The Emergence of Networked Organizations in India: A Misalignment of Interests?

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We present a potential misalignment that many emerging economies may face with respect to the advent of networked organisations. We argue that although it may seem that networked organisations appear to offer a viable option for the progress of a nation, a deeper analysis suggests otherwise. This will be exemplified through the case of The Engineering Corporation and its presence in India. While The Engineering Corporation does indeed provide employment to the local economy, the host country must determine the right mix of the aspects involved in the collaborative venture. If this care is not taken, there will be little benefit for the host country, thus resulting in a skewed orientation in the relationship.

The globalisation of work supported by telecommunications technology and the advent of ‘networked’ organisations has produced a potential dilemma in how to balance the interests of the new global company and the long-term national interests of the country supplying the workforce. A networked organization is one that is decentralized and has regional offices that deal with part of the business operation, for instance, an IT center in one location and a sales office in another. Global decentralization is motivated primarily in order to exploit cheap, skilled labor where so ever it is found in the world.

In true Dickens style, however, the emergence of such organizations has the potential to produce the best of times and the worst of times. On the one hand, the investment made in the economy by contracting the local workforce can produce regional micro-economies that become an engine of prosperity by reshaping global markets - the best of times. On the other hand, by failing to capitalize and promote further the competence that is attracting companies to the region in the first place, major infrastructure issues are being ignored by central planners - the worst of times.

The particular case to be presented here involves an engineering company in India. The happenings in India seem to suggest that although the mega corporations of the world are keen to exploit the competence of the Indians, India in itself does not seem to be prepared for this onslaught. Based on the assertions and our argument, we identify the possible impact of the influx of multinational networked corporations on Indian business and the economy as a whole. First, we review the benefits of a networked organization before presenting the case study. The implication of these networks on the success of Indian businesses and the economy is then analyzed.

The Emergence of the Networked Organization

Increased competitive pressures and rapidly changing market conditions have caused organizations to depart from their traditional rigid hierarchies to adopt more flexible ‘networked’ forms. This objective is commonly pursued through the availability of IT, which is considered a key enabler for effective networking and communication. The motivation for this drive is clearly the opportunity to exploit the richness of new information sources and opportunities.

Clearly, there are a number of organizational forms that support or constrain management processes. These arrangements generally include the structure, systems and culture of...
the organizations concerned. There is a continuing debate about the most effective form an organization should adopt to improve its internal efficiency and external effectiveness (Mintzberg 1983). However, a fundamental view is that the organization should seek to adopt a form that is appropriate to its determined objectives in the face of competition.

Organizations commonly pursue a strategy where a number of functions are undertaken by separate business units. These units could be internal or external to the organization. This is to adopt an organizational form which is believed to be responsive to the demands of a competitive environment. Miles and Snow (1978) initially argued that this form of organization stimulates traditional business units to make them more ‘market-sensitive’.

Katzenbach and Smith (1992) have argued that there is a critical need for organizations to develop cooperative relationships between teams that share common objectives. This task-focused orientation is considered important for organizations that intend to improve their performance and effectiveness. Such improvement is also dependent on an alignment of organizational members and organizational goals, such as, ensuring that organizational members hold common beliefs with respect to the objectives that they pursue. This alignment requires an analysis of the social network within the organization, which is distinct from the organization’s formal structure. Successful alignment, therefore, can often depend on the internal interactions between senior managers who either support or constrain the strategy of the organization (Hackney 1996).

Thompson (1967) noted the importance of understanding the difficulties of co-ordination between decentralized business units. He termed these units ‘boundary spanning’ where they do not form the central core of an organization’s activities, but are peripheral to it. Indeed, it has been argued that a traditional organizational hierarchy may not fully support business performance (Ostof & Smith, 1992). The authors consider the horizontal organization that recognizes difficulties where activities are centered on a number of business processes. The importance of managerial processes within these organizational forms again emerges as an important consideration for improved responsiveness and effectiveness.

The learning organization is another important concept for determining the behavior, and hence forms, of an organization. The idea of a ‘learning organization’ is closely related to organizational culture in that patterns, procedures and values are ‘hard-wired’ into its structure. The ideas of Burns and Stalker (1961) in terms of the ‘organic’ or ‘mechanistic’ organization are also relevant. It is commonly suggested that organizations exhibit mainly a form of mechanistic behavior where formal rules are predominant and which are not easily changed. Organization members, therefore, need to learn to become more innovative to successfully execute their business strategy (Senge 1992).

Argyris (1992) identified two types of learning within organizations as adaptive and generative. Individuals initially engage in adaptive or ‘single-loop’ learning when they first experience, for example, the introduction of IT. This experience then develops towards generative or ‘double-loop’ learning when they are able to fully exploit the potential of the technology.

Bartlett and Ghoshal (1990) forward the concept of the matrix organization where there is gap between strategic thinking and strategic capabilities or action. They argue that organizations should adopt the principles of matrix management. Matrix management involves developing culture, relationships and information flows horizontally. The role of senior managers is vital in achieving these aims. Three essential characteristics are identified to support the process of changing the organization’s psychology, i.e., build a shared vision, develop human resources, and co-opt managerial efforts.

Poynter and White (1990) have provided five activities that an organization should pursue to achieve such a horizontal form. These include shared values, a horizontal network, defined managerial roles, assessing results and evaluating people. The clear objective is to meet the demands of the external environment through the organization’s markets and its relative internal structure.

Volatile market conditions and intense competition are commonly cited drivers for such organizational changes. A significant feature of this changing business orientation has been the emphasis for more autonomy of subsidiary units where cooperation is emerging as the main characteristic with less centrally initiated control. The current view, therefore, is that the virtual organization will offer a balance between the extent of this autonomy and control (Gebauer, 1996). This is considered as a means of transcending the boundaries of traditional functions.

In reality, however, organizations suffice on a culture of trust based on informal coalitions between dependent groups (Buchanan and Boddy, 1992; Engler et al., 1996). An organizational configuration entails an organic structure that facilitates the intense sharing of information, partnerships, co-operation, co-ordination, teamwork and strategic alliances. These notions are believed to form the cornerstone within virtual organizations for success through the ‘the open asking for and sharing of ideas and experience’ (Hastings 1993). As such, once the focus moves towards trans-national networks, the success of a networked corporation will depend on engendering a culture of mutual trust and cooperation.

The Engineering Corporation and the Virtual Team Network

In this section we present a case example from India, where multinational organisations have been involved in setting up networks. More often than not these networked structures have emerged opportunistically, i.e., by foreign
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