

Trust and the Virtual Organization

How do you manage people whom you do not see?

by Charles Handy

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Not long ago, I found myself in the Laurentian Library, which Michelangelo built in Florence for the Medicis nearly 500 years ago. It is a special place, filled with the scent of learning; a place more restful and more uplifting, in many ways, than the Church of San Lorenzo, in whose cloister it stands. The Laurentian is no longer used as a library, however. It is visited only by tourists, and, as for its contents, they could all be fitted onto one CD-ROM disc.

Was this, I wondered, a symbol of what was coming to all our organizations? Their buildings turned into museums for tourists, their work on discs? And would we not lose something thereby, because, for all their

probable efficiency, videoconferencing and cruising the Internet are not the same as working in Michelangelo's library! Only the week before, in fact,



I had been with a group of librarians, discussing the future of their modern-day libraries. Computer screens and keyboards, they agreed, were taking over from shelves of books and journals. A publisher revealed that he was no longer going to print and

publish his journal but would instead enter it into the database of subscribing organizations. In that case, said one of those present, we need never visit a library

again; we can get all that we want from the screen in our room. At the University of Virginia, added another, the change is already happening; all you need to access the library is a password and a modem. The library of the University of Dubrovnik was destroyed, someone else reported, but the gift of a computer terminal, linked to a

host of foreign databases, more than compensated. I watched the expressions of those in the room as they took in the implications of what was being said.

We were coming face-to-face with the idea of the virtual



library: a library as a concept, not a place; an activity, not a building. For the librarians, who were accustomed to seeing themselves as guardians of a special place, the idea was either frightening or exciting, depending on their ages and attitudes.

Libraries, whose lifeblood is information, were always likely to be among the first to confront the challenge and opportunity of virtuality, but as businesses become ever more dependent on information, they come up against the same dilemmas. An office is, at heart, an interpretative library geared to a particular purpose, and more and more of our economic activity is a churning of information, ideas, and intelligence in all their infinite variety—an invitation to virtuality. It is easy to be seduced by the technological possibilities of the virtual organization, but the managerial and personal implications may cause us to rethink what we mean by an organization. At its simplest, the managerial dilemma comes down to the question, How do you manage people whom you do not see! The simple answer is, By trusting them, but the apparent simplicity disguises a turnaround in organizational

thinking. The rules of trust are both obvious and well established, but they do not sit easily with a managerial tradition that believes efficiency and control are closely linked and that you can't have one without a lot of the other.

Organizationally, we have to wonder whether a company is, in the future, going to be anything more than the box of contracts that some companies now seem to be. Is a box of contracts a sustainable basis for getting the work done in our society, or is it not, in fact, a recipe for disintegration? For society as a whole, the challenge will be to make sure that virtuality brings benefits to all and not just to a favored few. Organizations and, in particular, business organizations, are the linchpins of society. That gives them responsibilities beyond themselves, responsibilities that virtuality throws into high relief.

The Virtuality Dimension

If one ignores the technology, there is nothing new, conceptually, in the idea of an activity without a building as its home. Where information is the raw material of work, it has never been necessary to have all the people in the same place at the same time. A network of

salespeople is the most common example—so ordinary and everyday an example that we would not think of giving it such a grandiose title as a virtual organization. Yet salespeople operate on their own, out of no common place—out of sight but not, one hopes, out of touch or, for that matter, out of line. Journalism provides other examples. I myself fill an occasional slot on the BBC morning radio program Today. For many years, I did not meet my director, nor have I ever met any members of the production team. I communicate by telephone from wherever I happen to be, and my contributions are often broadcast from remote, unmanned studios. It is not in any way unusual. The Open University in Great Britain, with counterparts all over the world, is perhaps the most ambitious example of a concept without a place. The Open University has a home base, to be sure, but none of the students and few of the faculty are to be found there. Its home base is merely the administrative hub of an unseen and sprawling empire. Its business school is already the largest in Europe, although few of the students have ever met any of the faculty or any of the other students. They used to meet at short residential summer



schools, using the campuses of more traditional universities. This year, however, the university has created its first truly virtual summer school. The students will participate from their homes or places of work via E-mail, mobile phone, and videoconferencing. They will never be together in the same place at the same time. The technology has been provided by the university, which has thoughtfully included the mobile phone for students so that, as they sit with their computers beside them, still connected to their land telephone lines, they may converse with supervisors.

In my part of Great Britain, the central library in Norwich, serving the eastern region of the country, burned to the ground last summer. The librarian is considering replacing the grand building with a network of tiny libraries in every hamlet and town throughout the region, each linked to a central facility and, indeed, to every library in the world if need be. As in Dubrovnik, disaster can help us leap into the future before we ever intended. What will hold our librarian back, however, is not the technology or the money –both are potentially available– but the hearts and minds

of its staff and his political masters. That's because what people cannot see they often cannot contemplate. Business is creeping along behind such exemplars from the public sector. Large parts of organizations are now made up of ad hoc mini-organizations, projects collated for a particular time and purpose, drawing their participants from both inside and outside the parent organization. The projects often have no one place to call their own. They exist as activities not as buildings; their only visible sign is an E-mail address. Inside the buildings that do exist, so-called hot-desking is increasingly common. In international business, videoconferencing is the norm. The trains in Great Britain double as mobile offices, with the commuter's doze interrupted by the ringing of personal phones and the bleeping of portable computers. One day soon, when everyone has a personal phone, the phone will no longer belong to a place. That will be more dramatically different than it sounds. We will be able to call any one without knowing where they are or what they are doing. The office as the home of our telephone – with a secretary to answer it and a line plugged into the wall – will

become an antiquated and very expensive notion. An office that is available 168 hours a week but occupied for perhaps 20 is a luxury that organizations can ill afford. If there is an office in the future, it will be more like a clubhouse: a place for meeting, eating, and greeting, with rooms reserved for activities, not for particular people.

Virtuality, however, isn't always as much fun as it is supposed to be. A room of one's own, or at least a desk of one's own, has been the executive security blanket for a century or more. A sense of place is as important to most of us as a sense of purpose. E-mail and voice mail have many attractions, including immediacy, but they are not the same as watching the eyes of others. The loneliness of the long-distance executive is well documented. Even office politics and gossip have their attractions, if only as an antidote to the monotony of much of what goes on in the name of work. Few are going to be eager advocates of virtuality when it really means that work is what you do, not where you go.

The Managerial Dilemmas

Like it or not, the mixture of economics and technology



means that more and more of us will be spending time in virtual space – out of sight, if not out of touch. No longer will our colleagues be down the corridor, available for an unscheduled meeting or a quick progress check. Most meetings will have to be scheduled, even those on video, and will therefore become more infrequent. We will have to learn how to run organizations without meetings.

We will also have to get accustomed to working with and managing those whom we do not see, except on rare and prearranged occasions. That is harder than it sounds. I once sat with a features writer of a daily paper. She was interviewing me in the newsroom, a place filled with smoke, noise, telephones, and the sweat of 100 journalists. I had to perch on the edge of her desk – there was nowhere else.

"Couldn't we have done this somewhere else?" I said over the hubbub. "Like at your home!"

"I wish we could," she said. "Indeed, I would do so much of my work a lot better if I could do it where it suited me. I could send it down the wire just as easily from home, or wherever, as from here."

Since the lifeblood of libraries is information, it's not surprising that they've led businesses in confronting virtuality.

"Why don't you, then?" I asked with surprise.

"Because they want me where they can see me." And she pointed down the long room to where two men sat behind large plateglass windows. They were the editors, she explained, and they liked to be able to see what everyone was doing, to check the work, or to interrupt it whenever they needed to give out a new assignment.

"The truth is," she said, "they don't trust us."

Trust is the heart of the matter. That seems obvious and trite, yet most of our organizations tend to be arranged on the assumption that people cannot be trusted or relied on, even in tiny matters. Oversight systems are set up to prevent anyone from doing the wrong thing, whether by accident or design.

The other day, a courier could not find my family's remote cottage. He called his base on his radio, and the base called us to ask directions. He was just around the corner, but his base managed to omit a vital

part of the directions. So he called them again, and they called us again. Then the courier repeated the cycle a third time to ask whether we had a dangerous dog. When he eventually arrived, we asked whether it would not have been simpler and less aggravating to everyone if he had called us directly from the roadside telephone booth where he had been parked. "I can't do that," he said, "because they won't refund any money I spend." "But it's only pennies!" I exclaimed. "I know," he said, "but that only shows how little they trust us!"

Writ large, that sort of attitude creates a paraphernalia of systems, checkers, and checkers checking checkers – expensive and deadening. Some commentators have argued that audit mania (the urge to have some independent inspection) is a virus infecting our society. It exists, they suggest, because we no longer trust people to act for anything but their own short-term interests. That attitude becomes a self-fulfilling prophecy.

"If they don't trust me," employees say to themselves, "Why should I bother to put their needs before mine!" If it is even partly true that a lack



of trust makes employees untrustworthy, it does not bode well for the future of virtuality in organizations. If we are to enjoy the efficiencies and other benefits of the virtual organization, we will have to rediscover how to run organizations based more on trust than on control. Virtuality requires trust to make it work: Technology on its own is not enough.

The Rules of Trust

Common sense tells us that there are seven cardinal principles of trust we should keep in mind:

Trust is not blind. It is unwise to trust people whom you do not know well, whom you have not observed in action over time, and who are not committed to the same goals. In practice, it is hard to know more than 50 people that well. Those 50 can each, in turn, know another 50, and so on. Large organizations are not therefore incompatible with the principle of trust, but they have to be made up of relatively constant, smaller groupings. The idea that people should move around as much and as fast as possible in order to get more exposure and more experience – what the Japanese call the horizontal fast track – can mean that there is no time to learn to

trust anyone and, in the end, no point, because the organization starts to replace trust with systems of control.

My title in one large organization was MKR/32. In that capacity, I wrote memos to FIN/41 or PRO/23. I rarely heard any names, and I never met the people behind those titles. I had no reason to trust them and, frankly, no desire to. I was a "temporary role occupant," in the jargon of the time, a role occupant in an organization of command and control, based on the premise that no one could really be trusted. I left after a year. Such places can be prisons for the human soul. Trust needs boundaries. Unlimited trust is, in practice, unrealistic. By trust, organizations really mean confidence, a confidence in someone's competence and in his or her commitment to a goal. Define that goal, and the individual or the team can be left to get on with it. Control is then after the event, when the results are assessed. It is not a matter of granting permission before the event. Freedom within boundaries works best, however, when the work unit is self-contained, having the capability within it to solve its own problems. Trust-based organizations are, as a result, reengineering their

work, pulling back from the old reductionist models of organization, in which everything was divided into its component parts or functions. At first sight, the new holistic designs for the units of the organization look more expensive because they duplicate functions and do not necessarily replicate each other. The energy and effectiveness released by the freedom within boundaries more than compensates, however. To succeed, reengineering must be built on trust. When it fails, it is because trust is absent.

Trust demands learning. An organizational architecture made up of relatively independent and constant groupings, pushes the organization toward the sort of federal structure that is becoming more common everywhere. A necessary condition of constancy, however, is an ability to change: If one set of people cannot be exchanged for another set when circumstances alter, then the first set must adapt or die. The constant groups must always be flexible enough to change when times and customers demand it. They must also keep themselves abreast of change, forever exploring new options and new technologies. They must



create a real learning culture. The choice of people for these groups is therefore crucial. Every individual has to be capable of self-renewal. Recruitment and placement become key, along with the choice of group leaders. Such topics will require the serious attention of senior management. They should not be delegated to a lower echelon of human resources.

Trust is tough. The reality is, however, that even the best recruiters and the best judges of character will get it wrong sometimes. When trust proves to be misplaced—not because people are deceitful or malicious but because they do not live up to expectations or cannot be relied on to do what is needed—then those people have to go. Where you cannot trust, you have to become a checker once more, with all the systems of control that involves. Therefore, for the sake of the whole, the individual must leave. Trust has to be ruthless. It is incompatible with any promise of a job for life. After all, who can be so sure of their recruitment procedures that they are prepared to trust forever those whom they select? It is because trust is so important but so risky, that organizations tend to restrict their core commitments to a

smaller group of what I call trusties. But that policy in turn pushes the organization toward a core/periphery model, one that can, if practitioners are not careful, degenerate into a set of purely formal contractual relationships with all the outsiders. Nothing is simple; there is paradox everywhere. Trust needs bonding. Self-contained units responsible for delivering specified results are the necessary building blocks of an organization based on trust, but long-lasting groups of trusties can create their own problems, those of organizations within the organization. For the whole to work, the goals of the smaller units have to gel with the goals of the whole. The blossoming of vision and mission statements is one attempt to deal with integration, as are campaigns for total quality or excellence. Such things matter. Or rather, if they did not exist, their absence would matter. They are not, however, enough in themselves. They need to be backed up by exhortation and personal example. Anita Roddick holds her spreading Body Shop together by what can best be called "personal infection," pouring her energies into the reinforcement of her values and beliefs through every

medium she can find. It is always a dangerous strategy to personalize a mission, in case the person stumbles or falls, as the Body Shop nearly did last year after unfavorable publicity, but organizations based on trust need that sort of personal statement from their leaders. Trust is not and never can be an impersonal commodity. Trust needs touch. Visionary leaders, no matter how articulate, are not enough. A shared commitment still requires personal contact to make it real. To augment John Naisbitt's telling phrase, high tech has to be balanced by high touch to build high-trust organizations. Paradoxically, the more virtual an organization becomes, the more its people need to meet in person. The meetings, however, are different. They are more about process than task, more concerned that people get to know each other than that they deliver. Videoconferences are more task focused, but they are easier and more productive if the individuals know each other as people, not just as images on the screen. Work and play, therefore, alternate in many of the Corporate get-togethers that now fill the conference resorts out of season. These are not perks for the privileged; they are the necessary lubricants of



virtuality, occasions not only for getting to know each other and for meeting the leaders but also for reinforcing Corporate goals and rethinking Corporate strategies. As one who delivers the occasional "cabaret" at such occasions, I am always surprised to find how few of the participants have met each other in person, even if they have worked together before. I am then further surprised by how quickly a common mood develops. You can almost watch the culture grow, and you wonder how they could have worked effectively without it.

Trust requires leaders. At their best, the units in good trust-based organizations hardly have to be managed, but they do need a multiplicity of leaders. I once teased an English audience by comparing a team of Englishmen to a rowing crew on the river – eight men going backward as fast as they can without talking to each other, steered by the one person who can't row! I thought it quite witty at the time, but I was corrected after the session by one of the participants, who had once been an Olympic oarsman. "How do you think we could go backward so: fast without communicating, steered by

this little fellow in the stern, if we didn't know each other very well, didn't have total confidence to do our jobs and a shared commitment – almost a passion – for the same goal! It is the perfect formula for a team."

I had to admit it – he was right. "But tell me," I said to him, "who is the manager of this team!" "There isn't one," he replied, after thinking about it. "Unless that is what you call our part-time administrator back in the office." Manager, he was reminding me, is a low-status title in organizations of colleagues.

"Well, then, who is the leader ?

"That depends," he said.

"When we are racing, it is the little chap who is steering, because he is the only one who can see where we are going. But there is also the stroke, who sets the standard for all of us. He is a leader, too, in a way. But off the river, it's the captain of the crew, who selects us, bonds us together, builds our commitment to our goal and our dedication. Lastly, in training, there is our coach, who is undoubtedly the main influence on our work. So you see," he concluded, "there isn't a simple answer to your question." A rowing crew, I realized, has to be

based on trust if it is to have any chance of success. And if any member of that crew does not pull his weight, then he does not deserve the confidence of the others and must be asked to leave. Nor can all the leadership requirements be discharged by one person, no matter how great or how good.

The Organization's Dilemma

Racing crews row for the sake of glory, but it is not as clear what motivates the people in the virtual organizations of business. Why should the now smaller core of trusted individuals give so much of their lives and time and talent to an organization that they work for but do not live in, an organization that, significantly, someone else owns, someone whom they almost certainly do not know and have never met, because, for the most part, that someone is not an individual at all but an institution owned, in turn, by other anonymous people'.

That question had a clear answer in times past. The organization was the instrument of its owners, and the individual was the instrument of the organization. The implied and the legal contracts were



both instrumental. The individual was a hired hand, a human resource, employed to work the assets of the organization. Good pay, good prospects, and a challenging job were enough for most. The human resource, however, is now the human asset, not the human cost. That is not just refined semantics, it is the literal financial truth. The market value of the top 200 businesses on the London Stock Exchange is on average three times the worth of the visible fixed assets. In the case of the high-tech high fliers, it can be up to 20 times. If that means anything, it means that the market is valuing the intangible assets many times higher than the tangible ones. Whether those intangible assets are the research in a company's pipeline, the brands, the know-how, or the networks of experience, they amount in the end to one thing: the people.

Those people can and often do walk out the door. Whole teams of analysts nowadays shift themselves from one financial institution to another at the glint of a golden handshake or the lure of new pastures. If laborers are worthy of their hire, there is no reason to suppose that they won't go where the hire

looks better. The assets of the new information-based corporations are, as a result, increasingly fragile. It is hard to measure assets in the present, harder still to gauge their future. Investing in information-based businesses will be even more of a gamble than it has been in the past.

The consequences of increased gambling are predictable: Investors will be in more of a hurry to get their money back; managers will be under pressure to milk their assets while they still have them; horizons will shrink; and the result will be that, even if the assets don't walk, they will wilt. Under those pressures, even inspired, articulate leaders will be hard-pressed to hold the virtual corporation together.

When laborers become assets, the underlying contract with the organization has to change. Trust inevitably requires some sense of mutuality, of reciprocal loyalty. Virtual organizations, which feed on information, ideas, and intelligence (which in turn are vested in the heads and hearts of people), cannot escape the dilemma. One answer is to turn the laborers into members; that is, to turn the instrumental contract into

a membership contract for the smaller core. Members have rights. They also have responsibilities. Their rights include a share in the governance of the community to which they belong. No one can buy a club against the wishes of its members. Major capital investments and strategic initiatives require the agreement of the members. The terms and conditions of membership require members' agreement. Their responsibilities center on the need to make the business grow, because without growth there will be no striving and, ultimately, no point. Growth, however, can mean growth in quality, size, profitability, or desirability, and maybe in all four. People who think of themselves as members have more of an interest in the future of the business and its growth than those who are only its hired help.

Giving membership rights to key people is not the same as giving them ownership, but those membership rights inevitably diminish the powers of the owners. Shareholders become investors rather than owners. They are entitled to a reasonable return on their money – a return that takes the risk into account-but they are not entitled, for instance,



to sell the company over the heads of its members or to dictate to management, unless the financial returns start to evaporate. Major investors, however, who tend to be long-term investors, might also be included in the extended family of the business. Such a shift in the governance of the corporation would bring Anglo-American businesses more into line with the businesses of continental Europe or Japan. Companies there, paradoxically perhaps, are seeking to give more power to the investors as a discipline for the members and their management and as a way of increasing the financial base. The principle of requisite balance would suggest that all groups should meet halfway, and they probably will, as the world of business becomes increasingly linked and interdependent. The concept of membership, when made real, would replace the sense of belonging to a *place* with a sense of belonging to a *community*, even if that community were a largely virtual one. A sense of belonging is something humans need if they are to commit themselves to more than simple selfishness. Families and family businesses know something about the sense of belonging

and the motivating force of collective pride in the family tradition, as well as the responsibilities that go with belonging. Families, at their best, are communities built on mutual trust. If the family could be extended to include key contributors, the sense of belonging would be properly inclusive. Without some real sense of belonging, virtuality looks like a very precarious state and a perilous base for the next phase of capitalism, whatever the economic and technological advantages.

Society's Dilemma

An economy that adds value through information, ideas, and intelligence - the Three I Economy offers a way out of the apparent clash between material growth and environmental erosion. Information, ideas, and intelligence consume few of the earth's resources.

Virtuality I will redesign our cities with fewer skyscrapers and fewer commuters, making a quieter and perhaps a gentler world. Our aspirations for growth in a Three I Economy would increasingly be more a matter for the mind than for the body. The growth sectors would be education in all its varied forms, health care, the arts and entertainment, leisure, travel, and sports. As the economic statistics show,

the new growth is already happening, and the organizations that deliver it tend to be small groups of colleagues united by mutual trust. Small, growing companies often serve today's young people, who aspire to better music systems and computers rather than to faster cars or flashier clothes. The younger generation also relishes employment in the new and freer organizations. Not all people do, however. If the Three I Economy is to take off in the First World and thus give hope of a sustainable future to others, everyone needs to be able to participate.

Currently, there is in every country of the First World a growing underclass that knows little about the concepts behind the Three I Economy. For members of that underclass, such concepts are a joke. They want hamburgers and heating, not computers. In the short term, maybe, they should be helped with their hamburgers and heating, but they also need a hand up into the Three I Economy. Virtuality will be a recipe for a divided society unless we help everyone, and a society divided will not long survive. We have to take from the present to ensure our future, instead of borrowing from the



future to ensure our present, as most countries do today. Everyone has something to contribute to a Three I Economy. There is no unreachable group. Talent in some form or another exists in all human beings; it only needs to be detected and developed. Naturally, early education is crucial, but our future should not be determined by the time we are 16. Work can be a great laboratory of learning, and organizations, therefore, hold one of the keys to the future of society. But if they concentrate their efforts only on their core members, they will be throwing away that key. Who else will help those who are outside the organization -the independents, the part-timers, and the small contractors and suppliers ?

Already, in the European Union, one half of the available workforce is outside the organization, not in full-time jobs. If organizations do not embrace the concept of an extended family and include their associated workers in their plans for their human assets, the workforce will be-

come increasingly useless to them and to themselves. If a trust-based organization means trust for some and the old instrumental contract for the less able, then trust will

become a dirty word, a synonym for selfishness. Some see the peripheral workforce as the responsibility of government - to train, to employ, or, if all else fails, to support.

Governments, however, have their limits. They can pass laws, they can regulate, and they can sometimes find money to empower others; but they cannot and should not try to do it all themselves. They need help from the rest of society.

The hope for the future that is contained within the virtual organization will end in disillusionment unless we can mobilize society to think beyond itself to save itself. Governments in a democracy can move only as fast as the opinion leaders in society. Business has always been a major leader of opinion, but if business minds its own business exclusively or if it takes virtuality to extremes and becomes a mere broker or box of contracts, then it will have failed society. In the end, its search for wealth will have destroyed wealth.

