is intended to be. As a result, we must seek out stimuli that remind us of the stimuli that have fallen out of our memory constructions. The result is that we humans have a basic tendency to seek out information for confirmation.

It is for this reason that we have difficulty leaving our frames of reference and looking at reality in a new way. This frame of reference is developed throughout life and has various effects on our cognition during different stages of development. As a result, there is always an element of conservatism in human thought processes, where the most remarkable periods are when we are very young and very old. All of us with children know that they are conservative, for example, they often resist trying new foods. The reason for this is that their cognitive frames of reference are narrow due to the fact that they haven’t been able to experience great variety. So, they seek out confirmation of what they already know that they like. So, the parent’s task is to successively broaden the child’s frame of reference. Intelligent parenting lies in optimizing the process – not working too quickly or too slowly. In contrast, the elderly person develops another type of conservatism, this time based on the fact that the individual has experienced quite a lot even if the experiences are not all-encompassing. This leads to a situation where one feels that one has experienced “everything” already, so new information doesn’t contribute anything new. In fact, there is a tendency to believe that everything was better “way back when.” The problem here lies in the frame of reference having been expanded so much that it can function as a frame for judging everything. The conservatism here lies in not being able to see what is new in new things; instead, one clings to what is old in the new. The experience is here is that “there is nothing new under the sun.” During the period of time between the beginning and end stages our lives, we exhibit the most optimal balance between seeking information that confirms what we know and being open to new information. The size and variability of the reality we are working with also has significance. If our reality is broad and many-faceted, it takes longer to develop the optimal perspective for judgment. It is for this reason that, for example, researchers in philosophy reach their pinnacles around the age of 50 or 60 while researchers in natural sciences make their most important discoveries between the ages of 20 and 40.

However, our tendency to seek out confirmation, which certainly stimulates various types of conservatism, is absolutely vital to our being able to maintain the ability to understand the

world. In situations where humans are not given the opportunity to refill themselves with more stimuli, they develop a mental disorder called sensory deprivation (Solomon *et al.*, 1957). The intensity of such a condition was shown in anecdotal evidence from the Korean Conflict, during which American prisoners of war were subjected to mental torture through being deprived of all stimuli. In a matter of weeks this caused them to lose large portions of their memory functions. Repair of deteriorating memory structures through actively seeking confirmation is vital for avoiding damaging loss of memory.

Another aspect of memory that is important to understand is that memories do not work in isolation. The human mind is not a computer. While computers process information serially, the human mind processes information in parallel processes (Gärdenfors, 1996). This means that a memory can never serve to create meaning in isolation from other memories or other bodily functions; rather, it is always the whole of memories that creates meaning. Memories must therefore form a harmonic tapestry of meaningful information. If for some reason the structure of our memory isn't built with such an inner harmony, then a state called cognitive dissonance occurs (Festinger, 1957). Such a state reduces our ability to interpret our surroundings and the person who is subjected to it begins to actively change memory components that cause dissonance in order to bring balance to the mental processes (Heider, 1958).

Both of the forces, preserving memories intact and preserving their internal harmony, function in such a way that the human mind is always looking for "perfect" confirmation. If the mind were to succeed in that purpose, it would not learn anything. We can state that the basic strategy our minds use is not to strive to learn new things but to preserve the knowledge that we already have in its present form. However, the mind does learn in a special way, a process I will discuss in more detail below as I discuss the dynamic traits of the mind.

The influence of curiosity

The second trait entails that we humans are continuously searching for something new. Curiosity is part of our genetic makeup and it makes us try to find novel things that we find stimulating (Cloninger *et al.*, 1993). Our tendency to seek out confirmation and to seek new information is supported by an inherited dependency on reward. We search for an experience in reality that provides a balance between the old and the new and which, therefore, satisfies our two cognitive sides. A rewarding feeling of satisfaction is generated through this mechanism. Additionally, the ability to take in new stimuli is effected by various cognitive factors which are tied to our experiences in life, in particular those which we gain early in life. One such factor has been called the sense of coherence. This concept was developed by sociologist Aaron Antonovsky (1991). He found that certain humans have a more developed ability to see consistency in their reality and that it makes them with better able to relate to it. Later studies have shown that people build up this ability at a young age, particularly during their first 18 months. During that time, when the child cannot use words as mechanisms for creating concepts, all input is emotional and goes straight into the individual's self perception. This is why it is so important for small children to experience maximal security during that first period. Another factor that contributes to our ability to experience new things is our ability to see reality in its temporal context. David Ingvar coined the phrase *time arrow* to describe this phenomenon (Ingvar, 1991). Cognition exists in a fluid state between the past and present; the now-experience of reality must exist in a balance between these two time axes. There are conditions that can disrupt this state, for example, traumatic experiences.

These are incorporated into the experience of the past and preclude experience of the present because they disrupt belief in the future. Another example is drugs that stimulate the central nervous system, alcohol in particular; these reinforce the now-experience rather than the past or the future. In turn, this leads to the substance abuser only being able to experience the now through the drug because the experience of the other time dimensions has disappeared along with their support for the now-experience.

Personal flow

The cognitive balance between seeking confirmation and seeking new information converges in the experience of how large the environment's demands are. All humans have a concept of their own abilities that they set in contrast to their concept of the demands of the environment. This problem has been studied by psychologist Csíkszentmihályi (1992). He found that people develop creativity and attentiveness for the tasks at hand if they experience a balance between the demands of the situation and the proficiencies they believe they have. These positions are called the *flow channel*. Observe that this deals with the experience of demands and proficiency – not how the situation actually is. If the demands are seen to exceed the perception of one's proficiencies, it will lead to an anxiety-filled experience which will be negative for creativity. If demands don't adequately live up to one's own proficiencies, it leads to boredom, which also leads to lower creativity and attentiveness. Therefore, new information should not diverge too far from the information one is used to but should lie just outside of what one is used to so that it creates a challenging experience.

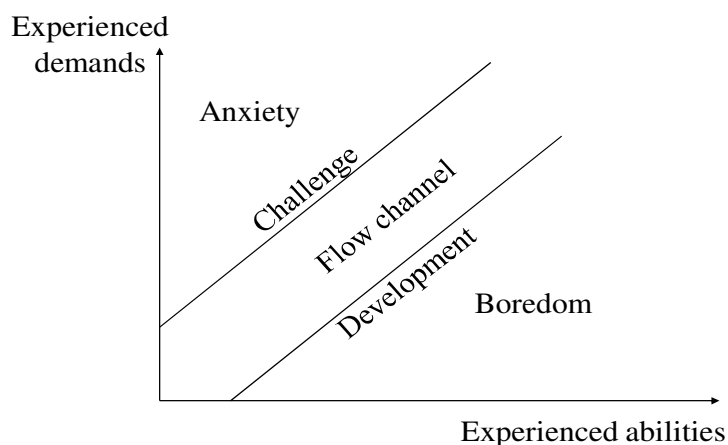


Figure 5: Flow as a function of experienced demands and abilities.

Another view of flow describes it as a type of motivation. Amabile (1996), inspired by Crutchfield (1962), coined the term *intrinsic motivation*, to connote task-oriented motivation. According to this perspective, a special type of motivation occurs for people when a situation offers something that is particularly stimulating in an otherwise manageable situation. This perspective also indicates areas of change in the borderland between flow and challenge, and flow and development, respectively. This indicates that creativity exists where the known

meets the unknown. This is a complex of problems that I will return to in chapter 9 in connection with my discussion of chaos theory.

Today's professional life is filled with examples of people who become burnt out due to being faced with situations in which they are bombarded by information that lies well outside of what they are used to while they are "stuck" in routines they cannot influence. These situations create people who are afraid of change and who turn inward. In fact, despite the actual demands being quite low they perceive the level of demands as being high. In contrast, organizations that can produce contexts that create meaning and leave room for employees to try various solutions can create situations where the level of demands they experience is just high enough that it seems exciting and interesting. In such situations, people can function well even when faced with actual high demands.

Our minds are programmed to reason abstractly about time; this gives us a conception of time that is based on the past but which is focused on the future (Ingvar, 1985). Further, the ability creates a dynamic experience of time which forms the basis for creation of tacit knowledge. The process is roughly like this: It starts with us choosing to activate ourselves in a situation. Subconsciously, we choose a situation which appears to consist of many familiar aspects. Thus, we have a tendency to choose activation in situations that are similar to those we have experienced earlier. The reason for this, of course, is that our minds are able to guarantee a certain influx of information that confirms our experiences to help us to avoid sensory deprivation. One consequence of this is that the mind doesn't want to learn new things; it would be satisfied being fed fully familiar components. However, the brain will learn things anyway, as we will soon see.

The next stage in the process is that we enter a situation and begin to notice what is happening. Since the situation is familiar, it will very likely offer a great deal of confirmation. We use that information to fill the gaps in our "memory house." The selective perception that this leads to is different for different individuals since we all have different gaps in our memories. The mind seeks perfect confirming information at this point, but doesn't find any. It does find information easily which it deems to offer sufficient confirmation and stores all such stimuli in an area of the diencephalon, or hindbrain, called the *transient sensory store* (Neisser, 1967). Sensory input is stored there for approximately five seconds; within that time, the mind must determine whether or not the stimuli should be taken into the working memory for processing. In this function, the mind has a limited capacity to process information – about seven items simultaneously. During that time, there are billions of "memory houses" which are collapsing at a terrible rate in the long-term memory. For that reason, the mind cannot wait for the perfect confirmation information that it seeks so it satisfies itself with the best it can find and places it in various areas of in the brain at the same time. What happens is that the impression of a situation that the individual is now experiencing will change somewhat, but the person is unaware of this change. Therefore, the person's knowledge about the situation has changed without his or her noticing it and it becomes tacit knowledge. If the situation were all too dissimilar to a normal situation, that is, what the person expects, the risk is great that he or she denies its content and misses a learning experience.

When the individual has created an impression about what is happening in a situation, partly based on pre-understanding and partly on the recent update, he or she begins to anticipate what will happen next and can then start to join in the activity. The final learning occurs then in the enactment itself.

This process increases the likelihood that the person can anticipate what will happen next which, in turn, increases participation learning and the person gains a reward – the feeling of understanding the context. He or she then carries that feeling over to the next situation to which he or she is exposed, thus increasing the possibility for participating in it. If this selective mechanism works efficiently, which it does if good feedback is given about whether one is properly activated in the situation, the opportunity arises to expose oneself iteratively to the same type of situation, thereby developing a larger measure of expert knowledge of it. This knowledge is largely tacit knowledge (Ericsson & Smith, 1991).

Formation of individual perspectives

Enactment is a decisive factor for forming perspective. For this reason, behavior is affected by how a person has been enacted in similar situations in the past, as well as how much a person is enacted now. There are four potential enactment situations:

1. If a person has never been particularly enacted in a situation on which he or she has built perspective, there is a risk that the perspective is based on information that is not rooted in reality. This can be hearsay, rumors or other information from second-hand sources. In these cases, there is a great risk that the perspective is tainted by simplifications or prejudices that can lead them in the wrong directions. Despite this, the person will wish to feel that he or she understands the situation; that feeling of understanding is deceptive and guides future intake of information. This is how biases, superstitions, prejudices and other unrealistic perspectives are formed and these can exist for long periods of time without being questioned.
2. If a person has been enacted in a particular situation in the past, but is not at present, there is a risk that he or she judges the present situation from a past perspective that was formed under circumstances that may not be valid anymore. In this case, the conditions for forming perspective are conservative in nature. This type of perspective is not necessarily ineffective, since it is based on a true experience of reality. However, if the conditions have changed a lot since the perspective was formed there is a risk that it is no longer relevant. Research (Garratt, 1994) has shown that this effect influences managers who are promoted. When a marketing director is promoted to managing director, the risk/chance is great that the individual will reorganize the entire organization so that it is similar to his or her own marketing department. The same thing can happen with finance directors, communication directors and other managers.
3. If a person enters a situation that he or she has not enacted before, the most common initial reaction is to try to disregard it since it doesn't offer enough familiar stimuli that will initiate perspective formation and leads to the individual having difficulty grasping the situation as a whole. However, there can be stimuli in the situation that are reminiscent of other situations the individual has experienced before which can create associative paths that lead to ideas about the opportunities in the situation. These ideas can turn out to be passing fancies that do not fit into the situation at all, but they can also be ingenious. Often, those in this environment cannot determine which category the ideas fall into directly since the ideas seem to be misplaced in their frame of reference. As a result, the new members of the group are often met with

skepticism. Organizational consultants face this problem. On the one hand, their clients want to be supplied with something new; on the other hand, it shouldn't be so new that it seems strange to the client. I once heard an executive express such an attitude at a meeting concerning initiation of a change process. He said, "Should we hire a consultant or should we muck things up ourselves?" This is why the most successful consultants are those who supply just the right amount of new material integrated in to some form of confirming information. One consulting company that has created a successful business concept with this formula is McKinsey. Each year the company hires a number of high-achieving students from the leading universities and puts them through an introductory program that lasts a few years. During that time, the new graduates participate in a number of different projects and become familiar with McKinsey's management model as it is used in their assignments. After this period, most of these people terminate their employment and go on to careers in other organizations. Since they are high achievers and their time at McKinsey has given them excellent qualifications, they often find prestigious jobs and advance to a high level. As a result, when they hire consultants in the future, there is a strong likelihood that they will choose McKinsey. When the consultants come in, they analyze the company's situation and supply a solution within the framework of a well-recognized concept – the McKinsey model. This creates a situation where the customer tends to do something about the situation and brings about the likelihood for improvement. This concept follows Weick's theses on enactment (Weick, 1979). One anecdote he shares deals with a military company commander who is trying to persuade his troops to advance to engage the enemy. The question is how good his map needs to be in order to successfully complete the maneuver. If he can persuade his soldiers to take one step forward, reality will change to a large degree. After two more steps and then several more, reality has changed quite radically. Weick's conclusion is that no map in the world will be able to completely prepare a group for these changes and, therefore, it only has one function to perform – to be an inspiration to advancing.

4. If a person is in a situation that he or she has enacted many times in the past, the person may create constructive perspectives. In this situation, the person can use all of his or her experience to relate to the situation. In the best case scenario, this experience leads to some type of expertise that is largely made up of tacit knowledge; with it, the person can make judgments that others are wholly incapable of making. I met such a person in my youth when I worked as a trainee at a large industrial bakery. I worked with a master baker who could mix dough for a type of bread that was a combination of French bread dough and whole **ray** dough. It's like mixing water and oil. There was a recipe that could be followed but it was not sufficient for producing proper results. The master baker weighed in situational factors such as humidity, temperature and the consistency of the fat used. His practice gave him a feeling for how all of these factors worked together so that he could produce perfect results. If he were ill one day, we had difficulty baking this bread. Another example of such a person comes in the form of an anecdote I was told at the company Atlas Copco. There was a master metalworker there by the name of Hellman. He was an expert at tempering steel in the tips of drill bits that were used as rock bores. As in the bakery, there was a kind of recipe to follow but Hellman had a feel for the metal that others simply did not have that made him vital to the process. When he left the company, it took a long time for another person to develop similar knowledge. This is a problem that has been highlighted in connection with procedures for storing knowledge in various systems,

so-called knowledge management. It seems that tacit knowledge is difficult to separate from its context. It becomes connected to a particular individual's experience. Many companies invest in in-service training via the apprenticeship methods that were common during medieval times. It seems that apprenticeship is having a renaissance in education as well. The problem with expertise is that it is limited by the given situation and that formation of perspective becomes limited under such conditions, as indicated by Schön (1983). For that reason, the efficacy of the individual's formation of perspective is linked to the enacted situation the person is in.

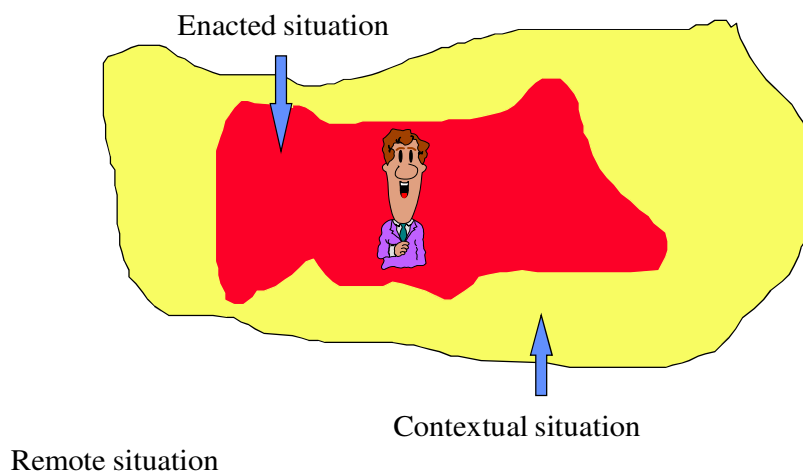


Figure 6: Various situations where formation of perspective can occur according to different degrees of activation.

In a situation a person normally enacts, he or she can use all of his or her acquired experience to judge that situation. This gives the individual an ability to deal with large amounts of information and interpret it even if it limits perspective. He or she is able to make intelligent analyses even if any conclusions will be based on limited information. This leads to a tendency to overreact in the situation and causes the sort of narrow-mindedness that Schön (1983) indicated inflicts experts. Since we all are more or less experts in our customary enacted situations, we have the ability to react effectively within them even if we do tend to overreact, at times. In order to illustrate this, we can take a fictional example of a carpenter who is an expert on building wooden houses. Let us also suppose that these wooden houses are sold with a guarantee that they will stand up to the wind for a certain number of years. This guarantee is, of course, formulated according to the wind forces that have been common up to this point in the area where the carpenter builds houses. When it comes to phenomena the carpenter is used to, such as hammers, nails, saws, construction principles for wooden houses and buyers of wooden houses, this carpenter is very good at making judgments. He can even use his expertise on phenomena which are more abstract but which are specific to the situation, such as the concept of “2 by 4”. For someone who is uninitiated in the art of carpentry, this type of expression might not say anything at all, but for a carpenter it elicits a number of associations, since this term refers to a standard dimension for building joists (a board used for load-bearing constructions). It becomes even more complicated when one considers that this concept doesn't even refer to our European carpenter's reality at all

because the system which has been in use in Europe for years has been based on millimeters. So, the standard measurement in question is actually 45 by 95 *millimeter* planed boards rather than 2 by 4 *inches*. However, the construction tradition involves language usage that relates to the old system of measurement even though they are referring to the new system.

Though it is his own enacted situation that dominates our carpenter's image of reality, he also sees another situation outside of his enacted situation, the environment that frames the situation in which he is active – his contextual situation. His experience of occurrences from that part of reality affects his own enacted situation. This particular part of his environment is not a part of his own enactment and is not affected by it, but it does tend to affect the carpenter himself. In our carpenter's case, real-estate taxation might be such a factor. He cannot influence the phenomenon directly but it does affect him by impacting on his customers' propensity to buy his houses. The carpenter has had recurring experiences each time the authorities change the rules for real-estate tax; it has caused problems for him selling his houses. When he hears that such a change is about to take place, he immediately concludes that he must contact his customers and discuss financing with them. In this contextual environment, he sees things that affect him negatively and positively but the ability to essentially create opportunities from occurrences in the situation does lie within his expertise. Thus, the contextual environment is hypothetical for him and he has a standing hypothesis – that he can create opportunities out of it.

Outside of his contextual situation, there is a large area that represents occurrences that he has never experienced as being related to his own enacted situation. This area is irrelevant to him and he may have difficulty seeing how occurrences in that area might affect his own situation – these are experienced as remote situations. In this case, he guaranteed that the houses would withstand normal winds without blowing over. The greenhouse effect has shown to increase wind speeds, which might lead to his guarantee not holding anymore within a few years ahead. Even if this connection can seem likely as a line of reasoning, it is difficult for the carpenter to take it seriously before it actually happens. History is full of similar examples. The Titanic was defined as an unsinkable ship, a condition that certainly contributed to the crew paying less attention to icebergs since, by definition, threats from icebergs were occurrences in a remote environment up until the icebergs cut holes in the ship, at which point it was too late. The financial crisis we find ourselves in now is a similar example. Several years ago, the BBC broadcast a comedy where the issue of bad loans was the subject of jokes. It could have served as a wake-up call, but it was only after the banks began cancelling payments that the financial sector reacted in panic. Thus, the ability to make predictions of occurrences in a remote environment is very limited. The problem is not that we don't see what is going on but that we don't have the ability to interpret the implications of the problem since we lack the cognitive tools.

In conclusion, each person has an area in his or her experience of reality where he or she has a certain amount of expertise to act in an intelligent way, that is, the enacted situation. The more this situation is felt to be integrated into a larger context, the better the person will be able to avoid making interpretations that are too narrow. The more the person feels task-related motivation in the enacted situation, the stronger his or her experience will be. Each person must therefore be in a situation that communicates well-known phenomena in the near environment as well as new phenomena that relate to the well-known phenomena in the external environment in order to develop the necessary creativity for dealing intelligently with the given situation. Faced with this conclusion, it is also clear that the organizational environment plays a major role for workers' ability to form perspective on their individual

situations as well as their ability to act effectively in them. With that, we come to the next stage in this account: formation of collective perspectives.

Chapter 8

Forming organizational perspectives

A person is best at performing when the perspectives are based upon the environment which he or she is enacting – the enacted situation – but that this is also associated with a certain degree of narrow-mindedness. Social interaction between people offers the opportunity for the individuals to broaden their perspectives thereby refining them. Sometimes this positive effect occurs due to social interaction, sometimes not. In order to understand these mechanisms, we must start with social interaction's direct effect on formation of perspective.

Direct effects

When people interact in groups, they bring their own memory based interpretations of reality with them. These form frames of reference which are then conveyed through interpersonal communication. Of course, language usage is one very powerful tool for communication, but there are others. When humans meet we often communicate through body language and actions. The weakest influence occurs through body language, and then the degree of influence increases through various types of verbal language usage, while actions carry the strongest influence. This means that actions, as a rule, communicate more forcefully than speech. Written language often has a stronger influence than speech as well since it has passed the border for becoming action. Hence, the rhetorical power of written language is greater than for verbal language even though the verbal language may have a strong impact due to the presence in the situation (Ekman, 2003).

When people meet physically, the entire arsenal of instruments of influence is available and causes all other influences to be less effective. The positive effect of this kind of influence can be that all participants bring one another a better quality understanding, this is the ideal. However, there is a risk for a more negative effect. If all participants in a meeting have flawed or insufficiently supported impressions of reality, they may come up with a collective understanding that is qualitatively worse than the understanding they each had as individuals. This is called *groupthink* in the literature (Janis 1982). A variation of this is when participants who do not have a strong opinion successively gain a faulty impression through systematic influence over several occasions, or *shift in reference points* (Cialdini, 2001).

Interpersonal interaction can contribute to change; two main types of change are shown in the literature. The first is generally called *compliance* and the second is *conversion* (Moscovici, 1980). Change through compliance occurs when a person changes his or her perspective to align with the majority view, while conversion occurs when one adapts to a minority. In the latter case, change often occurs indirectly and after a time delay. Compliance can lead to resistance to change through reinterpretation of information according to the majority stance in order to minimize dissonance in relation to the group (Allen & Wilder, 1980). Under extreme conditions, when the group experiences an outside threat, this can lead to groupthink, thereby reducing the ability of the group members to process information effectively (McCauley, 1989; Hutchins, 1991). Conversion according to a minority's point of view leads to cognitive change more often and, therefore, stimulates formation of new reaction patterns (Nemeth, 1986). This can be associated with various cognitive processes such as attention, thought and memory (Nemeth & Kwan, 1987; Nemeth *et al.*, 1990). The change caused by the conversion process will be based primarily on the strength of the information, while

compliance is more based on normative pressure (Deutsch & Gerard, 1955). This explains why the conversion process leads to more cognitive change than the compliance process.

Indirect influence

The presence of an organizational memory not only implies that members of the organization are affected by each other through diverse social processes, but also that there is much else in organizations that affects the formation of perspective in the form of processes and structures. This type of influence often occurs indirectly and deals partly with influence of focus on formation of perspective and partly with its intensity. The focus for formation of perspective is affected by such factors that are at work in a person's enacted situation as well as the general situation that can affect the enacted situation indirectly. Intensity is affected primarily by the individual's experience of intrinsic motivation related to the task in the enacted situation. I will now go through how these factors influence the formation of perspective.

Factors that affect focus

The strongest influential force on an individual's formation of perspective is found in his or her enacted situation. The more the relationships in that situation relate to the individual's past experience, the stronger this influence is. As we saw earlier, this influence can lead to a certain amount of narrow-sightedness on the one hand while tending to enable the individual to use all of his or her available perspective-forming expertise on the other, often leading to an intelligent perspective on the immediate reality. If everything else that occurs in the organization outside the enacted situation of the individual is seen to create opportunities for him or her, it will serve to broaden that person's formation of perspective. In this case, that person will then view the rest of the organization as a framing situation to his or her own enacted situation. The opposite effect occurs if the general situation in the rest of the organization does not contribute to creation of opportunities in the enacted situation. Then, the person will minimize focus and allow his or her narrow-sightedness to rein free. Another possibility is that the general situation contains powerful forces for compliance, which will reduce the focusing forces in the enacted situation. At that point, a foundation for collective perspective formation has been created that may have a faulty base in reality.

There can be various factors included in the general situation. According to Hamrefors (1999) these can be divided into three groups:

1. Coordinating logic: the general situation's ability to communicate logic that provides a coordinated impression that, in turn, facilitates processes in the enacted situation.
2. Transparency: the ability of the general situation to communicate understanding about the overall traits of organization, which, in turn, enables creation of meaning in the enacted situation.
3. Knowledge transfer: the general situation's ability to convey information to the enacted situation so that work is facilitated and can develop.

In all of these cases, the focusing factors will affect formation of organizational perspective if they can influence the members' enacted situations. However, the effect can be both positive and negative. The positive effect is reached if the general factors, coordinated logic,

transparence and knowledge transfer, broaden the perspectives of the members without their losing focus on what is relevant to the task at hand in their respective enacted situations. In contrast, the general situation can have a negative effect on the formation of perspective if it communicates in a way that is not compatible with what is relevant for the enacted situation so that it either confuses people or has too little influence on the whole.

Factors that affect intensity

The intensity of the attention paid to forming perspective is dependent on how much a person is motivated by the work task he or she is performing. Research shows that such intrinsic motivation is vital for creating effective focus. The question is which phenomena build this type of task related motivation.

The basic factor is how well work tasks correspond to earlier experience and education. The greater the correspondence between the present situation and earlier experience, the more the individual will feel that perceived demands and perceived proficiencies correspond to each other, thus providing an experience of flow. In order for the situation to be seen as stimulating in the long term as well, it must contain the right amount of challenging aspects so that demands feel somewhat higher than the perceived capabilities. At the same time, the situation should have aspects that reinforce the individual's capabilities, such as sufficient education or other development that is not a direct result of work.

One problematic motivating factor is money. It works more as an attracting force than as a motivating force. In other words, monetary compensation that seems normal and fair must be provided, otherwise the company risks attracting the incompetent people. As the Americans say, "If you pay peanuts, you get monkeys." Experience shows, though, that motivation does not increase if employees are overpaid. The effect is often the opposite, as is obviously the case with bonuses. There is no research that shows a positive connection between performance and payment of bonuses. This rule even applies to financing new companies. At the turn of the past century, there were many newly started IT-companies that were given millions of dollars in advance financing; however, this practice simply resulted in companies being valued according to their *burn rate*, which is to say the more money they spent, the more money they were given. That financing principle was abandoned later for obvious reasons.

With knowledge of these principles, one can understand how an organization can be created that is utterly incapable of forming perspective – the "lobotomized" organization. This type of organization is the result of overpaying people in order to lure them into doing jobs that they hate. Such a policy attracts obedient workers who do not think. That is what Henry Ford did, a point I will return to later. In his case, however, the formula worked thanks to very unique circumstances. Nevertheless, when a company is a member of a value creating network, it must be careful not to create such an organization.

Types of perspective formation

We will now lift this issue to the organizational level and ask ourselves what affect that various combinations of influencing factors have on the collective formation of perspective, we can identify some basic types: avoidance perspective, anarchistic perspective, partitioning perspective, standardizing perspective and developmental perspectives.

Avoidance perspective

In this case, employees view the general situation as being hopeless. For one thing, they hate their work tasks, for another, they find them meaningless. Of course, this is an uncommon situation that is rarely persistent when it occurs. Here, workers try to escape the company by playing hooky or, if they are able, quitting. However, if they must spend their days doing such a job, they will begin to devote time to maintaining perspectives that have nothing to do with the job. If there is a telephone in the workspace the employee might start to call friends and chat with them; if there is a computer, he or she might surf the Internet for entertainment, or download amusing games. The individual tries to do everything to mentally avoid the organization.

If that does not work, then the employee will start to cooperate with others at the company, though not to work, instead they will create funny stories together, often about the boss. Workers in the Soviet Union were very adept at escapist, amusing stories which were much more than pure entertainment (Cesarini & Ericson, 2006). In fact, the political anecdotes in the Soviet Union were a liberating flight from a difficult existence in a world where satire about the Soviet government could thrive. Humor is a very effective way of escaping a dreary life.

If telling funny stories doesn't brighten everyday life enough, there is one last trick: sabotage the organization. I have heard a number of anecdotes about such behavior; I don't know if they are all true since I haven't been able to trace their sources, but they are thought provoking so I will relate them as the anecdotes as they are. The first is from Volvo's plant in Gothenburg during the 1970's. The workers created a game that they played every day; it was a contest to see which employee could steal the most expensive component from a Volvo automobile and get through the factory gates without getting caught. One day, a worker won by walking through the gates, staggering and bent over, carrying a windshield from a Volvo taped down the length of his back! No one reacted and stopped him. Another example I heard a while ago was about English banks. Such institutions are not known for offering stimulating work tasks. So these banks had difficulty attracting qualified personnel. During one period of recession in the English economy the banks saw their chance to try to upgrade their resources through attracting more qualified personnel. Since there weren't so many alternatives on the job market, they did receive applications from more qualified applicants. However, they forgot to upgrade the work tasks, which created a rather boring environment for the new, more qualified workers. The result was that the frequency for internal fraud increased. Another example is one I heard first-hand from a South African sugar farmer. He and his family were very blonde and were proud of being seventh generation German descendants. As I sat and talked to the farmer about his work one night he told me about how his workers or, as he put it, his "Zulu workers," stole meaningless things from him while he was watching them. When he later showed the workers that he had caught them, they showed such ingenuity in their way of talking themselves out of the situation that the farmer began to doubt his own senses. He couldn't see any solution for the situation. My comment on his story was, "Don't you see that your workers have understood that you don't understand that they can think, and how fun isn't it to outsmart you!" He was quite taken by this insight and I hope that it contributed to his beginning to view his personnel as thinking beings so that he could use their creativity for more productive tasks.

This formation of an avoidance perspective is often very creative since the motivation for getting out of the situation is so strong. However, the unsatisfactory conditions that give rise to it are often so serious that they are difficult to remedy. As a result, the creativity conserves hopelessness in these situations and a vicious cycle occurs. This is why it is easy to understand that such misguided creativity does not contribute to formation of perspectives that will increase an organization's ability to position itself in a value network.

Anarchistic perspective

In a situation where people are very motivated by their work tasks and experience a pronounced personal flow as a result, but where the individual workers are relatively isolated from each other in their enacted situations, there is a tendency to create what I have chosen to call the anarchistic perspective. I do not mean that the perspective is politically anarchistic, rather that the perspective has become limited by the narrow-sightedness that characterizes formation of perspective in isolation. Such organizations often have highly professional employees whose activities are normally knowledge intensive. What the leadership in the organization lacks in this situation is the ability to communicate the big picture. The more service-related the organization is, the stronger this effect will be. What happens in this case is that the employees are very active in their own situations and they have a great deal of influence on them. The degree of enactment is meaningful. When the employees influence their situations, these will be transported away from the core business rather than into it, creating an anarchistic pattern of action that may cause the organization to disintegrate and cease to exist. Often, this tendency results in splintering of knowledge intensive service companies.

An example of such an organization from my own research is a sales company in the electronics industry. The company had more than 100 people on its sales staff who sold advanced electronics business to business. The managing director identified a problem that was that the sales staff tended to sell individual products at a lower cost rather than selling the more profitable system installations. After closer contact with the sales staff, it was found that most of them felt rather isolated, but that their existence offered sufficient challenge if they limited their activities to those where they were sure of success. However, there was one point of discontent concerning the function of the company's infrastructure. Their product information was insufficient and several systems were underdeveloped and caused a problem with billing. As a result, the sales staff would "escape" out to customers to talk about the deals they felt they could control, where the business discussions primarily concerned individual products. One salesperson expressed it this way, "I can't come home with an order of over a million because it would only cause problems!" There was one small group of salespeople who experienced a completely different situation, however: those who had close personal contact with the managing director. He gave them personal guidance about their business opportunities as well as product information. These members of the sales staff sold a higher rate of system installations than the others, but they were in the minority. Analysis of the situation indicated that the managing director was the problem. He was relatively newly appointed and had been the managing director for a smaller consulting company previously. He brought the style of leadership he had developed there with him to his new role at this substantially larger company and it created problems in the infrastructure. Further, such problems were of less importance to him because he did not see them as entrepreneurial issues. So, the managing director himself became a hindrance that created conditions for formation of sub-optimized perspectives and actions.

Of course, this type of situation is not utterly hopeless since the employees did exhibit a dynamic and were able to use their capabilities. As a result, there was a chance for improving the situation significantly by reinforcing the leaders' communication of comprehensive perspectives enough to combine the dynamic perspectives that exist in the enacted situations and better optimize them.

Partitioning perspective

Some organizations exhibit a division into several different environments that can contrast glaringly with one another. This can cause some functions to be extremely undersupplied with new perspectives that are able to contribute to development while others can be supplied extremely well with that type of stimulation. Often, this concerns older organizations where structuration and change processes have resulted in fragmentation of different environments on a corporate level. These organizations can show an astounding capacity for change as well as a similarly astounding immunity to change. An example of change is the government controlled Swedish telephone company, *Televerket*, during the 1950's and 60's (Mölleryd, 1997). In order to create an environment for change, *Televerket*, cooperated with the well-known telecom company Ericsson in a development company called Ellemtel. However, the most groundbreaking innovation did not occur in that company, it came from *Televerket*'s parent organization. In the upper levels of the organization, there was a political environment that created an administrative organization while further down there were groups of technically adept workers who solved a number of technical issues on their own. It was on that level that many people worked to develop advanced system solutions for telephone traffic and, since *Televerket* was a State-owned monopoly, the entire telephone network was their development arena. Both the organizational leadership and the political leadership acknowledged the infrastructural development work but, otherwise, there was a large gap between management and the specialists on a systemic level. The result was that there was a lot of leeway for experimentation and, since the organization was large, there were even financial muscles that could be flexed for development. This resulted in an environment for development that was used by some innovators to create new technical solutions. One of these innovators was Östen Mäkitalo; he took the initiative to develop new technical functions that had a potential for resulting in wireless telecommunication. His experiments started on a small scale and grew until they were noticed. At the same time, the opportunity arose to develop a wireless system for telecommunication. Because Ericsson was involved in cooperation with *Televerket*, they became involved in the development of mobile telephony. Thus, by creating an environment that effectively communicated the various components for development of telecommunication, they created a platform for innovative initiative. So, there was an indirect value creating network that led to innovation that, in turn, provided Ericsson with the business opportunity that allowed them to become the leading supplier of mobile telecommunication they are today.

Another example of an organization similar to the above example that didn't create such positive conditions for innovative change is SJ, the public Swedish railway company. According to Brunsson & Olsen (1993), there is a risk that organizational reforms in an organization with a partitioning perspective do not contribute to changes in behavior patterns due to the fact that the organization's natural processes create a fixed institutional environment. Initiatives for change, which often come from the top, aren't able to create change. For this reason, it is difficult for reforms to penetrate into the organization in this kind of environment, so they tend to conserve the organization at hand rather than change it. Nils

Brunsson often uses SJ in his lectures as an example of organizations that create a lot of reform projects that don't change the organization. In SJ's case, he often adds humorously, "That's lucky because otherwise maybe the trains wouldn't run at all today."

In these types of organizations, it is difficult to predict how communication will contribute to external efficacy. The situation works best when the organization is allowed to be run in its own way without too much interference from the top management. Instead, management should concern itself with creating network relationships that can prepare the way into the market for innovations created spontaneously in the organization. It is likely this point where Televerket and SJ differ most. Televerket's management developed cooperative networks while SJ's did not do so to the same degree. The reason for the difference is clearly that creating networks was a natural step for Televerket but that it was not as natural for SJ. In more recent years, we have seen that SJ has created a number of innovations as the company's role has become more loosely connected to the political establishment. In the best of all worlds, these types of organizations can be important driving forces in value creating networks; in the worst of all worlds, they can prevent development. The crucial difference between success and failure lies in the ability to communicate in networks.

If this type of environment containing a partitioning perspective is broken up, unexpected problems often arise. Such problems are common in today's society when political organizations that have been natural monopolies break up into organizations that are exposed to competition. One example of this issue is the reorganization of the British Atomic Energy Authority (White, 1995). From the beginning, this was an authority with a monopoly over monitoring safety in nuclear power plants in Great Britain. From an organizational perspective the authority showed clear tendencies toward partitioning perspectives. There was management that communicated diligently with other political agencies while, further down in the organization, they worked to protect their technological core. Even further down in the organization, there were a number of specialists who governed themselves by and large according to the guidelines that were provided for the technology in which each individual specialized and there were imperative, detailed regulations that steered the organization. The day to day activities for these experts were extremely regulated. When the organization was deregulated, an attempt was made at creating some form of consulting company out of it. This certainly created more freedom for the employees but it did not contribute to a more efficient operation. The reason is that this situation caused a conflict-filled environment. On the one hand, there were still stringent safety demands, on the other, a profitability requirement was initiated. This created problems with conflict-filled priorities and caused a large part of their core competence to leave the organization. After having been in a situation where comprehensive thinking and divisions cooperated in a pattern, the situation deteriorated into a conflict-filled prioritizing trap. Similar problems have been reported on a daily basis from Swedish healthcare sector since privatization of many of its operations. Management for that type of organization too often trusts that the values that have been developed will lead to all members of the organization automatically working optimally. Such values are often formulated as sweeping, idealized statements that don't correspond to the daily work situation since it is run largely according to the principle of creating the cheapest possible care, which may not lead to high quality.

Standardizing perspective

If an organization becomes wholly dominated by one single perspective and is thoroughly institutionalized, it can lead to all activities becoming a routine consequence of thinking about the big picture. Of course, because this facilitates coordination of activities, this can lead to high internal efficiency and, if the organization exists in a stable environment and its activities are valued by that environment, it can lead to external efficiency as well. However, an environment that can be characterized as being a value creating network is almost never that stable. In this type of world, everything changes continually but an organization characterized by a standardizing perspective loses its ability to adapt to changes. Moreover, this type of organization creates a feeling of invulnerability, giving rise to the “Titanic syndrome.” As a result, this is a serious situation and, due to the massive structuration that has formed the organization, a massive change process will be required to rectify the situation. The process will be difficult, but it is possible. When Percy Barnevik took over at AESA and merged that organization with Brown Boveri, he created ABB, a dynamic company that had little in common with its Soviet-styled roots. The old AESA had a high level of routines in the organization and a low pressure for change. However, by reforming the organization through the T50 project (so called due to the goal of halving production times) and creating self-regulating groups, the organization was vitalized in a nearly unbelievable way.

The greatest danger the standardizing perspective creates is a false sense of security and, when signals from the market indicate that the company is dominant, this sense of security can take on gigantic proportions. This happened to IBM during the 1970’s. At the time, IBM was the absolute dominant figure on the market for mainframe computers. The company had extremely good business intelligence which offered substantial rewards for IBM by confirming that they were “biggest, best and brightest.” However, IBM had activities in other areas which were not given the same priority, for example, development of personal computers. When development had gotten to a stage where they needed an operative system, it was not natural for IBM to allocate its own resources for this type of development since programming of mainframes appeared to them to be a much higher priority. As a result, they searched for an operative system externally and found Bill Gates at Microsoft. He was prepared for their request and was able to offer a system that was originally called QDOS (apparently short for Quick and Dirty Operating System), now simply called DOS. IBM was presented with an offer they couldn’t refuse, resulting in IBM releasing DOS on a broad front, which led to DOS becoming the standard for the personal computer market. Since Microsoft retained the industrial property rights to DOS, it was able to offer DOS to all of IBM’s competition. By signing an agreement that seemed advantageous on the short term, IBM acted voluntarily as a market-maker for Microsoft and undermined its own position as the dominant actor on the computer market in the process. Another threat that IBM failed to take seriously was Intel’s development of information processors; during the 1970’s, they already had capabilities that could threaten the traditional tape-drive units in mainframe computers. Today, both Intel and Microsoft are more dominant than IBM within value networks that produce personal computers. In fact, both companies force all other companies, including IBM, to place “Intel inside” and “Designed for Microsoft Windows” on their computers.

Organizations with a standardizing perspective tend to create a situation that fosters myths about their own greatness. Because these myths are communicated incessantly by management in all kinds of ways, the organization is left vulnerable to changes in the environment. The end comes abruptly and takes everyone by surprise, but in retrospection

they say, “Of course we knew that, why didn’t we stop it in time?” The answer is that management did not communicate the right way because they took the easy way out.

Developmental perspectives

In the example of 3M Post-it notes from above, I illustrate an organization that is able to liberate the creativity of its employees, allowing them to initiate new opportunities in combination with a guidance mechanism that creates the chance for those opportunities to fit the company. In other words, 3M is an example of an organization that has influenced its members in their ability to create a developmental perspective. Analysis of 3M according to the above dimensions reveals that there are many traits that correspond:

- Because the business philosophy permeates all activities without dictating what should be done or how, there is a commonly held perspective that creates a shared frame of reference to which all activities can relate.
- Coordinating logic, transparency and knowledge transfer are supported by communicating freely about processes, there is a culture of exposing knowledge, there are identifiable routes for business development, a focus on opportunities and they learn from experienced risk-taking.
- By allowing employees great freedom to choose enactment spontaneously, they often experience personal flow and therefore spontaneously seek the challenges they want, which leads to their being intrinsically motivated by their work tasks.

Just as in the organization with the anarchistic ability to form perspective, the perspective that is formed in this organization is centered on each employee’s enacted situation. The difference between the two is that, in this situation, there are aspects of the organization that communicate a common denominator. The difference between this organization and the one that creates standardizing perspectives is that the latter doesn’t allow for variability in the enactment. An organization that is able to create perspectives that encourage development has the ability to communicate the purpose of the organization without locking into perceptions about which activities should be carried out. This can be seen as a form of partial structuration – thoughts about the organization are stream lined but the perception about activities is not standardized.

In the remainder of this book I will go into more detail about how to develop communicative leadership in order to achieve an overall situation that promotes developmental perspectives. I begin by introducing a theoretical perspective that will form the basis for the continuing analysis: chaos theory.

Chapter 9

Chaos theory

Chaos theory is a group of theories that is being used increasingly to describe complex systems. These have been used for many years in the natural sciences, giving rise to many interesting models for how interaction occurs in complex systems. One such use has been within meteorology. Our understanding for how climate develops is based on chaos theoretical models. The term chaos theory is actually confusing since it implies that these theories deal only with chaos; they don't. Instead, the theories are built around the idea that chaos and order must work together in a system to promote development.

In a purely chaotic system, it is impossible to find any meaning since everything varies in an unintelligible fashion. In a system where only order is found, it is impossible for change to occur since everything is predictable within the framework of the order.

Classical chaos theory states that all development occurs in a system where order is combined with chaos. There are two conditions that must be fulfilled. One is that order and chaos must be present in the system at the same time and the other is that they must interact. The first is perhaps not so hard to understand but the second is more difficult. It seems strange that something that is orderly would be able to cooperate with something that is chaotic since they are direct opposites of each other. The solution to this problem is that order and chaos must be represented by different aspects of the situation. It might be that they represent different processes that combine to form a common result, or that they represent different concepts or even that they affect the situation from different directions in some way.

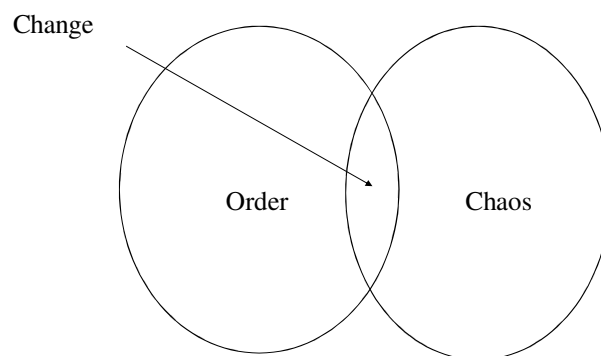


Figure 7: Change as a function of interaction between order and chaos.

A classic example of chaos theory in practice is snowflakes. All snowflakes are similar, but each one has a unique crystalline pattern. The reason behind why they are produced that way can be interpreted using chaos theory. Snowflakes are the product of one ordered process and one chaotic one. The ordered process is the transformation of a drop of water into ice when it is subjected to temperatures below zero Celsius. That process is the same each time it occurs

and is entirely predictable. Up in the clouds, drops of water are formed into ice crystals, but if that were the whole story then snowflakes would not form at all, hail would. The question is what it is that makes ice crystals into snowflakes. Each snowflake has a unique pattern according to a mathematical principle called fractals. The answer lies in what affects the fractals. There are always randomly varied patterns of vibrations present in the atmosphere caused by whatever is happening on Earth and in Earth's atmosphere; these vibrations form a continuous unpredictable murmur. At the moment when a drop of water freezes to ice there is a unique pattern of vibration present and it affects the crystal pattern of the snowflake, which will also be unique. In this way, we can predict with certainty when and where snowflakes will form, but not how they will look. The only thing we do know is that the pattern will vary within the framework of the principles for fractals, on the other hand, these principles allow for nearly infinite variation.

Chaos theory has even gained footing in the social sciences and, as a result, within organizational theory where it is used to explain development processes. The most common perspective is to view it as sets of organizational activities that drive an order creating process in an environment that is chaotic. Therefore, chaos theory belongs in the borderland between a chaotic world and creation of order through organization (Marion, 1999). In this context, I have chosen a slightly different perspective on chaos theory: continuous maintenance of both chaos and order generates a situation that encourages development.

Interpersonal interaction can also be explained using chaos theory. A person's remarks or actions lead to another person reacting in a certain way, which in turn affects a third person, at which point, a long series of social processes have begun. We rarely know what the results of these processes will be and they can surprise us. One example of this is the rule that when a social process is initiated, its counter-process is also begun. This is often a problem during lobbying processes. We may know that a counter-process is started each time a social chess-move is made, but it is difficult to get a view of its end result. Sometimes, the effects only reach half way. When SJ held a lobbying campaign to influence people against having company cars, they attempted to persuade politicians to make the terms for company cars less attractive. However, the auto industry immediately started its own campaign, the result of which was that the terms for company cars were made less attractive in one way in that the volume of fuel used was taxed, however, at the same time general benefits for car owners became less expensive for those with company cars. In the end, those with company cars came out ahead on average. Sometimes, the end results are nothing like what was intended. The campaign to build a high-rise hotel near the north entrance to Stockholm is such an example. There were many arguments for the building since it would be able to accept the streams of night guests arriving with the airport busses from Arlanda airport. Despite the fact that many parties were positive to the idea, there was unexpected resistance. There was dormant public opinion from the environmental sector that had long hoped the area in question would be made into a national park. That public opinion then gained renewed strength and was able to persuade politicians that the area should be a nature reserve instead. In hindsight, we can see that without the proposal for a high-rise hotel, it is likely that the national park within Hagapark in Stockholm would never have been created.

There are similar chaos theoretical issues in the military-political arena, such as when one uses information as a military weapon. It has been shown that this is a risky weapon since there is little control over how it will function (Borg *et al.*, 1998). I will return to this issue later in the book.

The interesting part of chaos theory is that it relates to how we humans function cognitively. People have a tendency to seek out confirming information, but we also have the opposite tendency to want new information. On the one hand, we want the world to stay the same, which can be considered a desire to experience order. On the other hand, we want to experience something new, which prevents the boredom which we would risk otherwise. For this reason, we are happiest in an environment that offers just the right amount of order and just the right amount of chaos. In this context, it is possible that the words “order” and “chaos” are deceptive since each term carries with it a certain inherent emotional charge. Perhaps it is more suitable to express the idea as humans needing a certain stability combined with variability in order to develop our ability to exert a progressive influence on reality. The question, then, is what should represent stability and what should represent variability during communication. We turn to that question now.

Chapter 10 Leadership Perspective

Cognitive stability is an effect of how our memories are organized in our brains. This stability is important for avoiding the psychological phenomenon that is called cognitive dissonance, as discussed above. We experience dissonance in small doses daily and we always use the same method to manage it; we seek confirmation. A person who has just bought a certain make and model of car will automatically see many more cars like it on the road. Of course, there aren't suddenly more of cars of that type on the street; the individual is simply more attentive to the type of car in order to confirm that he or she has made the "right choice" since so many other people "can't have been wrong." Moreover, our memories function as an instrument for categorization. When we experience something in reality, we turn to our memory and ask what it is that is being experienced. The brain mediates interpretations in the form of *schema*, defined as categorizations of situations or objects (Lord & Foti, 1986), or *scripts*, which are categorizations of chains of events (Gioia & Poole, 1984). These facilitate creation of associations for the brain according to the situation. Depending on how well one associates, one can meet a situation in a more or less intelligent way. Associations can act both positively and negatively. Positive associations provide an opportunity for us to see potential in a situation that would not have been possible otherwise. Negative associations cause confusion and reduce our ability for seeing potential in situations. It is here that some of the factors mentioned above come in to play: "sense of coherence" and "time arrow."

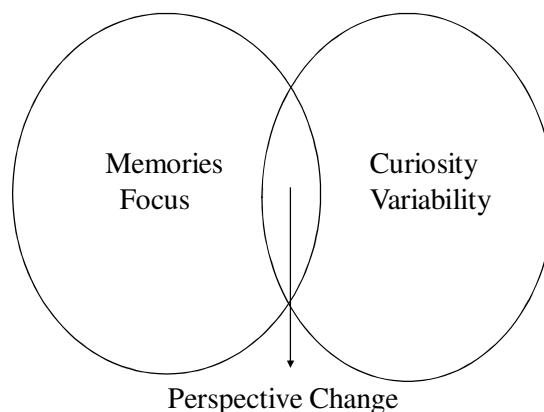


Figure 8: Change in perspective under the influence of memories and curiosity.

In this process memories work as an instrument of focus that guides the person to use the best possible *schema* and *scripts* to interpret a given situation. Curiosity is activated by stimuli in the situation and opens cognition to prepare for unexpected information that can be combined with the schema and scripts that are provided by memories.

In order for a situation to facilitate using memories as creative instruments for categorizing a given situation and create productive association opportunities, it must communicate stable notions and concepts that do not lock thoughts into particular ways of acting. Rather, communication should stimulate a person into various ways of acting. From a chaos theoretical perspective, it can be viewed as in the figure below.

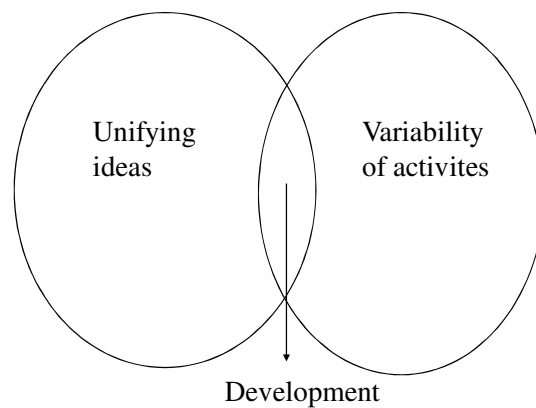


Figure 9: Chaos theoretical balance between thoughts that create order and variability of activities.

Based on this model, I would like to propose a general rule concerning communicative leadership for promoting developmental perspectives that:

Communicative leadership should create situations where people are guided by stable concepts, while being stimulated by variable activities.

This perspective is radically different from the perspective that has been dominant in traditional leadership for many years. Since Henry Ford's time, the traditional method for leading organizations has been to communicate effectively what people are supposed to do, how they are to do it and what results are expected. Most of the traditional control mechanisms are built on this principal. However, there is little mention in traditional leadership theory about how to get people to think in a certain way, without making them act in a predictable fashion.

As we established in chapter 3, leadership and management are not the same thing. According to Mats Tyrstrup's model, management is used to lead programmed and planed activities while leadership occurs when someone leads development under genuine uncertainty that exists in the extremely long perspective as well as in the very short perspective. Therefore,

we can assert that leadership is leading others in an improvised and visionary way. A leader brings the concept into the moment, a manager sees to it that the process goes according to plan. Traditional communication often involves running processes according to plan. In order to develop the ability to communicate in leadership, one must lift communication to developing the organization's communicative traits and not limit it to simply conducting communication processes.

Both ideological and contextual leadership must work on developing communicative abilities and take responsibility for developing the entire organization's communicative abilities. Communicative leadership focuses on creating a communicative organization that functions effectively in the value network, both in direct creation of relationships with other members of the network for cooperation and in indirect creation of relationships with members that are meaningful for the organization's positioning in the network. The ideological and contextual leadership roles share responsibility for developing the organization's communicative capacity, but they represent two sides of it. Ideological leadership strengthens the organization's ability to specify its role in the value-creating processes in the network, and the contextual leadership creates sustainability in that position. The combination of precision and stability creates conditions for the organization to be seen by others as an important member of the network, thereby taking a high position in the network hierarchy.

The position of ideological leadership

The ideological leadership role must be accepted by a member of upper management in the organization and must also be strongly tied to the person's traits as a leader. For this reason, there is no stereotype for ideological leadership. Neither does such leadership necessarily entail emphasizing that person: it is not always those with a strong personal image who are perfect ideological leaders in every situation. Often, it is the reverse. An effective ideological leader tends to emphasize the ideology rather than being self centered. At the same time, this leadership role must live out its ideology and provide a good example. Therefore, the perfect ideological leader is the person who has traits and competence that correspond to the organization's ideology as well as having the ability to understand the extent to which he or she should emphasize him or herself in improvised action.

The Achilles' heel to ideological leadership is that if it becomes very successful, it can smother other perspectives in the environment. History is filled with so-called great leaders who were subjected to this effect. Ingvar (1991) described how this phenomenon is particularly harsh in its effect on political leaders who are so successful that they become dictatorial. A typical career for a dictator is that he or she succeeds in influencing all others' impressions to such an extent that his or her own opinion becomes a social institution. One consequence of this is that the dictator is able to steer communication of perspectives and knowledge, which leads to the tendency to seek confirmation becoming a matter of social urgency. At this point, a situation occurs where the dictator begins to be under-supplied with information that would widen his or her base of knowledge, leading to a mild form of sensory deprivation. That is to say that the dictator becomes paranoid. The suspicious attitude that this leads to causes the dictator gradually to lose contact with reality and often ends with his or her power base eroding. This is the reason that, since the days of Caesar, few dictators have died a natural death.

Of course, this is a drastic illustration of the problem of ideological leadership, but the fact is that similar factors influence the dictatorial leader who has become so entrenched in his or her own perspective that it has become an institutionalized “truth.” This afflicted Facit during the 1960’s. Alan Greenspan, former head of the American Federal Reserve, was accused after the fact of having this type of influence on the finance sector, a situation that is said to have contributed strongly to the financial collapse that occurred during the fall of 2008. As a result, strong ideological leaders need to be complemented with strong contextual leaders in order to generate a balanced communicative leadership.

The role of contextual leadership

It is only possible to develop contextual leadership in an organization that already has ideological leadership; it doesn’t have to be perfectly developed, but it must be in place. Thus, we can state that ideological leadership is a necessary condition for the existence of contextual leadership, but well developed contextual leadership will help develop efficiency in ideological leadership even more.

While ideological leadership must come from the central leadership figures, it can be advantageous to choose contextual leadership from people who are responsible for communication issues. These people often work as public relations or communication officers and are often professional communicators who are able to manage communications processes professionally. These communicators should not abandon their specific competence when they accept the role as contextual leader; they should build on their communications abilities in order to become professional in their ability to build the organization’s communicative strengths. In this role, work entails supporting the top management position as an ideological leader while taking responsibility for development of the organization’s communicative abilities in a broader perspective.

As we have already seen, ideological leadership is about leading the organization’s performance in direct relationships in order to make them effective. An operational concept that expresses an effective role for the organization in its direct network relationships must be created and maintained. At times this ambition can be taken too far and the company’s offer to the market may be too narrow. If we return to the example with Skolfoto, described in chapter 7, we see that the company might have been served by developing contextual leadership. It would have been able to expose the issue of what this measure would signal to the market and it might have been possible to avoid the mistakes that were made. At the same time, contextual leadership can expose opportunities that hadn’t been considered by ideological leadership. In this case, there are obvious areas for development. A cursory analysis shows that Skolfoto’s organization focuses on three groups: students, parents and the school. One possible development might be to offer differentiated school catalogues – sports-oriented schools might want to be portrayed differently from other schools in their catalogues. Contextual leadership can support ideological leadership by contributing awareness of risks and opportunities with possible solutions. In that role, it is important to act as part of the solution rather than part of the problem. Banker J.P. Morgan expressed a similar thought about his need for lawyers, “Well, I don't want a lawyer to tell me what I cannot do. I hire him to tell me how to do what I want to do.” The ability to generate suggestions for alternative and constructive solutions is the distinguishing characteristic for contextual leadership. The key for contextual leadership is to support the ideological leadership with a broader perspective and, as such, it is a natural development of the public relations role.

The other side of contextual leadership is being able to lead development of relations with the entire breadth of members of the organization and of its environment. This responsibility comprises those that to which the company stands in direct relation and where there is a need to broaden the base for the relationship and stabilize it, as well as indirect relationships that are built with a number of different players. This concerns being able to predict how complex associations can be developed, creatively analyzing how to meet developments and making constructive analyses of which resources should be used at which times. This role is to piece together numerous variables on a large-scale; the effective contextual leader creates systems, qualifications and culture that enable creation of complex and comprehensible perspectives. The foundation for contextual leadership must be a profound understanding of the notion that “everything communicates” as well as understanding how that communication works.

The research project “Business Effective Communication” has identified four basic roles for contextual leadership: system builder, mediator, coach and influencer (Hamrefors, 2008). These roles are not mutually exclusive; a contextual leader must be able to take on all of these roles to different degrees in different situations. It is not likely that all the roles will fit into one person; instead, these should be seen as functions a contextual leader should be able to execute through the unit he or she leads. Since it is likely that the communication chief takes the role of contextual leader, these four roles should be found represented in the unit/function for information/communication.

System builder

As I will describe in greater detail in the next chapter, communication through processes and structures is an important area for communicative leadership. For this reason, development demands involvement of processes and structures from the contextual leadership. This means that one should be able to take initiative on the issues that concern that type of development. This is not a passive body for accepting proposals; it must be involved at an early stage of process development. The system builder must be able to understand the causality between how processes and structures are designed and how well they communicate.

A system builder cannot be effective without basic knowledge of organizational design. This person must first understand how different types of processes and structures function in the big picture perspective and which possibilities there are to change them and make them more efficient. Another aspect of this issue is being able to understand how to build transparency into the system environment to facilitate creation of meaning.

An example from ABB Sweden describes the system builder role in both of these dimensions (Östman & Hamrefors, 2006). They created a structural installation by establishing a unit that was called the “Communication Center” and a process installation through the way public relations were integrated into all aspects of the process environment. By creating a natural structural tie with an efficient basis for the process, they were able to contribute with an increased capacity for communication. In this case, the improvement in quality concerned increasing the ability to communicate business perspectives in processes.

As a rule, the system builder’s role is a long-term one and becomes prominent in organizations with continuous processes. Even in cases where processes are apparently

fragmented, this role can be particularly important since there might be few people who are concerned about structural continuity. When the dominant perspective is to optimize each process individually, results can suffer as a whole. If this leads to a clear sub-optimization of the end results, then it might not be too difficult to call attention to the problem. However, it can be more problematic if processes deliver positive results collectively while the aggregate communication creates a negative situation, such as when marketing and sales processes are not well coordinated. The aggregate sales results of these activities may be good but, because of faulty coordination, the two functions steal time from the customers who will react negatively to the situation. In the long term, these kinds of issues can build negative relationships that can be difficult to manage if the situation is not brought under control in time. The system builder must therefore prepare a more broad perspective for the organization's system design than others would need to. It is this supplement that makes the contextual leader valuable during system design.

The Mediator

The traditional role of public relations is to function as an intermediary for messages. To that extent it is a performance based role and the public relations professional has little power over the message itself since it is decided before-hand. However, when the public relations role is developed into a contextual leadership function, the traditional view of his or her role is no longer sufficient. Then, the role becomes one of creating meaning in coordination with many others rather than simply conveying messages. The job is to mediate between various points of view held by several different people and execute a coordinated change of these views in order to come to a place where everyone can agree on a common point of view. At its foundation, this is a negotiator role – building insight into the participants' points of view and motivations, seeing where there is room for possibilities and influencing dialogue toward the possible solutions that have been observed.

The most common situation for practicing this role is when the organization is planning change. It is often important to begin analysis far in advance, examining how various parties view the future change and beginning to set the pattern for alternative points of view and solutions. It is as important to understand where the different parties are going as to understand their present opinions. Therefore, part of the analysis is assessment of the attitudes the different parties have about the question at hand, their motivations for different development directions, the losses and gains they can experience due to various solutions and their present ties to one another's standpoints. A thorough analysis of the political interplay must be performed to gain understanding of the participants' motives in order to be able to begin acting well in advance, involving important parties in a way that benefits them as well as the overall process. Such mediation processes are always large-scale, both in time and space.

A type of situation where the contextual leader must take on this kind of prominent role is when the organization intends to move operations from one location to another, close operations or engage in some other extensive change that several parties can feel affects them negatively. In these cases, it is important for many participants to be involved in creation of the new reality. The more people who contribute in this constructive process, the higher the possibility will be that constructive solutions will be created. Thus, the contextual leader must find a balance between listening and pursuing a solution during these types of developmental processes.

Another situation where this role is important is when several parties are invited to participate in product development or other innovation processes. In these cases, the end result is unknown so leadership is a question of developing new perspectives in a situation where no one knows anything. It is important to understand which factors motivate the various parties in order to discover what is known in marketing circles as the pain, the latent needs that one has without being able to understand them or express them in words.

The mediator role deals with leading development of new perspectives that can become social constructions and thereby aid in creating a new reality.

The Coach

The contextual leader should also aid others in their communicative development. The task includes both helping others to become better at presenting the organization's ideology and improving their own contextual communication.

In order to develop ideological communication, the coach often takes on a role of helping managers and other leaders to develop more effective ideological communication. This task can be found in both large and small scale. In some cases, the contextual leader should be a sounding board for top management and complete very personal training for particular individual members of the organization's upper management in order to ensure that their actions concerning mass media and in other public contexts are ideologically effective. This role is reminiscent of a theater director: one creates a character and ensures that is believable and that the role has staying power. The difficulty lies in seeing the developmental potential in the individual and stimulating that person correctly so that he or she grows in his or her ability to convey the ideological message. Of course, the danger lies in trying to create a role for a person that does not fit that individual. When former Swedish Prime Minister Göran Persson was "re-made" into a "pleasant -Persson" in the mass media there was an indisputably positive short-term mass media effect but the backlash was powerful and many political critics felt that the Social Democratic party lost the following election primarily due to the voters being tired of Persson rather than of the Social Democratic party. The recovery the party made after the election also indicates this.

The coach's role can be carried out on a broad basis as well. One example of this concerns Volvo's development of mid-range management's communicative skills. It shows that many people can be coached simultaneously in a systematic fashion (Nordblom & Hamrefors, 2007). Charlie Nordblom, manager for Volvo's strategic internal communication, acted as contextual leader in this case in a role that was a sort of head coach. He designed and implemented a system for measuring mid-management's communicative abilities and coaching them so that they could use those abilities. Here, the task was to develop the managers' ability to function as mediators of the organization's ideology. The system was created to form decentralized coaching that took advantage of cultural differences. As such, they were able to create development due to the common ideology being communicated more effectively over a diversity of cultures. This example shows the powerful measures a PR professional can contribute, if he or she develops contextual leadership skills in the role of coach.

Influencer

The final role, the influencer, is perhaps the most spectacular and most difficult to develop in a balanced fashion. The influencer role is indirectly part of all the other roles but it is also a role in itself. The influencer must act powerfully as one who changes perspectives and who is most conspicuous in the dimension of market communication for the organization. This function must accept responsibility for transporting the changed view of the organization from a market perspective, which always entails the risk of stepping on sore toes or slaughtering sacred cows. It is a dangerous role which is apt to be viewed with suspicion.

There is an inherent desire within organizational practice to try to free the organization as much as possible from the “evil” outside world. Professor Sven-Erik Sjöstrand at the Stockholm School of Economics used to start his lectures with the statement, “A company is an organization that attempts to create a controlled internal plan economy in a competitive world.” If this is the natural driving force for corporate leaders, attempts to influence them will be a challenge. To an extent, the role of the influencer goes against the grain of the other roles since it entails working against the organizations philosophy on ideological positioning. The strong ideological organization should be seen as being strong enough to drive its own ideology without consideration for others, but the influencer points out that need. For this reason, it is a sensitive role that must be developed carefully. The foundation for this role is that the person taking it on is authorized to act much like the medieval jester. He was charged with whispering things hear into the king’s ear that he did not want to hear but that he needed to understand in order to avoid threats in his environment. Without that power, the role is absolutely impossible to execute.

One case concerning Swedish Television’s (SVT) launch of “free television”, is an example of a situation where a PR professional had to carry out the influencer role adeptly (Baagøe & Hamrefors, 2006). Helga Baagøe, chief information officer at SVT, executed a change of perspective based on signals from the market that the company’s ideological communication was not sufficiently effective. Her methods for performing the internal change were similar to the methods program creators and journalists at SVT use when they influence others. Additionally, there was an ideological dimension in the term “free television” that the term “public service” had not been able to convey sufficiently. Finally, the new term contained an inherent challenge and initiated a dialogue internally and externally about how well SVT fulfilled this ideological perspective as a whole. As in the case with Volvo, this is an example of how a PR professional can act forcefully as a contextual leader by fulfilling a leadership role in the right context.

Chapter 11 Organizational Communicative Abilities

The responsibility for building the organization's communicative traits entails that the ideological and contextual leadership must be able to work with this organizational ability in four organizational dimensions: process, structure, social interaction and external relations.

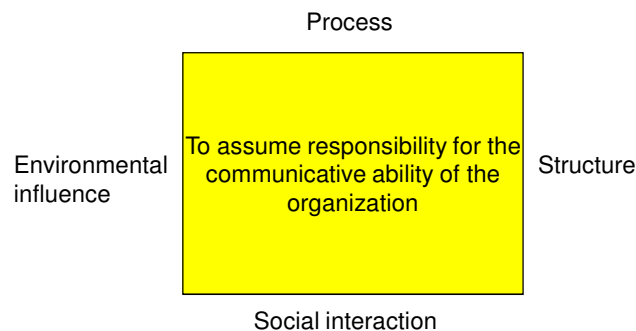


Figure 10: The dimensions of organizational leadership for developing the organization's communicative abilities.

I will now go through these dimensions and provide suggestions for how they can be used by communicative leadership.

Process

Processes create meaning through the way they function. As a rule, their ability to create meaning is very strong due to the fact that it is easy to take for granted that conditions will remain as they are at present. The present process design creates preconceptions that it is natural to be organized the way the company is. One tends to say, "This is the way we do it at our company," and not be attentive to alternatives.

History provides us with many similar examples. One is the Western automotive industry. At the beginning of the 20th Century, Henry Ford established a company for mass production of cars. At the time, there were distinctive conditions in the US. To begin with, there was a large need for cheap cars. Most of the people feeling that need were farmers who, as a rule, owned tractors. Ford developed a new production method, the assembly line, but it wasn't entirely Ford's idea. He had been inspired by the slaughterhouses in Chicago where they

“disassembled” cows on an assembly line. Ford turned the process around and used the production technique as an assembly process for cars instead. Of course, he needed workers for his assembly line to complete standardized work tasks, so Ford had a recruitment policy that he expressed shamelessly in public, “Why is it that I always get the whole person when what I really want is a pair of hands?” He instructed his workers to use only their hands and not think too much about what they were doing. Of course, this led to an organization that certainly produced a large number of cars per unit of time, but there were also a large number of construction defects in those cars. As a result, Ford had a repair shop at the end of the assembly line to correct the most obvious defects. Still, when the cars were delivered to customers they were burdened with production defects. However, since the end customer was usually a farmer who was used to repairing his tractor and since the car he had just bought – a Model T – was designed much like his tractor, he gladly performed the final reparations himself. He had the need, ability and, above all, he didn’t have a choice. Because of these fairly exceptional circumstances, Henry Ford was able to succeed despite the fact that his product really wasn’t that great, technically speaking. Later, the production concept was copied by most Western automakers without alteration, resulting in an “industry culture” where everyone took it for granted that Ford’s way was the natural way to build cars. This was accepted as a largely undisputed fact over the next 50 years until 1954 when Toyota revealed a new production concept, called *Kaizen*, that allowed them to produce cars with minimal production defects, short delivery leads and so on. This innovation revolutionized the way cars were made. Today, the production concept is gaining ground in many industries and is called *lean production*. One humorous aspect of this example is that Toyota didn’t come up with the idea either. However, they were predisposed to adopt it because, since the 19th Century, they had been producing looms using a production technique that was similar to lean production. The idea of applying it to the auto industry came from American organization researchers who had been hired to come up with a new type of production organization. Their employer was General Motors, but the company was not able to take on the new knowledge because the concept did not relate to anything the company had done in the past. The idea was simply too radical for GM. Instead, it was Toyota that could see the possibilities with the idea since they recognized aspects of it from earlier production of looms. As a result, Toyota was able to put the idea into practice. This is a positive example of trace behavior, or being dependent on the processes that one has already built oneself into. People do as they always have done and it is difficult to change that habit. Toyota’s trace behavior created an opportunity for them while GM’s path dependency was a hindrance for development. This example highlights the power of habit during process orientation.

This example raises the question of whether one can improve an organization’s communicative ability by developing its processes. The answer is absolutely yes and I will discuss how below.

Process flow

The degree of flow in processes is a matter of how well they run. If they don’t run well, one often talks of the presence of bottlenecks that affect the employees’ experience of coordinated logic, which in turn affects their ability to form perspectives that promote development. Thus, the degree of process flow is the most basic issue in communicative process development. If production management is the only function only allowed to design processes, it is easy for designs to follow the industry philosophy and accept a certain number of bottlenecks in production. This is easy to motivate using optimization calculations for process flow. However, what is overlooked is the effect that process design has on the workers’

development of perspectives. If one compares an organization with good process flow with one that has an “optimal” number of bottlenecks, one often finds that the workers in both organizations are largely satisfied with their situations, even if the group with process flow experiences a higher level of coordination logic. However, the group that has better flow in the processes will have more individuals who are relatively less satisfied with the situation. It may seem paradoxical that the group that is experiencing a better situation is less satisfied on average than the group with a less positive situation. However, the saying, “Necessity is the mother of invention,” is not always correct. If the faults in a situation are viewed as being natural and unavoidable, then people will not experience a need to correct them. People feel simply that the situation cannot be much better and they accept it. In the group that has experienced improvements, there is an expectation for the future to be even better since history has shown that to be a realistic belief. An important part of the process is then to create more functioning processes than the situation demands.

There is a rule at Toyota saying that the assembly line can stop if you see something wrong. Each worker is authorized to pull a string hanging from the ceiling if something is wrong. The line stops and they investigate the problem. This rule has been combined with another rule that says that changes in the processes should cause the line to be stopped by someone at least twice a day. In order for this to occur, they stress the system by, for example, reducing the store of production goods, causing latent problems to arise in the system that only become evident when the system is stressed. As a result, problems are solved before they affect external efficiency. This is communication through process design.

Another measure that has bearing on this issue is *benchmarking*. This is a method for achieving process development through comparing the company’s processes with others who have been more successful. The most common method of benchmarking is to compare one’s own company’s processes with the best in the same industry. What is gained in this process? The answer to that question is often confirmation that one’s own company is doing fine, but that it cannot be best because it is known that one must compare oneself to the best in order to improve, making it impossible to be best. This method of benchmarking makes imitative behavior permanent instead of encouraging innovative behavior. Of course it leads to improvement, but the company will never catch up to the leader. Consequently, the companies that have understood this mechanism use benchmarking in an entirely different way. First, they define very precisely which process is to be improved. Next, they look for another organization that is as unlike their own organization as possible, but which has a process that has been developed to perfection with certain similarities to the one they want to improve. This type of process can provide a great deal of quality-creating knowledge about how to develop one’s own process that can take the rest of the industry by surprise. One example of this is Southwest Airlines (Murdoch, 1997). The company is a low-price airline and for that reason must keep costs down. One cost that is especially difficult to cope with is the capital cost for the airplanes themselves, so planes should not be grounded for longer than is absolutely necessary. In turn, that creates a need to develop the processes for refueling planes and for getting baggage and passengers in and out of the plane as quickly as possible. In order to find inspiration for improving that process, Southwest Airlines studied the action processes in the pits during formula-1 races. They observed how the cars entered the pits and how large portions of the car could be switched out in a matter of seconds and the driver could continue his race for the checkered flag. This inspiration contributed to South West Airlines being able to reduce time at airports significantly and impacted positively on their cost structure.

All of these points speak for organizations needing to develop their process flow more than what is motivated from a production perspective. If the company is a participant in a network environment, it must continually improve its processes more than what is required by the network. In fact, the risk of being replaced can be held off by exceeding the expectations of the market. For this reason, the contextual leadership should work in cooperation with the ideological leadership to find new creative opportunities for creating a broader foundation for this type of development.

Process distribution

The members of many organizations have experienced change processes that can be likened to an accordion; they go through periods of decentralization followed by periods where the organization is recentralized, only to return to decentralization, and so on. The problem is that these measures tend to be one-sided. Because the organization is never allowed to experience substantial improvement, these types of reforms continue and can lead to reforms that never create real change (Brunsson & Olsen, 1993). In these situations, employees feel that the proposals for change don't actually have anything to do with them, so they continue on as usual. Thus, reforms give rise to the need for more reforms as in the earlier example with SJ, an organization that has carried out countless reform projects, but the trains run as usual. The discussions have changed over the years, but the actions are the same. This type of organizational game often involves public relations. PR becomes an obedient tool in a change process that serves only to conserve. If the reforms do penetrate into work tasks, a feeling of hopelessness often arises and people feel like victims of the change process, triggering resistance to the reforms rather than creating a connection to them.

How should the leadership act to contribute to more efficient distribution of processes? From a chaos theoretical perspective, a suitable foundation for process distribution is to divide them according to the perspective they should communicate. Thus, the processes that should convey local, variable perspectives should be rooted locally and decentralized. The processes that should convey central, stable perspectives should be centralized. This creates what I call "decentralization's centralistic paradox," that is, if you wish to decentralize processes effectively, you have to centralize certain processes in order to create a chaos theoretical balance. In the reorganization of ASEA for ABB, management decentralized nearly all processes to the subsidiary level, but a handful of processes were centralized, as was the case with processes concerning acquisition of new companies, which were carried out by the parent company alone. The reason, of course, was to maintain focus on common business while stimulating local innovative solutions.

So, rather than creating an "accordion process," a continual process development should be created to uphold a balance between central and local processes in order to create awareness of central concepts while creating incentives for developing new solutions.

Intelligence support

Business intelligence has become an increasingly important production factor for our modern network economy and it must permeate all processes. Moreover, information must be added to the processes on a continual basis. Often, this occurs painlessly since process design generally includes certain methods for carrying out tasks that make information that does not

fit into the picture difficult to integrate. So, on the one hand, this task deals with integrating suitable information into existing processes in order to strengthen internal efficiency. On the other hand, the task involves adding information that changes the processes to keep up with developments in external information.

An underlying variable that controls the capacity for optimal contribution of knowledge is transparency. Economic processes can be guided better if transparency is created surrounding how macroeconomic variables affect the economic statements (Oxelheim & Hamrefors, 2007). An important factor that must be built in to achieve transparency is a policy surrounding how the company should allow itself to be influenced, an issue I deal with below in the section on external relations.

The supply of business intelligence necessitate the ability to find the right information at the right time as well as the ability to integrate that information into processes, thereby creating specific information for the organization that will create meaning for its process environment.

The most basic task of information transfer is to make intelligence available to employees effectively. In order to accomplish this, one must develop some type of system for searching for information. Such a system should help people to compensate their own weaknesses by giving them the ability to find the right information at the right time. The search system must be designed so that it is an effective instrument for finding the right sources for information at as it is needed. This means that the system should include an effective search engine with effective search logic. The traditional method for searching for information in databases has been to use a logic that builds on categorization of information. However, this method leads to relatively unwieldy search processes and provides a lot of information that users see as “static.” The new generation of search engines enables searches that are much more flexible and, through artificial intelligence, each person that uses the system can have his or her own profile (Landqvist & Hamrefors, 2006). In this type of system, the searcher need not ask questions, the system understands which questions are interesting for each respective person. Consequently, the system is built into each individual work station used in daily tasks. In many banks, there is an automatic connection between workstations and external databases that provides employees with the real-time information they need as they prepare different types of documents, for example loans applications. There are similar tools in many larger industrial companies. A designer for an engineering firm can have such a search function directly connected to the CAD/CAM system he or she uses for new technical drawings. In fact, users don’t perform searches themselves; the system searches for information for them using a logic that the person would have used if he or she had searched for it. This means that the basic function in this type of system must build up “pull,” meaning that system pulls up the information that the user would have asked for if he or she had been able. The logic the system builds up becomes able to focus on such information that the user will largely feel supports his or her own existing understanding. In this way, the system becomes an instrument for seeking confirmation with more efficiency than the user is capable of. This is chaos theoretically efficient in that it reinforces the organizational basis for concept development. However, there is a disadvantage to pull technology: the risk of receiving too much confirmation can hamper the tendency for trying new solutions. However, many modern search engines have taken this problem into consideration. Since the system supplies searches to several people, it has also “learned” their preferences. This function enables the system to make conclusions about which information can be interesting for a particular person despite the fact that it isn’t exactly compatible with the direction the pull technology is heading. This is already used for commercial applications such as online bookstores. When

searching for books on such a site, one often receives suggestions for titles that were searched for by others who were searching for the same book.

Similar functions can be built into workstations to instill more careful consideration into a credit application process or to create ideas for new design solutions for an industrial designer. In those examples, the system delivers new information in the form of an “induced push.” In order for such a push to have the desired effect, it has to be sufficiently different so that it is considered new, but not so different that it is seen as being irrelevant or strange. The design of these search engines dictates that a well thought-out communication strategy is integrated into it, which is a task for the contextual leadership.

Another important form of intelligence maintenance is active formation of relationships with people in external information networks (Teigland & Hamrefors, 2005). In certain industries, intelligence maintenance is a matter of survival or extinction; in these cases, one cannot limit intelligence to what a database can supply. Information is always created in the minds of people and is constantly being refined there. For this reason, business intelligence is, by definition, a perishable item. At the point when it reaches a database, it has often passed through publications and it may have been some time since it was thought up. In order to be in the forefront of information growth, one must have access to the growth that occurs inside people’s heads. That information is only available in a form that suits its owner and must therefore be translated in order to be transferred to someone else. If the information is successfully transferred, it does not become knowledge for the recipient until he or she has been able to reformulate it so that it better fits his or her situation. So, transfer of the live information that is in our minds cannot take place using methods that are too far removed. Moreover, the methods must also be rapid enough to preserve the freshness of the information. Consequently, it is important for information-rich companies to keep themselves updated and practice their ability to create new information. Organizations must be alert during formation of external professional information networks that can offer a sufficient breadth and speed of information management. In order to build one’s own business intelligence, these external networks must be combined with internal operative information networks that are integrated into the organization’s own processes. This gives the company the ability to broaden its information management and extend the information down into its own processes so that they become operative. At that point, the information will be up to date and have depth at the same time, thus creating a chaos theoretically perfect environment for creativity and the capacity for innovation.

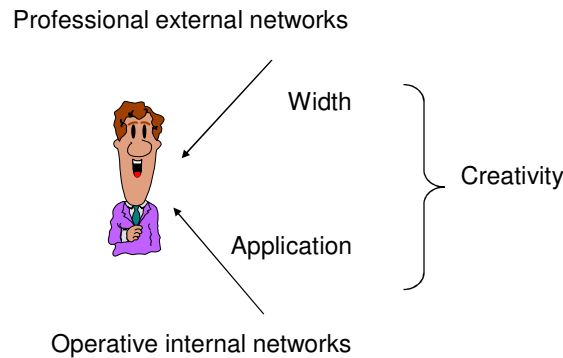


Figure 11: Development of professional external intelligence networks and internal operative intelligence networks.

In Japan, they have developed a tradition of this type of information exchange over a number of years – there is even a name for people who are specialized in it (Henry, 1992). They are called “Shogai Katsudo”, which can be translated roughly as “external information exchangers.” These people from many different companies and organizations meet regularly to exchange information in a way that is mutually beneficial. The information and knowledge is shared so that all parties feel that they benefit in a so-called “win-win situation.” Thus, they have been able to develop the ability to exchange information so that it benefits everyone. At the same time, the rule applies that if someone doesn’t develop his or her professionalism through the exchange of information, that person risks becoming a victim of the bargain. This is not because of any ill will, necessarily, but primarily because that individual isn’t able to take advantage of the opportunities that arise. Most organizations have already come to that level of knowledge that drives them to be active in network-based exchanges of information. Three types of strategies and abilities must be developed in this type of organization:

1. One must always be looking for the advent of growth in information networks. Since these networks often arise in unexpected places, a wide area must be searched and it cannot be taken for granted that a certain type of information exists in certain ingrained environments. It is not certain that useful knowledge will be generated at colleges and universities. First of all, these types of institutions are beginning to differentiate themselves, which means that they will be rich in information in specific areas. In fact, the institutions are becoming more variable because the information professionals who work there are becoming increasingly mobile. After years of development, specialist competence at an academic institution can be eroded in a matter of months. Second, there is much information growth in clusters that are found outside the traditional circles today. Universities are no longer clear fora for knowledge growth; it may as well occur in organizations such as industry associations,

possibly in combination with universities. The project that this book is based on is an example of this. The Swedish Public Relations Association has run this project together with a consortium in cooperation with the Institute for Economic Research at Stockholm School of Economics and Mälardalen University. Society is recognizing growth of knowledge through cooperation more often. For this reason, an increasing number of research financiers are placing more importance on cooperation for the development of information. One example of this is the Swedish Knowledge Foundation, which has several programs where cooperation is a basic criterion for economic contributions.

2. After identifying the information networks in which the organization wants to participate, it must try to gain entry to it. As a rule, the route goes through people, which means that relationships must be built with interesting people, not simply because they have interesting knowledge or information, but also because they have interesting network relationships. This concept must be communicated clearly during recruitment of new personnel. Judgments that form the basis for choice of information networks must be based on an insight into how a one might be able to position oneself in that network. This requires that one both gives and takes; the networks where one has the most to give will also be the ones that provide the most benefit.
3. After entering into an information network, the organization must act efficiently. This means that the employees that participate in these exchanges must have the authority to do so and have the training to do so optimally. In an industry where there is a rapid rate of information growth, if employees do not have the authority and training to exchange information, they might just do so anyway. The risk is that they do it inefficiently and may harm the company.

Operative information networks must be tied together by the company's processes; the company should be able improvise to generate information in real-time. In turn, this means that the company should be able to design its own processes in which to test new information. Sometimes this is not possible, at which point the only alternative is to do it in another environment. This can be a separate environment in-house or external to the company in another organization via some kind of cooperative relationship. The organization's normal environment will not communicate the right things to such a project due to the fact that it is too different from the prevalent perspectives. Thus, there is a substantial risk that it will not be taken seriously, as was the case with IBM's development of personal computers in the 1970ies in an environment that was focused on mainframes. When a project is isolated and placed into another environment it generally enters a context that communicates such things that promote its development. For this reason, the project will develop better outside the company than inside of it. However, another problem arises in this situation: when the project is to be brought back into the company again in order to commercialize the result, it may be difficult to reintegrate it. Recently, there have been new types of cooperative relationships created for innovation. The most extreme form, dubbed *open innovation* in the literature, entails driving innovation projects with other external players (Chesbrough, 2003). I will return to this in the section on external relationships.

Horizontal process communication

A major problem for many organizations is that separation into various functions has occurred to such an extent that it jeopardizes the view of the big picture, thus risking external effectiveness. In such a situation, the various functions can be badly coordinated with each other. They can also counteract each other and be dominated by a particular function at the cost of the other functions. In some cases, this can occur to such a degree that internal cannibalism takes place. In order to avoid these pitfalls and instead lay the groundwork for the various functions cooperating in the best possible way as a whole, the communicative leadership must work actively to exchange information and perspectives between functions and see to it that the organization's central philosophy permeates the various processes of its functions. In part, this can be achieved through various forms of process coordination and in part by arranging meetings where employees can get to know one another's environments and problems. One company arranged such meetings where people played each other's roles in order to give them a better understanding for how different functions can contribute to creation of value. Games and play are a communication technique that modern organizations often use to create understanding; I will discuss this point more in the section on social interaction.

Vertical process communication

Organizations with network relationships must maintain good communication with the other members situated upstream and downstream in their own value chain. Upstream communication entails sharing such information that prepares the organizations there for change so that they can adjust in time. In a network environment, time is often a very important competitive factor, a fact that places demands on creating transparency that provides partners upstream with a good overview of the situation. For example, Toyota's suppliers have access to Toyota's economic statements real-time because it is in Toyota's interest that everyone in their value-creating network has quick access to updated information in order for "just in time" to work. Similarly, the company needs to create communication channels downstream that enable preparation for coming events. French plastic automotive component producer Manducor (Docherty, 1995) "lends" workers to their clients' product development departments. As a result, Manducor receives initiated reports that prepare the company for future needs that the customers haven't expressed yet. They do this to train their workers proactively in work tasks that will be required when the customers express their needs, thus minimizing set-up time and enabling the customers' "just in time." As is the case with participation in information networks, vertical communication also demands well-developed transparency. It is difficult to hold back information in a value network!

Vertical process communication can also be built internally in an organization. For example, ABB Sweden they carried out process integration in order to create better communication of business perspectives during production of advanced robots (Östman & Hamrefors, 2006).

Structure

As we have established, organizational structure grows according to Giddens's principle of *structuration* (Giddens, 1984). It asserts that organizations' structures grow through small, gradual changes. In time, the structure will begin communicating with the employees and

create opportunities that have not been experienced before as well as new restrictions. Even if this effect always will be uncontrolled to a degree, measures can be put in place so that the structure communicates in the desired direction in order to reinforce external effectiveness. Chance is not the only thing that determines the development of the structure. Structure is all about the whole. If a structure doesn't develop into an entity that can be perceived from a comprehensive perspective, then it isn't a structure. Structure is a phenomenon in the eye of the beholder that takes the form of an overall experience. The task for communicative leadership is to create communication that creates conditions for structuration in the direction of external effectiveness on the one hand, and to create transparency that allows employees to perceive the structure of the organization as a whole.

Structure can be both physical and mental. Physical structure is what people find in reality; mental structure is what people talk about. These two structures do not always overlap. Sometimes, the physical structure is not the same as the one which is discussed, a fact that can have positive and negative effects. In some cases, the structure of discussions does not describe the actual structure. This occurs often and can help the organization to do things in a certain way while presenting a different image to the rest of the world (Brunsson, 1989). If the discussions also cause changes in behavior in the organization, they can lead to development; this is often a lengthy process since people's perceptions and procedures must change (Moscovici, 1980). However, the opposite can occur as well: the ingrained behavior may be conserved behind a veil of words (Brunsson & Olsen, 1993). For example, examination of the companies that poison the environment most reveals that many of these have very good environmental statements in their annual reports. Thus, creating a detailed quality assurance report using some accepted quality measure, for example ISO 9000, need not be correlated to high quality performance.

Physical structure

Organizational design is the most basic element of physical structure. In western tradition, there is a tendency to organize operations according to function. The idea behind this is that the management of such units is efficient because each person can contribute with what he or she does best. It is often taken for granted that these functions can interact in such a way as to create a positive overall result. However, this effect of functional organization must not be taken for granted. There is a tendency for organizations to keep functions long after they have become redundant. An example of this is economic control through budgeting. This practice became popular during the mid 20th Century as an idea for creating order and transparency. However, it has been shown that it did not have that effect and instead served to conserve the status quo. During the 1960's, the Swedish producer of mechanical calculators, Facit, exhibited excellent economic control through budgeting and the company was often presented as an example to others. The company was aware of developments in the electronics industry that might affect their own production of calculating machines but their internal control mechanisms affected the employees' perspectives so strongly that they didn't understand that such an external factor would be able to endanger the company's future. That is to say, budgeting has the side effect of guiding companies forward by looking backward and encouraging inward looking rather than outward attention. The practice can be effective as long as the future is similar to the past, but in a market that is becoming increasingly similar to dynamic value networks, budgeting becomes a problematic function. Still, companies keep it alive because they simply cannot let go of the habit.

The organization of Swedish municipal authorities provides another example of engrained functions (Asplund & Hamrefors, 2008). The way municipal politicians are able to exercise direct influence on municipal works is a throw-back to a time when Sweden was an agricultural society consisting of independent farmers. The feudal system never caught on in Sweden, so local citizens were able to develop a great degree of autonomy. However, the reality today is different; the network society – into which Sweden is very integrated – places very different demands on municipalities. The professional leadership structure is too weak in many municipalities and the variability in political trends has a direct influence on municipal works. At the same time, municipalities have moved away from monopolistic activities toward a system which is subjected to market competition. In fact, municipalities are increasingly taking a role as driving forces in networks with many and variable operations that must be coordinated into an efficient overall constellation. Additionally, all of this occurs under the threat of businesses and citizens choosing to move away if the municipality is unable to function efficiently as a whole and perform in its cutting edge role. Thus, the variable political leadership that was able to function in a simple agricultural society has become a hindrance for modern municipal activities. Today, there is reason for Swedish municipalities to strengthen their organizations' ideological leadership in order to have a stabilizing effect on their activities. The political leadership must occur within the framework of a dialogue with the operative leadership and not impact operations directly. Additionally, municipalities must develop more professionalism for running their operative networks and be open to feedback from their "markets" (the citizens, companies, users, customers, etc.) concerning the perceived usefulness of the activities run by the municipalities.

The basic communication surrounding the chosen structure must begin as soon as the organizational form is chosen. Today, we are seeing an increasing number of new organizational forms that are meant to help organizations gain a more effective position in their value networks. Before it was sold, Gant was an almost entirely virtual company (Hedberg *et al.*, 1994). It consisted of a handful of people and nearly all of its functions were outsourced to other companies. The only core in the company consisted of the functions that represented design and branding. As a result, all communication was centered on those two functions and all other functions were switched out adapted to suit them. IKEA has a similar central function concept for design and logistics. All of the company's structures are built around its central functions and communication surrounding these concepts is transparent (Saltzer, 1994). The move toward an economy based on value networks leads to traditional functions being questioned. Thus, the door is opened for organizational innovations and it is the task of communicative leadership to develop them.

Effective methods for communicating an organization's overall concept must be created within the given organizational structure. The central tool for this task is the company's intranet since it facilitates transparency and enables navigation of communication of information. The latter function has been discussed above in the section on process; I will discuss the former here. Cartoon artist Tikkanen drew a strip for Swedish daily newspaper *Dagens Nyheter* a number of years ago that depicts a sad man who says, "I have all the information, now I just need to know what it is all about!" An intranet that has been designed to convey information can easily be perceived by users as not being transparent. Employees may be able to find information but have difficulty understanding its context. For this reason, intranet pages must be developed to convey comprehensive images. If the organization is sufficiently complex, designing this type of measure will require a large degree of professionalism. The most important dimension is conveying an image of how the organization's structure for cooperation is built. It is more important to provide information

on how various functions cooperate than to describe each function in detail. An organization in a network environment must appear to have a comprehensible place all functions have and a big picture that communicates the potential for development in the network. Otherwise, the overall picture can easily give the impression that the organization has a large number of structural restrictions that lead to a limited mindset concerning opportunities for creating value. The apparent potential for creating opportunities is an important dimension of quality for an effective intranet system.

Mental structure

The other side of structure is the mental side, that is, the daily dialogue in the organization. The dialogue should have a clear relationship to what the company actually does but not be limited too much by what the company does (Ekman, 2003). In the section on process communication, we established that what the company does has a great influence on thoughts and discussions, but a conceptual foundation for lifting thoughts above the immediate horizon of action must be created to allow people to see alternative possibilities. Dialogue is a function that can be divided according to subject matter or according to how subject matter is handled. The latter will be discussed in the section below on social interaction, the former deals with structure and will be discussed in this section.

The concepts, thoughts and central philosophies of a company comprise a very basic structural factor. This is a much-studied factor with many names: vision, mission, business concept, policy, value system and so on. All of these variations attempt to express various aspects of the company's ideology but they all have a type of essential meaning in common that is communicated in each of them. That essence is whichever ideological position that the company wishes to establish and develop. In order to avoid losing myself in diverse nuances of this concept, I choose to describe this essential meaning itself and will call it the "organizational concept." Here, this expression refers to the social construct (an understanding that has become sufficiently widespread and accepted by enough people) that the company has been able to establish concerning its position in the value network. The organizational concept is a phenomenon that has been subject to many fashion trends in the management market. These trends are driven by popular literature that is spread at airports, in book clubs and in business publications (Furusten, 1995). Between the 1960's and the end of the 1980's, it was popular to try to be "biggest, brightest and best," to be "number 1." What happens to employees when management communicates to them that, "We are going to be number 1"? Well, they ask themselves, "How will we know when we are number 1?" which is not an easy question to answer. However, there is one person at the company who knows the answer, the one who manages the numbers: the financial director. That person presents economic key figures in answer to the question, thus turning the organization's focus to seeking out a certain return on capital. With that goal in sight, many apparently interesting business opportunities can be discovered and the company does tend to enter areas that they haven't been in earlier. The decision to take these types of action becomes colored by the wish to be "number 1" rather than being based on a sound judgment of the company's own core competencies. What often happened was that companies began to diversify and engage in activities outside of their areas of competence. Companies were too careless in generating ideas and too eager to try different types of commercial experiments.

The situation changed during the 1990's and the fashion was the opposite; companies began to narrow their focus. The buzzwords then were "core business," and "stick to your knitting,"

and so on. This led to phasing out activities and getting rid of people. Outsourcing was a major trend. Some organizations became more efficient this way, but many were weakened since there was a tendency to throw the baby out with the bathwater. Results have shown that many organizations are so thin that they are “anorexic.” These companies’ activities are too narrow and they are focused numbingly on their concepts.

Why do these fashions steer business concepts so strongly? This is a difficult question, the answer to which may be found in the complexity of the question itself. Defining and communicating a strong, lasting organizational concept may be one of the most difficult leadership tasks, so leaders tend to be susceptible to accepting all kinds of advice, including trends or fashion. However, the chaos theoretical perspective can be used to understand the lynchpin of an organizational concept that communicates properly. It builds on the organization’s need to communicate stable concepts and stimulate variation of activities. People should be able to think alike but have different opinions and do different things. This is why it is important for the organizational concept to communicate stable social constructs and challenge the accomplishments of employees. Seen from this perspective, the conclusion is that a suitable formulation for the organizational concept should provide a *definition of roles*. A role is a function that is built according to the effect it should have in the eyes of the external world. In other words, it is a way to describe oneself according to others’ perceptions. At that point, one is ready to ask the important questions that guide positioning in the value network:

- Which position in the value network is the most suitable for us?
- What can we do to be chosen for that position?
- How can we develop the position?

The ideal organizational concept, expressed as a role, should be based on a stable social construct as well as stimulating variability of activities. An increasing number of companies are beginning to develop these kinds of concepts. At this point, some of the examples are quite old. Walt Disney started his company in the beginning of the 1930’s when he saw how the economic depression in America was beginning to create rifts in families. His concept was to provide situations where parents and children could have fun together in order to strengthen family ties and reduce the risk of families breaking up. This concept has been robust throughout the years and is still a lynchpin in the Disney organization today. Another example is the concept that drives IKANO, the organizational collection of operations run by Ingvar Kamrad, including IKEA. There is a collective concept in the company that can be expressed as: “We shall save money along with our customers.” The concept is present throughout the organizations in the group and it guides all activities without limiting them.

It is easy to see in both of the examples above that the companies’ organizational concepts are based on stable social constructs. In Disney’s case, the construct is “family” and in IKANO’s case it is “saving money.” Both of these social constructs are enduring; they will never be out of date. Thus, the driving force of both companies will hold throughout the journey. Therefore, we can state that a good role definition does not lead to a particular goal but to a never-ending journey. In addition to consisting of stable essential constructs, the concept must also be related to all kinds of activities. This can also be seen in the examples from above. There are no activities in IKANO or Disney, present or potential, that are impossible to relate to the central task. Everything and everyone should feel touched by what they do and reflect over how they may be able to improve their achievements. As a result, the activities that are driven by role-based organizational concepts are more innovative when it comes to gradual

innovations within the framework for existing activities, or so-called incremental innovations (Bessant & Tidd, 2007). It is also easier to see which other areas the company could expand into since the company becomes better at judging how well their own concept and core competence can hold their own in new contexts. It was no accident that IKANO entered the banking industry; offering to “save money along with the customer” was an easy message to present to banking customers who were tired of bank fees and bad terms for savings.

The communicative aspects of developing an effective, role-based organizational concept demand professionalism:

- *Range of activities:* A role must be able to influence all kinds of activities, even peripheral activities such as sponsorship. How many sailing races or golf tours are sponsored because of the organization’s organizational role, and what proportion of those them come about because of the personal interests of upper management? The choice of activities should be more based upon the company’s organizational concept rather than the personal interest of upper management.
- *Multiple spread:* A role must be spread in different ways. The use of “cold” media such as printed materials requires that the message must be conveyed through “warm” media as well. One of the most important media is the small-talk in an organization (Ekman, 2003). An organizational concept that does not function as a driver for the daily conversations that occur in the organization has not reached the level of quality that should be demanded by the role definition. Additionally, the concept must be able to be extended through all sorts of external media in order to create realistic expectations on the organization’s performance pledges. Informational spread is also important; it should revolve around the leadership’s ability to personify the concept of the organization. Thus, the organizational role demands that the leadership walks the talk because the smallest weakness in that informative message can be disastrous for the organization’s position in its value network.

Social interaction

The third dimension for developing an organization’s communicative aspects is social interaction. This is an important area since perspective and knowledge are modeled on interaction between people. If the creation process does not function effectively, the organization will successively lose its ability to see opportunities.

As indicated in the beginning of this book, all organizations are part of a cultural framework and, therefore, develop a particular context dependency. This means that certain social constructs that are conveyed via this cultural framework can work for external effectiveness, while others work in the opposite direction. The effect of the cultural framework is strong, as a rule, and occurs on the institutional level. When a social construct has become so strongly rooted in people’s consciences that it becomes an institution, it is taken for granted and is often not questioned. In order to gain a strong position in a value network, one must therefore understand which institutions are not to be challenged, which can be challenged and which should be challenged – if one is to make a difference. Of course, this is an issue that is closely connected with the organizational concept the company is espousing. For example, a Swedish company that had chosen Volvo as its standard company car for use in Sweden expanded to the Italian market using an organizational concept that embraced “moderation and efficiency.”

In Sweden, there was a general view at the time that this concept was in line with the choice of Volvo as a company car. However, Volvo is associated with luxury in Italy. As a result, the company could not allow employees there to choose Volvo as a company car and chose an Italian make of car that was more in line with the Italian view of moderation instead.

The difficult issue, of course, is determining when to challenge existing institutions and when not to. When Toyota was establishing production in North America, they chose to locate production facilities in Mexico. At the time, the decision was seen by many as being unacceptable since the belief was that it would not be possible to persuade the Mexican workers to work according to the company's Kaizen philosophy. Today, the facility is at least as efficient as all the others. So, it is possible to succeed in conveying a concept which seems foreign on the surface simply by offering something that enough people find interesting and innovative. IKEA has scores of people waiting in line to work in their stores in Russia because they offer an environment that is managed differently from the traditional Russian companies. The vital point to understand what people would view as a welcome alternative to their traditional way of thinking.

Of course, the world is full of examples of the opposite case. When Toys-R-Us established their organization in Sweden, they had a personnel policy that was on a collision course with the unions but didn't understand that the situation would be disastrous for their own credibility. When McDonalds establishes itself in different countries the company must make local adjustments to their usually standardized methods of operation to fit in. For example, in Finland, the McDonald's market demands rye bread; that institution isn't as strong in neighboring Sweden at all. One vital function of communicative leadership is to contribute to judgments on how much the organization should adapt to the given conditions as well as how much they should stand out and create new social constructs. They must cunningly judge which battles they want to fight and which ones to avoid.

There are also different traditions within management in different countries. In Anglo-Saxon countries, it is normal for employees to be locked into very detailed work descriptions. A Swedish man who was travelling through the United States exchanged Swedish currency on several occasions at various American banks and found that in about 10 percent of the banks the teller mistook Swedish Kronor for Swiss Francs. On one occasion the man called the manager of the bank over and informed him about the mistake and asked sharply, "Don't you train your staff to think?" to which the manager replied, "They are not supposed to think!" In an organization where people only act according to work descriptions, they may lose touch with reality.

An opposite problem exists in many Swedish companies. Sociologist Geert Hofstede has studied decision making styles in different countries (Hofstede, 1994), and found that decision making in organizations is strongly affected by the norms and values in the surrounding culture. Swedish decision makers have a strange combination of two styles. One is extreme individualism and the other is extreme collective decision making. The result of these two traits, of course, is that decision processes are very long and can give unpredictable results. Sometimes this tendency creates a breeding ground for creative solutions, but results more often in long discussions that end in strange decisions. The contextual leadership must find ways to develop the organization's decision-making culture in order to minimize the negative effects of these kinds of decision patterns.

Formation of perspective and business intelligence

An organization that wishes to maintain its position in a value network must be effective at maintaining its perspectives and intelligence. This is a very important area of responsibility for those wishing to be contextual leaders.

The first problem is making sure to build general efficiency into the meeting culture in the company. When people get together in meetings, it is common that rituals evolve for running those meetings. Such rituals are maintained by people's tendency to categorize one another into social stereotypes. These are well established instruments for categorization and are set out during childhood through the stories we read (Moxnes, 1998). An extension of this tendency is that we continue to build increasingly refined stereotypes. It is easy to take it for granted that certain positions are held by certain types of people. We "know" what a salesperson is like, how finance directors are or how production technicians are, and so on. Since these categorizations are based on stereotypical impressions these have unfortunate undesired effects such as men being given preferential right of interpretation over women, that taller men have a certain career advantage, that overweight people have more difficulty having careers, and so forth. Many of these traits can also work together with our tendency to place values on words, so when a company develops words with emotional charge, these can be used in the social games that are based on stereotypes if the company allows them to go unchecked during meetings (Roos & von Krogh, 1995). These types of words are often generated with willing aid from the communication function and are often emotionally charged. For this reason, words that were meant to enable development of the company's external efficiency often do exactly the opposite. If an older man in a discussion concerning a new product uses the term "quality assurance" it may cause a feeling of hopelessness, thereby muting the desire for development. Unfortunately, many so-called "core values" have this effect, in particular if the words being used are generally accepted without having a firm basis in a lasting organizational concept. These types of charged words can wander around in the company's meeting culture and cause a number of unexpected effects which, as a rule, entail more conservation of perspectives than development.

The other issue concerning formation of perspectives and business intelligence is dealing with dedicated processes for developing intelligence. The most basic issue here is the difference between dialogue and debate. Debate entails a conversational culture that builds on a given contest where someone will win the discussion. The game will be dominated by a desire to be "right." If a debate culture is allowed to grow strong, in time it will lead to depletion of the company's information base. In fact, debate is a very effective instrument for unlearning things. It successively cuts away at the perspectives that are seen to be "wrong" for some reason and whatever remains is "right." The basis for various perspectives is successively reduced while conserving the understanding of what is "right." As a result, there is an increasing risk for that which is considered to be "right" within the organization becoming more wrong from an external perspective. The situation that arises is: "You thought the right way, but you are wrong anyway." Debate is such a deceptive form of conversation just because it can seem so right; it often gives the impression that the organization is vital, "ready to go" and otherwise dynamic. In contrast, dialogue can feel somewhat weak and less effective. Moreover, even if dialogue is more effective than debate in general, there are pitfalls with dialogue if it is not developed effectively. Many people associate dialogue with ideas such as "All talk and no action," and there is basis for this fear. Many dialogues are

driven in order to allow people to “talk it out,” “be heard,” “have their say,” “listen to what others have to say,” and so on. Of course, there is nothing wrong with that but when this “weak” view of dialogue is allowed to dominate there is a risk that the dialogue is used as a tool to completely distance oneself from reality. The result is that people talk about things that are never made real and begin to disassociate talk and reality in a way that does not contribute to increased efficiency, but instead creates notions that lead nowhere or, at worst, creates concepts that lead in the wrong direction. In order for a dialogue process to contribute to external effectiveness, it must be designed professionally concerning choice of participants, process design and management of results.

Allowing dialogue with the purpose of, “allowing everyone to have a say,” often leads to inviting people to meetings on issues that have little connection to the organization. For this reason it is important that the issue to be targeted by dialogue has a clear relation to the organization and its concept. First, the choice of participants in a dialogue process should occur according to the principle that everyone should be in agreement as to the importance of the issue. If this consensus is not present, dialogue should wait until the issue has become meaningful. At that stage, there are other things that should be done first, for example, collecting external intelligence that reinforces the view of the importance of the issue (see section on the external relations below). If the issue has come to that level of importance, the second criterion is that the participants should represent as many different perspectives in the organization as possible. This can be explained by the chaos theoretical requisite that participants should think alike but have different opinions. The third criterion is that only participants that will be affected personally in their daily work by the issue should participate in the dialogue. Without this kind of intrinsic motivation towards the issue, participation will occur at arm’s length and it will not lead to dynamic dialogue.

The dialogue process itself is much more than a freely flowing discussion over a cup of coffee; it is a construction process that is expressly intended to produce new knowledge or new perspectives. It is a creation process and should be designed as such. First, this means that the communication surrounding the process’ relation to the organization’s concept should be clear so that all participants understand what should be produced and why. Second, the process must be designed so that it is possible to accomplish a total inventory of all the information and perspectives that can be used as nourishment for the discussion. This demands careful preparations and information resources must be connected to the discussions. Third, the dialogue process must be led professionally; this often requires that it is led by a person who is educated and trained to carry out such processes.

Moreover, the result of a dialogue process, which must be connected to something that the organization intends to undertake in reality, must be confronted with reality as soon as possible. When this “as soon as possible” will be depends of course on the circumstances. Certain questions concern current events and must be tested in reality very quickly. The smallest delay might cause large losses in the form of gaps in business intelligence. This is particularly important for information that the company intends to use for exchange in intelligence networks such as those mentioned above. The value of information often decreases rapidly; at times it can be dangerous to wait too long since waiting can give the impression that the organization has enough information, therefore causing it to be less alert to new knowledge. Note that the situation is most dire when there is a belief that the organization has enough information! However, there are perspectives that do have long “sell-by” dates. During the 1960’s, Shell produced scenarios for a possible oil crisis that did not

end up arriving until 1973. Shell was prepared, though, and that information was at least as valuable then as it had been 6 years earlier.

External relations

The organization that only concerns itself with watching external occurrences through the daily search for information that employees perform during their usual tasks can certainly be good at finding opportunities within the framework for existing activities, but it might not be able to act effectively. The problem is not that the company doesn't see what is going on, it just doesn't understand events. Just like Paul Simon wrote in one of his songs, "When something goes wrong, I'm the first to admit it, but the last one to know." As a result, it hardly helps to collect large amounts of information without the desire to be influenced by the external environment. If that desire does not exist, the information will not be transformed into intelligence. In fact, the organization might be lulled into complacency by the notion that it is not affected by the external world because its position is so solid. The crew of the Titanic did not react to the fact that there were icebergs around them because they believed that they were on an unsinkable ship. Likewise with many organizations where they see potential threats but have difficulty accepting them. It is for this reason that the communicative leadership must take responsibility for making the organization understand what is happening in the world outside the employees' ordinary field of vision and make them understand how they can react in order to turn potential threats into opportunities. There are no threats without inherent opportunities, and no opportunities are without a certain aspect of threat. Just *how* one perceives reality is more meaningful than *that* one perceives it. There is an anecdote about this from the Second World War. The British intelligence agency was very adept at anticipating the Germans' movements. One day, an English general was visiting the intelligence agency's headquarters and was curious about which methods they used to collect intelligence. Unfortunately, the officer who was known for development of the method was unavailable during the general's visit, so he asked one of the officer's subordinates, a corporal, about which methods the officer used. The general expected the corporal to provide him with an account of imaginative investigative methods, but he simply answered, "Well, Sir, I think he just thinks!"

So, the most important external intelligence work takes place in the mind; the ways in which one can use cognition creatively will make all the difference in results. Thus, lack of information is not as serious as lack of insight.

In order to understand how to become open to the influences of the external world, one must know something about oneself. It is important to get rid of notions based on myths and misunderstandings. The most dangerous myth is the one concerning one's own invulnerability. An information function that concerns itself with producing internal myths about one's own greatness is doing the company a great disservice. Nearly as dangerous is the opposite myth – that the organization is sensitive to everything that occurs. Such a myth can lead to employees being over-reactive because they are fearful of the slightest external occurrence, or that they become passive because they give up. The communicative leadership must develop employees' abilities to judge what external factors they should pay attention to and provide support for those processes. (Hamrefors, 2002)

Parallel to developing general awareness toward the external world, the company must also develop a special function for external intelligence issues. This function should be built to be

proactive; it should study relations in the external environment and draw conclusions about how diverse occurrences there can affect one another long term. This involves choosing from the start those relations that could possibly affect one's own organization as well as building scenarios concerning how those relations might develop. A common mistake is coming to the conclusion that a particular relation will not affect the company simply because it has not done so in the past. At present, we are witnessing just such a situation. The financial crisis is spreading throughout the world; its primary generator was the mortgage crisis in the US. However, since few people felt that the mortgage situation in the US had affected them in the past it has been difficult to consider the possibility that it might do so. The relation between the high debt ceiling and the free new-liberal organizations in investment banks may not be difficult to understand in itself; understanding how it will affect us personally is harder to grasp. This is why it is difficult to make predictions (in particular about the future, as Mark Twain once pointed out). The ambition for external intelligence should be on a level that prepares the organization for relatively concrete relations. Completely new relations will always surprise us, or as the chairman of Electrolux, Hans Werthén, once said, "The most important thing is not to predict rain tomorrow, but to have an umbrella in case it suddenly does." So, there is a degree of preparedness that can be built into the organization even if it is not known what the organization is preparing for. Such preparations are built on effectively communicating perspectives about change and the logic of change. At that point, one learns to see patterns, which leads to being better at creating opportunities from those patterns.

The task of leadership is to contribute to this type of preparation by building communicative abilities in all four of the organizational dimensions discussed here. If these are used correctly, they create a general eye for opportunity that will in turn create preparation for taking advantage of opportunities when they arise. This stimulates employees to better understand chains of events in the external world and their relationship to the organization's ability to create value. In the more specific role as a collector of business intelligence, the contextual leadership must have the power to challenge the internal "truths" in earnest. The role that is taken on is similar to the one of the jester in medieval kingdoms. He sat by the throne and was allowed to whisper in the king's ear, not what the king wanted to hear, but what he needed to understand. No other person had this mandate and the king knew that, even if the jester manipulated him, he also wished the king well. The king trusted the jester's intelligence and therefore allowed himself to be influenced. Effective business intelligence collection must have a similar mandate, one that reaches far beyond routine press clippings and database searches.

In order to function as a "jester" in the organization, the contextual leader must first develop internal relationships. It is not enough to understand which information employees need; the most important insight is which information that they might act progressively on. For this reason, the role of "jester" is not to collect perfect information, but to create the perfect stimulation for initiating activities. Perfect information is often counterproductive in these contexts because it often contains too much information that causes dissonance and increases the risk for the recipient to reject it. Thus, one must understand the situation that employees find themselves in and how they reason. Understanding their situations enables understanding which information would work best as a spark to light the flame of hope in the eyes of others. Consequently, business intelligence collectors must devote more effort looking inward than outward.

To provide the organization with the right stimuli at the right time, business intelligence activities must be continual and systematical. There is a method called "intelligence cycle"

that should be adapted to the particular information needs and implemented into the process. This intelligence cycle begins by forming a hypothesis about which relations may exist. Next, one searches for information that supports and/or rejects the hypothesis. Finally, all indications should be compiled into a pattern which is conveyed to the employees. Thus, the process is more about creating meaning than simply relaying information.

The other side of external communication deals with how the organization decides to influence the external environment. I stated earlier that it is difficult to keep secrets in network environments. For this reason, the basic rule for influencing the market is that one must try to create a high degree of transparency. This type of strategy creates confidence in the organization's intentions in the external world which, in turn, creates a platform for influence. For this reason, most activities that will affect the external environment should be relatively open. What is being developed in this case is a way to interact with others in the network in order to create a critical mass that drives the issue in a particular direction. The members of the network influence one another by helping one another to practice seeing opportunities that had not been realized yet. Negative manipulation has counterproductive consequences because there is a tendency to stimulate undesired counter processes while not being able to support the processes one wishes to encourage. A few years ago, there was a concept called information warfare. The idea was that governments would wage war against one another by spreading manipulated information. This type of information dissemination is not possible to control in today's network society, making it a patently absurd notion (Borg *et al.*, 1998). There is a Chinese proverb that states, "The man who tries to deceive all others is deceiving himself," which is particularly apt concerning manipulation of external operations. I don't mean that one shouldn't be influential in any sense at all. Any operational intent on influencing the external environment must use a certain amount of manipulation but it must have a constructive foundation. This means that the measures must be based on a true desire to change the environment as well as on a willingness to take the consequences of doing so. When attempting to change the environment, one should already see the challenges that will face one's own organization. Concentration on changing a situation for short term gain often has negative effects for the organization in a network environment. In such an environment, losing face can take a long time to repair.

Measures for changing the external environment are much like the actions of entrepreneurs. Among entrepreneurs there is a widely held definition that says, "Entrepreneurship is creating value using resources over which one has no direct control." This is very similar to an effective lobbying strategy. The foundation for the organization creating value and value in a network lies in how much value one helps others to create so that the network can create more value. Thus, the role can be seen as an extension of communicative leadership that leads to taking a leading role in the company's network as well as making it act in a way that benefits the whole network. There is no discrepancy between the good of the whole and the good of the individual company. This should be the strategic goal for effective lobbying activities.

The four dimensions of organizations that I have discussed are not mutually exclusive. Communicative leadership must be able to act in all four dimensions and demands efficient cooperation between the ideological and contextual leadership. In some cases, one of the dimensions will take a dominant position, while another dimension will be dominant in another situation. Those possessing leadership roles must be flexible in their leadership and adapt the mix of organizational dimensions according to the situation at hand. Communicative leadership, just like all other leadership, must bring the general concept into the situation. The

difference between ideological leadership and contextual leadership is that the former focuses on direct achievement while the latter focuses on its context.

The role of public relations

The Swedish Public Relations Association performs regular studies among business leaders on the importance of communication for their organizations. These studies have shown that communication is gaining importance. However, they also show that leaders have a vague understanding of which occupational category should take responsibility for developing communication as a leadership tool. In other words, it is not clear that PR professionals are preferred for the position of contextual leader. If we reverse the line of argument, we can also state that no other occupational category has better qualifications for shouldering this responsibility. The conclusion is that PR professionals have a golden opportunity to develop their roles in public relations into the role of contextual leaders if they are prepared to do the following:

- The PR professional should be prepared to take on the position as contextual leader, taking responsibility for developing the organization's communicative ability, pursuing the issue of needing this type of leadership internally and taking an active role in designing the position
- The process must proceed from a chaos theoretical basis with the intent of developing the ability to communicate according to concepts for creating order and stimulating variation in activities.
- Focus contextual leadership on the four organizational areas: processes, structures, social interaction and external relations.
- Work in the four roles of the contextual leader: system builder, mediator, coach and influencer.

The combination of this kind of well-developed contextual leadership and effective ideological leadership will create the conditions for the organization to be effective at positioning itself within its value creating network.

Chapter 12

Communication for Innovation

Communicative leadership, as I described it above, will affect the organization's ability to work as a first mover in its value network, but, most importantly, it will give the organization the ability to develop within the frame of its present path dependency. The external efficiency will be developed by giving the organization the ability to develop and refine its activities within the framework for the existing organizational domain. All types of development abilities will benefit, even innovative abilities, but, above all, the incremental ones (the evolutionary innovations that are developed within the framework for existing activities).

The organization will be able to develop its domain gradually to include new activities, though this development will be more evolutionary than revolutionary. Of course, revolutions are seldom effective within organizations since they tend to destroy more than they create, but there can be a need for developing the organization's ability to act as a first mover even further. This does place higher demands on communicative abilities, though. The leadership must be broadened so that it is able to lead the value network in its journey toward new challenges.

March (1991) has defined an organization's external efficiency in two dimensions *exploitation* and *exploration*. The former concerns the organization's ability to create value within its own domain of activities and the latter concerns the ability to develop new activities. The communicative leadership that has been discussed here has dealt mostly with its importance to the organizations capacity for *exploitation*. In this final chapter, I will provide my hypothesis for how communicative leadership can contribute to the ability for *exploration*. Because this is a perspective on the future, it is not directly based on research results and is necessarily somewhat speculative.

If an organization is to navigate its activities toward new areas, then uncertainty will of course increase dramatically as a result and there is a risk of making a number of mistakes. A common problem in this situation is that the company is subjected to something that is called *the Chasm* (Moore, 1998). If the company is first to develop an advanced product and markets it in a new market, that company will meet a special category of customers that are generally termed *early adopters*. These customers have an extreme preference profile: they like extreme performance, they are not sensitive to pricing and are not easy-going. However, the average customer in a mass market is the opposite: sensitive to pricing, prioritizes ease and does not appreciate extreme performance as a rule. These two categories of customer have completely different experiences of "the pain." If one begins to interact with the extreme consumers, there is a risk of placing too much energy into satisfying their particular needs, which does not necessarily benefit the company's position when entering the mass market. Quite the opposite, this can mean that the company has broken ground for the competition, who could take over the market instead.

It is important to create an institution in the value network that benefits a relatively secure and progressive navigation toward new areas. In order to accomplish this, the company must deal with the external environment in a way that creates conditions for that process. There are three dimensions that leadership must focus on in this context: the structure of the network, the company's own abilities and interaction in the network.

Network structure

Like all networks, value networks consist of relationships that can fall anywhere on a scale from unique to redundant. A unique relationship is not possible to replace with another while there are well-known alternatives for a redundant relationship. The more alternatives there are for a given relationship, the more redundant it becomes, making it less valuable. This creates a hierarchy in the network, as described above.

There can be a potential in the network for developing relationships that do not exist if there are conditions for them. These are called *structural holes* (Burt, 1992). This theory builds on the idea that networks entail two types of opportunities: *information* and *control*.

Information opportunities concern who has some degree of intelligence in the network concerning some kind of relevant information and how quickly that information can be acquired. Those members of the network who have built strong relationships will know more about this relevant information and will be better able to acquire the information they need. This gives them the chance to develop better business opportunities.

Control opportunities concern the negotiating ability that a particular actor has in the network. The more important it is, the larger this ability will be; that member's ability to control the flow of information will increase as a result as well.

A structural hole is a separation between two network contacts that are not redundant. For this reason, there is something to be gained, from an information perspective as well as from a control perspective, by linking these two contacts together and optimizing the structural holes in the network. The conditions that must be fulfilled are:

- *Network scope*. This affects how much information the members in the network share with each other. A member has a greater chance to acquire important information in a large network than in a small one. However, not only is the size of the network important, the number of non-redundant connections it contains is meaningful as well. The utility of the network is described in *Metcalf's Law*, which states that the utility of a network increases by the square of its size. Therefore, the more people who use a particular product, a standard, a game or anything else, the larger the utility of joining the network if that use has to do with creating relationships.
- *The internal efficiency of the network*. The more non-redundant connections there are in the network, the more efficiently it will perform for its members. Therefore, there is reason for all members to try to create only those relationships that are non-redundant network connections.
- *The external effectiveness of the network*. The more added non-redundant connections in each network, the more valuable they become. This means that primary contacts in a network become more valuable as the number of interesting secondary contacts that one can reach through them increases.
- *Strength of relationships*. A structural hole occurs when the strength of a relationship between two network connections is weak but there is potential for creating a valuable relationship. This means that the member who can identify where these holes exist has an advantage over the others because it can be the first to benefit from exploiting this

potential. As a result, building a large number of weak connections is an important activity (Granovetter, 1973) because those connections can be strengthened in the event of a structural hole.

Given these prerequisites, a network member can optimize its strength in a given network by:

- Creating several contacts in the network in order to gain access to large amounts of information.
- Creating as many non-redundant contacts as possible in order to ensure that the information to which one gains access is varied, unique and reliable.
- Create as many primary contacts as possible in different clusters in order to be the one who gains important information from the clusters first.

The organization can benefit from being the most centrally located member of the network using this method of dealing with its network position when certain relevant information is conveyed between two, non-redundant, connections.

The organization's abilities

In order to generate an innovation that will be viewed from an external perspective as being decisively new and interesting the organization must develop its own ability to create what Kim and Mauborgne (2005) call *value innovations* when referring to more radical innovations that lead to changes in the market conditions. The choice of words seems odd since an innovation must always be seen to create value; otherwise it is not an innovation. However, the authors mean that these innovations create radical new situations. These innovations are characterized by an offer that increases value for the customer as well as reducing costs. In order to succeed with this, the organization must change its conventional way of thinking about a business deal. If it succeeds, the consequences will be that a new market is created instead of simply developing the organization's competitive power in the existing market.

The company must develop an ability to analyze a new definition of its offer so that it contrasts from the market's usual offers as much as possible. This type of analysis includes four questions:

1. Which factors that the industry takes for granted can be removed?
2. Which factors that are considered important in the industry can be diminished?
3. Which factors that the industry sees as less unimportant can be enhanced?
4. Which factors that the industry does not offer should be added?

The purpose of this method is to analyze how to do something that is as different as possible in order to arrive at a value innovation.

In order for information to lead to value innovations, the organization should develop its information support concerning:

- How other industries work
- How strategic clusters in other industries work
- How customers' influence groups reason and what needs they have
- How complimentary products or services might fit into the organization's offer

- How customers' latent needs (pains) might be and their emotions concerning these
- How general and overall trends can create market conditions

A company that wants to develop value innovations must organize itself so that people other than the "usual" employees can influence the decision-making process. In particular, this is important for creating a climate for communication that prevents political processes that preserve the status quo.

The key to unlocking the inhibitions in an organization in order to develop the ability to create value innovations is counteracting petrified behavior.

Interaction in the network

The term *open innovation* has been introduced during recent years (Chesbrough, 2003). This perspective claims that organizations have more to win by opening their innovative processes to others than by enclosing them within the company. As I pointed out earlier, the need for information is a basic reason for value networks becoming more common and open innovative systems are a natural consequence of this trend. This type of perspective upends many ingrained notions, such as intellectual property rights, trade secrets and rules of competition.

There are many arguments for the efficacy of open innovation in today's society. Most of what is invented at companies is never commercialized and risks leaking out of the company. Through the years, Xerox has leaked a large number of innovations that have become commercial successes at a value that is estimated at double Xerox's total market value (Chesbrough, 2002). Most patents given to companies do not contribute to their creation of value. In fact, a company's business model can contribute to it not realizing the value of something it has created. It seems that companies are finding it increasingly difficult to create value on their own, even when they have the ability to create new inventions.

Another argument is that the company does not have possession of the information that is needed to create innovations. Most innovations are directed toward system solutions where new creations must work within an external system. In order to understand the breadth of this issue, one must involve intelligence from the system; otherwise there is a great risk of missing essential perspectives.

The crucial factor that decides whether or not an innovation will create value is how it works in relation to the company's business model. The more the business model supports innovation, the more likely it will be to contribute to creation of value. In many companies, this is a problem because of faulty communication between those who develop innovations, departments for R&D and those who market the company's products.

On the whole, we can state that open innovation processes increase communication within an organization as well as between the organization and the external network so that they create new opportunities for creation of value.

The contribution of communicative leadership

A unifying thought throughout in my discussion in this book has been that communicative leadership should develop the organization's ability to communicate stable concepts while

stimulating to variation in activities. This can contribute to the organization being more effective from an external perspective and, therefore, even develop its ability for innovation, but above all it is more efficient within the framework for the existing domain of the organization. In order to create a situation that can lead to more radical innovative abilities, it is likely that the concepts themselves must be variable. However, this can lead to an instable communicative situation. For this reason, conditions must be created that vary concepts in a controlled manner. Use of the three perspectives outlined here can provide the requisites for this. If the communicative leadership develops its ability to deal with structural holes it becomes more likely that the organization will be able to position itself in the network so that it gains strong acquisition of intelligence and a certain ability to control the start of development areas. Further, cultivating the ability to redefine the strategies to make them more creative and easier to combine increases the organization's ability to take advantage of the potential value-creating effect created by the structural holes. Finally, developing innovative cooperation with other members of the network can lead to collection of intelligence-rich resources that contribute to making robust innovations with distinction. On the whole, this can lead to the ability to create innovations that are not in direct line with present corporate behavior and instead take a large step away from ingrained behavior.

This type of leadership demands developing communicative abilities that encompass the organization's entire network. The organization becomes a member of a "management group" where members must be able to cooperate with other leading members in the network. This means that communication must be lifted above the organization's own role in the network to the network as a whole and the various combinations of roles that the members of the network play. This type of leadership demands developing nearly perfect communicative abilities in all of the communicative dimensions touched on in this book:

- The coordinated logic must comprise all the processes in the network as well as how they communicate with each other.
- Transparency must be built out over the boundaries of the organization so that each member of the network has a good understanding of the others and of the situation as a whole.
- The transfer of knowledge must work across organizational boundaries so that all information can be used freely and flexibly to create solutions that can be tested in the open system.
- The motivation must work so that the common task becomes a guiding factor for commitment in itself. The network must also have clear ethical rules for dissemination of responsibility and creation of value.

The task of communication is to be a catalyst for making these types of complex networks work fully. There is still much to be learned about how this should occur in practice. At this point, most organizations are challenged with creating communicative leadership internally, but developments are occurring quickly. There is no time to waste; in the absence of well-developed communicative leadership, complex cooperative networks will lead to anarchistic battlefields that do not contribute to long-term value innovation. The development of our civilization demands that we create organizations with a much larger capacity for communication in value-creating networks than we have today.

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