

the coming of

# Porous Enterprise



Orange Labs SF

# Editorial

The origins of this research project lay in conversations embedded with questions: why do we sequester ourselves in big buildings when more and more of the information we need is outside in the world of customers, partners, and a growing collective pool of knowledge on the web? In a global moment that gave us “too big to fail” what is the advantage of big? And in a global generational sea-change, where GenY talent collectively knows and shares more than the embedded ‘senior’ management hierarchy, how much knowledge – tacit and explicit – pouring through the realtime Web can be leveraged in traditional hierarchical corporate 1.0 structures?

Our journey was illuminated by the glare of exploding business models. The turbulent world surrounding economies and work is showing its irresistible influence as we attend the enterprises’ difficulty to keep up with changes and remain relevant and meaningful to customers and employees. On the other hand, observing how people work in the Silicon Valley and how we engage within the community, reveals to the research team the changing nature of what matters now in the work equilibrium.

This study was executed in Silicon Valley, which serves as a paradigm for the porous marketplace – a region that proceeds on the basis of Talent sharing tacit knowledge through both online and offline flows of knowledge exchange. Because of this location, we were able to interview thinkers, as well as GenY startups and others, which are compiled in an accompanying short video documentary. Many of the quotes in this report are drawn from those interviews.

The model of the Porous Enterprise which we describe here in a series of monographs, is emergent. But it has been developed by practitioners. The contributors to this work have ‘day jobs’ involving use cases that exemplify the model: building best practices for the use of Facebook and Twitter in customer service; constructing collaboration platforms for internal crowd-sourcing of market intelligence; developing service provider solutions for vendor relation management practices; not to mention realtime semantic analysis of today’s burgeoning social media platforms.

What seems to be happening is a shift not only from information to knowledge but from knowledge to creativity. Indeed, given the power of networks, knowledge is slowly becoming a commodity. What is becoming precious is the authentic purpose from management that drives employee engagement and passion.

As we look with new eyes at a transformed landscape that has featured collapses over the past two years, we see fundamentally hopeful signals that the Firm as we have known it for the last 150 years is shape-shifting, re-centering around a new functional model of what is ‘core’ and opening its boundaries into a more porous way to better connect and engage with competitors who want to collaborate, communities that require accountability, consumers who expect innovation, employees who demand authenticity and meaning, and technology that waits for no one.

**Georges Nahon**, CEO, Orange Labs SF

**Mark Plakias**, VP Strategy, Orange Labs SF

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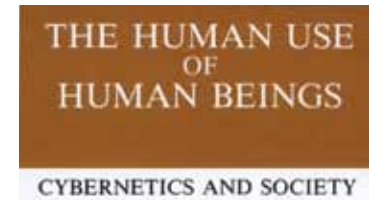
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# THE ROAD TO THE Porous Enterprise



## Shop Management

BY  
FREDERICK WINSLOW TAYLOR, M.E., Sc.D.  
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MECHANICAL ENGINEERS  
Author of "The Principles of Scientific Management"  
WITH AN INTRODUCTION BY  
HENRY S. TOWNE  
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## PREHISTORY

Production has always been a collaborative activity. There exists a distant resonance in our shared genetic memory of individual hunters combining to bring down mastodons to produce food for their village. Any trade or barter that may have occurred to augment the basic act of hunting, given the limitations imposed by distance, remained local and line of sight based. This is the most basic sense of the aggregative nature of production: the combining of raw labor power to achieve an end. It is thus that production is especially sensitive to changes in factors that enhance or constrain collaboration.

## MIDDLE AGES

Things stayed fairly static until the development of the Medieval guild system. Individual merchants and craftsmen came together to create a collectivity for ensuring fair trade, enforcing trade agreements, and in the case of craftsmen guilds, set quality standards for its members and in some cases manipulate the prices of inputs. Guilds allowed development of non-local trade and exchange because they provided a "brand" that could be trusted. For example if a member of a guild reneged on a contract, the injured party could collect compensation from the guild.

## INDUSTRIAL REVOLUTION

The Industrial Revolution, which began roughly in 1750 and ended in 1870, was a landmark event for several reasons, not the least of which was the emergence of a new form of production which spawned the organizational model of the firm that has held sway for more than a century and a half. It engendered specialization which in turn created the notion of process management and spurred the development of management methods as well as technologies to optimize these production methods. The Wealth of Nations, published in 1776 catalogued, described, and codified many of the emerging practices. While the fruits of production were disposed of through market processes, production was achieved through non-market methods, specifically command and control. Smith observed that one person working alone, could perhaps make one pin in a day, but through division of labor, non-linear advantages result and the output of pins is multiplied significantly.

## BIRTH OF ASSEMBLY LINE

The period between 1900 and 1930 saw the rise in the first wave of professionalizing management and spawned the "Efficiency Expert" who would roam the factory floor and optimize the work flow. Key figures were Frederick Winslow Taylor[1] in the US and Henri Fayol[2] in France. Taylor published in 1911 *Shop Management* and is credited with being the father of modern management. Fayol wrote in 1918 *Industrial and General Administrations* which clearly codified the hierarchical nature of management through 14 principles which included: Unity of Command, Unity of Direction, Scalar Chain of Command, Order, and Centralization. This clearly delineated the difference between decentralized market-like and centralized command methods in production.

## AGE OF CYBERNETICS

By the 1950's, the enterprise's processes, decision-making, and management had begun to be mathematically restated through the application and development of Systems Theory and Operations Research. Taken together this made management a science and in so doing further accentuated the firm's centralized nature. Up to this point in the development of the enterprise there was no real questioning that the enterprise needed to be managed and its decision taken centrally. Certainly, it turned to market processes to acquire commodities and certain services, but the core of its work was done through non-market means.

## TRANSACTIONS COST MODEL

Ronald Coase, published in 1937 a seminal paper. *The Nature of the Firm*, which contributed to his being awarded a Nobel Prize, which posited that the size of the firm and in fact its very existence was due to transaction costs associated with relying on market mechanism to procure commodities core to the firm.

Coase argued that using markets are not frictionless, there are a number of transaction costs associated with using markets. The cost goes beyond the simple price of the resource and include costs of search and information, negotiation, disclosure agreements, due diligence, as well ensuring contractual compliance and legal proceedings. In many cases, the firm can avoid these costs and obtain what they need through internal production.

Today the pendulum is swinging back towards market methods over centralized ones. Factors have come into play that have overcome many of the market's weaknesses such as contract costs, information asymmetries, fraud, information costs, localized monopolies, moral hazard, and adverse selection. One of the biggest of these factors is the Internet. This is because it brings us so close to those conditions prescribed by models of general economic equilibrium. For example, it solves the problem of coherent aggregation of the decentralized buying and selling signals (of finished goods, raw and intermediate materials, labor, and capital) that are constantly emitted throughout a given economy. The efficiency or lack of thereof of the systems aggregating

and decoding these signals is largely responsible for the market dysfunctions listed above.

We believe with the fixed and mobile Internet and the myriad applications and networks it has enabled, the friction involved in matching offers and demands has been reduced to an unprecedented degree. For example, offers of employment are aggregated and indexed and offers of services are similarly organized, so that either buyer or seller of employment can readily obtain knowledge of what is available, thereby reducing search times. The availability of goods and commodity suppliers and buyers is similarly organized. More importantly, this centralized information has been responsible for eliminating the asymmetry in the knowledge of price and quality between buyer and seller.

This has led to a significant reduction in the transaction costs associated with resorting to market means of acquiring resources, and services by enterprises. The result has been to greatly reduce the perimeter of the enterprise's walls within which activities are pursued. More importantly, the facility with which knowledge is also made available with almost no friction has led to very different ways of working with entities outside the walls of the enterprise. This fundamental change in has decidedly shifted the balance in activity from "make" towards "buy."

Taken together, these two developments have contributed to the emergence of the Porous Enterprise and what follows is a detailed exploration of the many facets and implications of this new exciting corporate form.

# FLOWS + FLAWS

## flows

**51%** of 'Engaged' employees have "no plans to leave" company

**1,742 vs 128**

# of SMS sent per month, ages 13-17 vs ages 45-54

**60%**

Increase in knowledge flows via social media, 2007-2008

**42%**

growth of population in top 10 creative cities

**129%**

growth in SMS traffic from 2007 – 2008

## flaws

**38%**

employees who agree that "senior management sincerely interested in employee well-being"

**318%**

growth rate in executive turnover, 1995-2006, due to performance

**62%**

respondents 25-64 years old say "trust corporations less than they did a year ago"

**69%**

Brand Disloyalty rate for Home entertainment industry

**38%**

of workforce is either "disenchanted" or just plain "disengaged"

**24%**

Office Vacancy rate in Silicon Valley as of September 2009



# The Porous Enterprise

amplified for exponential times

The velocity of innovation, the collapsing of distance, the reach of companies, the speed of social media, the acceleration of reaction, the plummeting costs of production, and the intensity of competition all point to the exponential times we live in. Communication technologies have a central role in amplifying these exponential effects. And because companies play a central role in this process of amplification, from the production of technology to the delivery of content to the provision of goods and services, it is critical to examine the relationship between communications, people, and companies and how they will evolve in the future.

The model of the Porous Enterprise is built on this relationship and focuses on the flows within companies, foregrounding what is mobile, agile, ephemeral, and virtual. By moving beyond what is internal or external to the enterprise, and looking at the interstitial spaces, and what flows freely within the organization (i.e., talent, knowledge, technology, and capital), and around it (customers, partners, competitors, regulators), the Porous Enterprise presents a new way for organizing future companies.

By definition, porosity connotes membranes and filtering mechanisms that both enable and impede flows. As well, it conveys a certain level of transparency where communication figures prominently. The tactile dimension of porosity reflects reverberations of decision-making amplified and felt at all levels of the company and beyond. The permeable walls that define it also connotes a certain kind of modularity that relate to the fluid assemblage and disassemblage of corporate frameworks – think hives.

Sources of economic value are moving from “stocks” of knowledge to “flows” of new knowledge.

— JOHN HAGEL III & JOHN SEELY BROWN,  
co-authors of *The Shift Index*

DON'T THINK

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ai  
ght

*The Porous Enterprise*

Linear-thinking results in predictable outcomes. Non-linear, associational approaches transcend boundaries but also bring about disruptive innovation. >>

You won't need to depend on the CEO.

— JOHN CHAMBERS, CEO, Cisco

# Building a Porous Culture AT CISCO

Noted Internet analyst Henry Blodgett asked in print, "Has Cisco's John Chambers Lost His Mind?" FastCompany wrote a breathless review entitled "How Cisco's CEO John Chambers is Turning the Tech Giant Socialist." That article went on to describe how under Chambers' direction, starting in 2001, he "has been taking Cisco through a massive, radical, often bumpy reorganization...to spread the company's leadership and decision-making far wider than any big company has attempted before." The result in 2009 is a structure involving 750 of the company's most senior executives (soon to be 3,000) involved in

a web of 12 Councils, each with an average of 14 members, and 47 subordinate similarly-sized "boards." This superstructure engen-

ders any number of smaller 'working groups' that focus on specific projects. The goal is to decentralize decision-making of the kind that Thomas Malone (see related story on Core + Decentralization) would envy.

The excitement behind the 'socialist' structure of Cisco can be summarized in one word: agility. In less than two years the company has gone from zero presence to market offers in the entertainment industry for both entertainment web portals, as well as offline content delivery platforms for sports stadiums. With its acquisition of PureDigital it has expanded into consumer home video beyond its set-top box business. Chambers boasts about being in 26 new market-facing positions using the council/board structure.

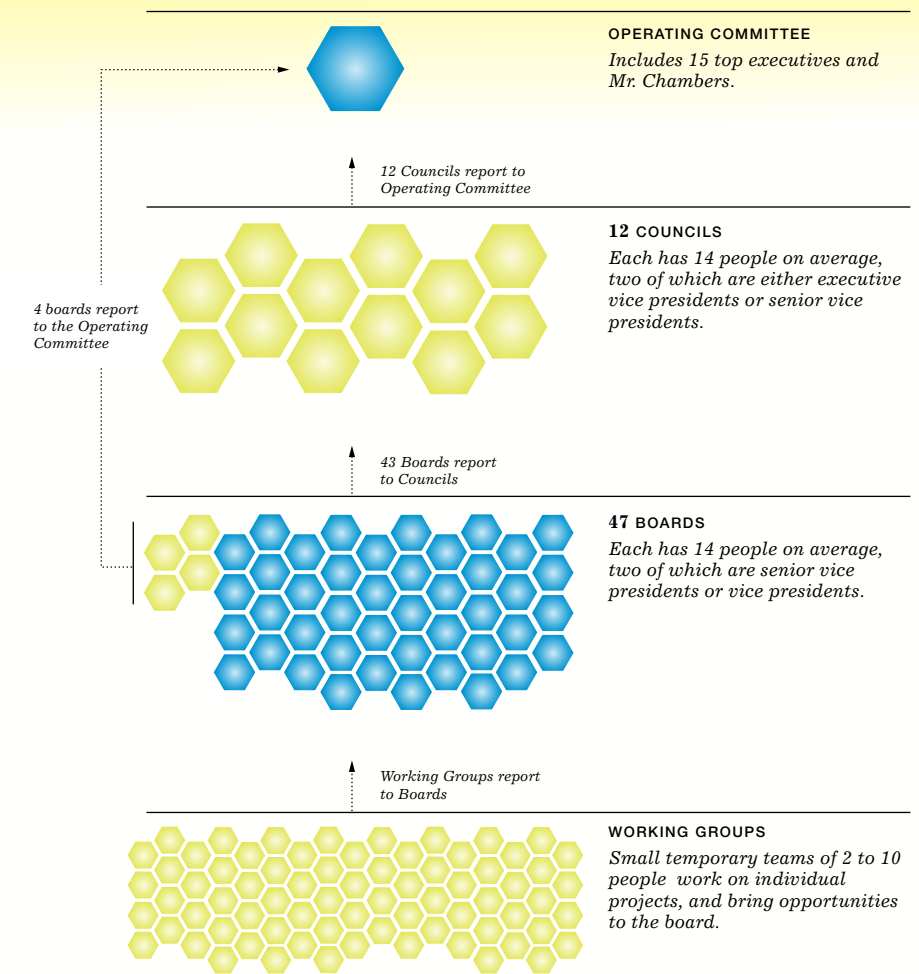
The mantra from Chambers for over a year can also be summarized in one word: collaboration. Using the "democratic technologies" Malone espouses for decentralized organizations, we see (in our opinion) reasonably authentic blogs and realtime posts from very senior executives of the company (see related story on Transparent, but is it Authentic). After all, according to FastCompany, Cisco's flagship teleconferencing platform called Telepresence, is the company's fastest-growing product – not bad for a company that sold two flagship products as recently as 2001.

What's clear to me is that the most important advantage we've gained is a structure that allows us to quickly pull together cross-company functional experts that are empowered to make decisions and drive execution that's good for both our customers and our shareholders.

— RANDY POND, Executive, Cisco

## Rerouting Cisco

CEO John Chambers has replaced a top-down structure with dozens of committees.



DISTRIBUTE

POWER

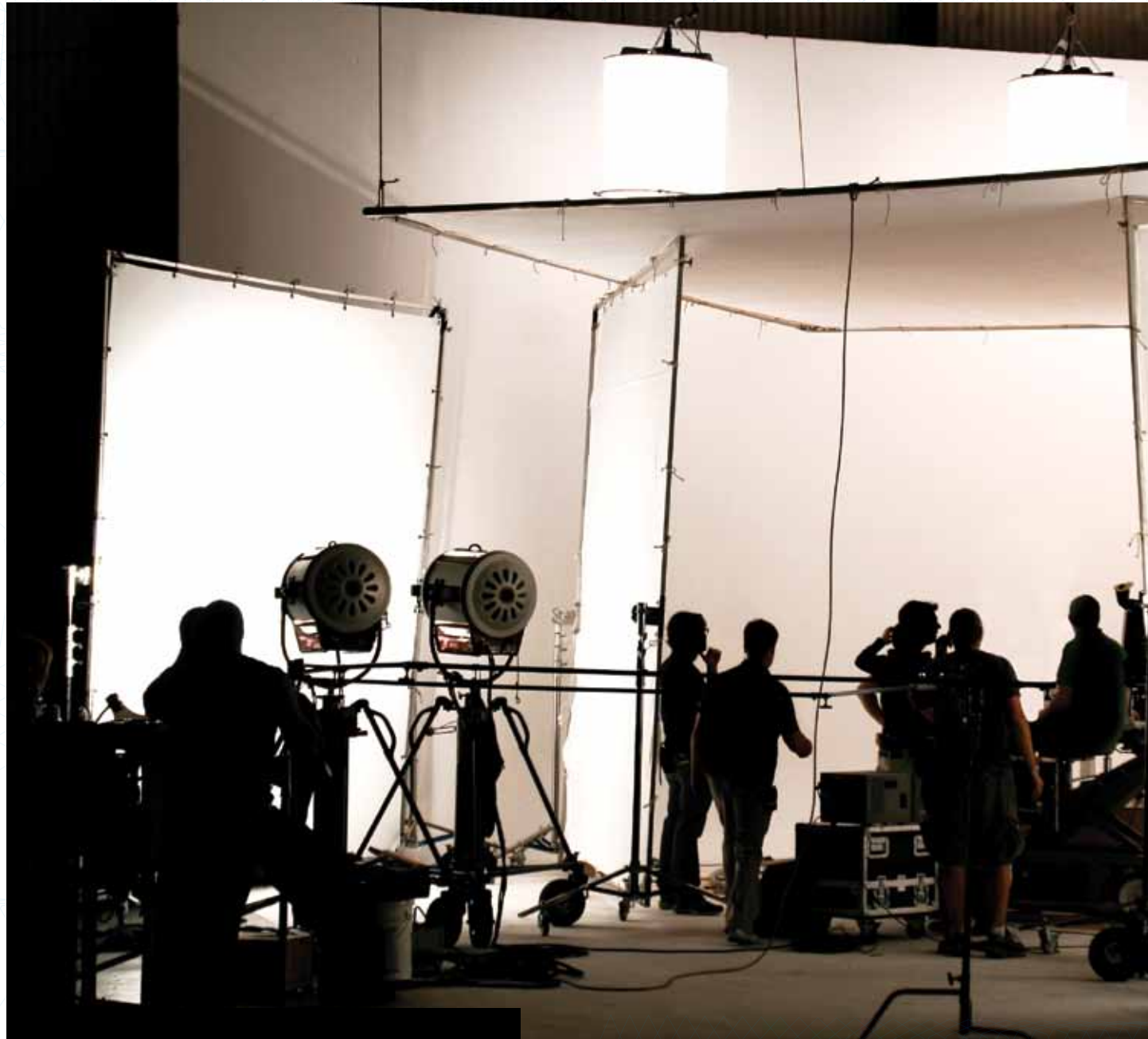
The Porous Enterprise

Topple the top-down framework of the Traditional Organization which concentrates power at the upper echelons of the firm. In the Porous Enterprise, power is distributed so the trajectory of people, information, strategy can move up, down, diagonal, or sideways.

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How close to a noncapitalistic, open source, peer-production society can this movement take us? Every time that question has been asked, the answer has been: closer than we thought.

— KEVIN KELLY, former Executive Editor *Wired*



Shape SHIFT

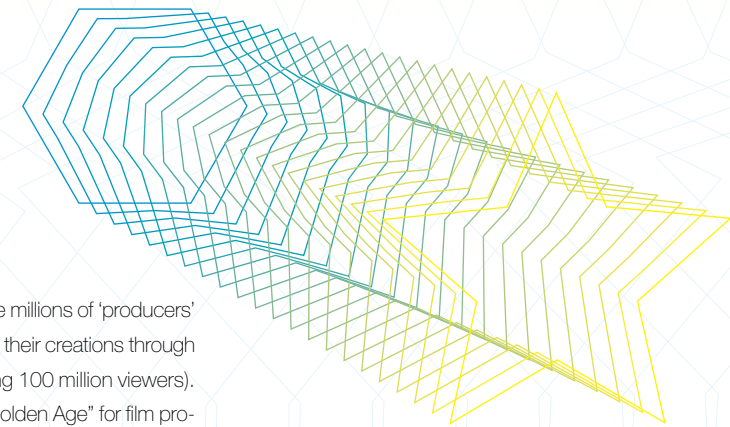
*The Porous Enterprise*

# STUDIO 2.0

Hollywood, the center of the movie world, seems very different from many industries around the globe, evoking images of glamour and passion as cast and crew work together, producing the next blockbuster, but the origins of the “Studio System” and its journey to modern film production contain lessons for all businesses transforming to become Porous Enterprises.

From the '20s to the '50s, the “Studio System”, comprising the five “Majors”, was the dominant means of film production and distribution. The “Big Five” made movies primarily using their own filmmaking lots with creative personnel often under long-term contract. They were media conglomerates, owning the complete supply-chain from production to distribution and movie theaters.

Government legislation in '48 started the break-up of these monopolies but it took until the '90s and the arrival of commodity production tools such as cheap digital video cameras and editing software to enable a thousand flowers to bloom, producing a body of creativity unthinkable in the old centralized model. Think of the success of the ‘Blair Witch Project’ with improvised acting and shot on a grainy handy-cam or the millions of ‘producers’ and ‘actor’s’ now distributing their creations through YouTube (recently surpassing 100 million viewers). The ‘20’s is known as the “Golden Age” for film production, but the genie is out of the bottle, there are now millions of “studios” – many containing a crew of one! There is no going back.

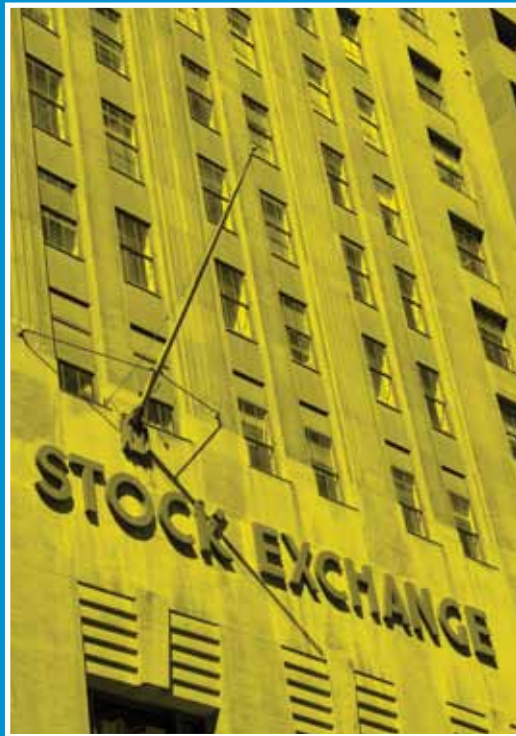


Built for stability, the Traditional Organization is slow to move, making it vulnerable to changes in technology, industry, or policy. On the other hand, the Porous Enterprise as shapeshifter can be more agile and, therefore, better able to not only manage disruptions but exploit them to their advantage.

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# Elvis The Building Has Left

In 1903, after an enormous (for the time) \$4 million in expenditure, the crowning glory of Capitalism opened on 18 Broad Street in lower Manhattan, the current home of the New York Stock Exchange. It's central trading floor was one of the largest interior public spaces in the US, with a 72-foot ceiling and one of the first air conditioning systems in an office building anywhere. In 1969, an additional trading floor was opened, followed by a fourth, and a fifth at 30 Broad in 1988.



Today, after closures of the three additions in 2007, the New York Times reports that the original trading room is now “little more than a colorful backdrop for CNBC”, and that it’s utility as a place where trades are executed is plummeting, down to 36% of daily volume compared to 75% five years ago.

The reason why this building is losing its reason to exist is familiar by now: smaller regional trading hubs in places like Kansas, which take advantage of lower site costs and abundant realtime data distribution. In a more extreme form, private trading rooms, called “dark pools” are generating more and more of the volume in the form of high-speed programmatic trading powered by algorithms running in unregulated data centers.

As of the end of the first half of 2009, the US had “surrendered” over 50 million cubic feet of commercial real estate, equivalent to 250 office buildings. The vacating of office space is known in the industry as “negative absorption,” and according to Collier International it is “across the board” in both urban and suburban areas.

I think companies today see their biggest asset in their processes but increasingly it will be recognized that a company’s greatest asset are the mind of its employees.

— DAVID WEEKLY, CEO/Founder, PBWorks

The Porous Enterprise

OPEN IT UP



FILTER IT OUT

Organize for flow but filter out the dregs. The organization will be defined as much by what it takes in as what it takes out. >>

# Tear Down That Wall

If Le Corbusier, the architect, described houses as ‘machines for living’, offices have been the ‘machines for doing business’. These ‘machines’ were comprised of walls, desks and phones. By decoupling form from function, ‘porous offices’ focus on delivering results without being constrained by physical boundaries.

There’s a growing community of ‘digital nomads’ for whom virtual work is a way of life. Riding on top of global mobile, wi-fi and cloud infrastructure, homes, cafes, hotels and airports have become the new places of work. Work is time- and place-shifted around the globe. New ‘co-working’ spaces have emerged to cater for nomads looking for social connection, playing the role of ‘on demand’ office spaces. People flow through these spaces, sharing ideas, building connections and adapting to the opportunities of the day. Workers are free to move between spaces to find those best suited to their current task.

Note that these are best practices that could be practiced inside your organization, and yes, even inside your walls. The evidence from the front line

– often housed in old industrial spaces (in San Francisco, the Hat Factory is one such space) – is that both startups and large-enterprise knowledge work is being accommodated in these co-working spaces.

The toppling of the Berlin Wall marked a dramatic transition from a structured, command-and-control regime, to a more vibrant, democratic and market-driven society – a triumph of dynamic over static. Today’s managers have the opportunity to stage their own revolutions, unleashing new levels of prosperity. One thing is for certain, if the leaders don’t stage this revolution, the workers will.

**How is work in this dynamic environment enabled, managed and delivered?** Let’s take a look at the tools of the trade. An excerpt from a **co-working cooperative** describes their infrastructure and best practices:

**ONLINE GROUPS** Share ideas. Get motivated. Create peer structure to accomplish your goals.

**STAY IN SYNCH**

- **Wiki Workroom** – Share your plans, meeting notes and documents.
- **Team Chat** – Feel as if you are in the same room.

**GETTING HELP FROM THE COMMUNITY**

- **Network Wiki** -Share your project in an open space as a way to get support.

**KEEP TRACK OF PROJECT ACTIVITY**

- **Work Diary** – Track the activity and value created each day.

**HAVE PRODUCTIVE MEETINGS**

- **Conference Calling practices**
- **Screensharing** – Look together at the same webpages in real time.
- **Collaborative Editing** – Write at the same time on the same page.

**MANAGE PROJECTS WELL**

- **Task Tracking**
- **Time Tracking**
- **Bug and Ticket Tracking**



# What if Companies Looked Like Airports?

Consider the typical large corporate organization chart, showing a CEO surrounded by 5-10 senior VPs or C-suite executives, who mediate the traffic coming from layers beneath them in the building to shape the CEO's perception of reality. When the CEO goes out to "meet with customers" he or she meets with similar command elites within the customer organization.

Contrast this with Air Traffic Controllers who have communications with inbound and outbound traffic at very far distances, plotting them on a minute-by-minute basis, and communicating directly with the pilots on those craft. A different model of control.

The metaphor of airport for a corporation is a useful thought pump in thinking about the porous enterprise. After all, airports are extremely porous structures, accessible through a web of intermodal transport fabrics (car, bus, rail, and of course air). So take the ride with us as we explore the concept.

**PEOPLE:** Airports consist of fixed staffs that operate the basic machinery, maintain security, process transactions, and provide the navigational guidance for incoming and outgoing aircraft. They also consist of travelers, who segment into frequent travelers (typically business people), casual travelers (just passing through), and cargo (the fastest-growing segment of 21st century air traffic volume, thanks to the Internet). Finally an overlooked but vital segment is circulating populations of people who operate conveyances, a category including bus operators, limousine and taxi drivers.

**AIRLINES:** Think about airlines as lines of business (or product lines). They need varying lengths of runway to take off – some businesses take a long time to ramp up, some not so much. They pay rents to the airport authority, just as LOBs have to return a threshold IRR

to the corporate parent in order to continue operations. They have terminals to board and disembark passengers, who in this context are line staff associated with the LOB.

*What kind of attributes do we associate with a bustling vibrant airport?*

**MODULARITY:** Terminals can be packed and repacked with different (business/product/service) lines – they are added and subtracted as business expands and contracts. A porous corporation should also be able to accommodate new LOBs as easily as absorbing a new JetBlue route. In the last few years, Cisco has opened up 26 new 'market adjacencies' that represent the future of many new LOBs.

**HOSPITALITY:** Airports are designed to receive people and get them somewhere. The world's busiest airport in terms of this is Atlanta Hartsfield, which received 90 million passengers in 2008 (a year when the number of people who got on a plane almost reached 5 billion). A porous corporation, such as Cisco, also maintains extensive facilities (EBCs, or Executive Business centers) for hosting and educating customers.

**INFORMATION FLOWS:** From the 100+-mile communications webs between tower and aircraft, the online check-in process 24 hours before boarding, to the flight status notification sent via SMS, airports bristle with data flows. The more transparency, the better. Business travelers of a certain age can remember when status boards where cathode ray displays, and the only way to know a flight's status was to be physically present in the airport. For most corporations, the knowledge flows most visible from the outside come from middle layers of the company – the most famous example being Robert Scoble before he left Microsoft, or Michael Beesley from Cisco. The idea that CIO's in 2009 are just getting the message (from Gartner no less) that it's ok to unblock Facebook is like saying air traffic controllers should use computers to track incoming flights.

*So what would a corporate 'hub' look like?*

**ORGANIZE AROUND PUTTING TALENT INTO BUSINESS:** The physical layout of an airport is designed to get the exact right people onto aircraft as quickly as possible. In this case, the aircraft is the line of business, and the people are the talents that drive that business. Onboard new talent – the right talent – into the LOB as efficiently as possible.

**FROM LIMITED COMMAND TO FAR-SIGHTED CONTROL:** The 'hub' corporation has a control tower with great visibility and direct contact with approaching and exiting assets. Anybody who has seen Fe-

dEx's "anthill" visualization of flights leaving Memphis knows what a porous enterprise with great information flows can achieve in terms of realtime supply chain management. Use realtime web and social media as part of your radar that directs the company's lines of business.

**SEGMENTED WORKFORCE:** The corporation-as-hub recognizes there is a core fixed workforce, onsite; but that accommodations must be made for the itinerant 'crews' that operate the LOBs, and the ecosystem of conveyancers who seek out and bring customers, suppliers, and other stakeholders (analysts, regulators, etc) to the hub. They need appurtenances and support as well, even if they are not always compensated directly. Your employees and your ecosystem are segments of a single workforce.

**CARBON FOOTPRINT CHALLENGE:** Airports as structures have some of the largest carbon footprints on the planet. In Europe, the Airport Carbon Accreditation initiative from the Airports Council International launched a multiprong initiative in 2009. Likewise, the porous corporation will work to reduce its footprint, through a combination of reduction and offsets.

*We'll be landing shortly, thank you for flying Porous Airlines.*



MOVE THE

The Porous Enterprise

Transcend the boundaries of the organization by converting internally-directed Mission Statements to Corporate Social Responsibility (CSR) agendas that speak of larger impacts in the ecosystem.

>>

I think the key difference that I see between the organizations of the future and the organizations of today is that there will be, I believe, more freedom, more decentralization of decision-making in the organizations of the future.

— THOMAS MALONE, MIT, author of *The Future of Work*

# THE **NEW** CORE

As new models for the 21st Century organization evolve to a more decentralized layer, the question of what remains as the 'core' of the company becomes relevant – again. While aspects of core vs. non-core have been debated and realized in the last decade of the 20th Century (and the first of this one), the question is more pointed. As one leader of the federated corporation, John Chambers, has claimed, “you won’t have to depend on the CEO anymore.”

The research team has spent a significant percentage of its effort looking at what the implications of a non-hierarchical model mean for the organization. The team explored the evolution of studio production as a means to generate complex, high-value products in a concentrated period of time (ie: a Harry Potter movie). As discussed in the article on Hollywood, that system has evolved from a tightly vertical stack to a much more fluid and even atomized model in the age of the Prosumer and YouTube.

This discussion is not a structural one, but a functional one, in which we ask: not so much what remains inside the company's 'core' but what does it do? To pursue the logical conclusion of Hagel and Brown's work, it should broadly speaking, drive learning throughout the organization. Staying with Hagel and Brown for another step, their long-term quantitative analysis shows a 75% drop in large corporate asset value returned to shareholders over a 40-year span – where did it go? Their answer is very clear, to Talent (employees mostly), and Customers.

One of our conclusions is that the new Core must be engaged with these two groups. Now this sounds obvious and receives a lot of lip service, but based on customer disloyalty metrics, and the workforce sentiment about management's (lack of) interest in employee well-being, fewer walk than talk.

Let's take Talent first. As discussed in our article "Decentralization + Creativity," tightly-coupled hierarchical structures are, and will increasingly be defeated by more agile, creative, decentralized structures. So what does Talent want from the New Core? In a survey of 90,000 employees by Towers Perrin a segment of highly productive 'engaged' employees was identified. When asked for the "top 10 drivers" of their engagement, half of the list was directly (in our reading of the results) attributable to management. In other words, when *Talent sets the agenda for management, this is what they described:*

**Senior management sincerely interested in employee well-being.** This is #1 on the list, and we have discussed the implications of this in the article on Talent.

**Organization's reputation for social responsibility.** Much of the recent literature (including just recently, Rosabeth Moss Kantor's *SuperCorp*) has discussed the purpose-driven company. The 21st Century's challenges dictate that leading companies serve social, even global purposes.

**Organization quickly resolves customer concerns.** Here we see Talent and the Customer integrated into a synergistic agenda item for the New Core – serve your Talent by treating the Customer right. Today, this means some hard choices: trusting the (right) Talent in your company to employ the social media tools they know already to interact with customers.

**Have excellent career opportunities.** In the Porous Enterprise, Talent circulates more freely, which is what they are saying clearly here. Paradoxically, this may mean creating additional structures and levels to give the sensation of movement and progress.

**Organization encourages innovative thinking.** The most intangible and risky (from an authenticity perspective) deliverable from a management team is this. Contests and ideabanks will only go so far – structural empowering of talent to associate and form new business initiatives (such as we discuss in the case of Cisco) are more tangible and, happily, revenue-generating innovation models.

**Disloyal customer.** When it comes to the Customer, we note the data from Hagel and Brown to the effect that the average score for consumer disloyalty across more than 25 industry segments was 57 – with 10 of the segments being above 60. Simply put, the same Internet that has lowered transaction friction has also educated customers to the point where they have become empowered to the point of disloyalty as the new normal.

## Decentralization + Creativity = Porous

Management consultants and professors of organizational theory have been pulling for years at the question of what the company's inner circle should look, act, and organize. Similarly, the larger question of what should be 'core' to a business and what should be outsourced has been a recurring meme for almost two decades, famously addressed by Geoffrey Moore in the '90s.

The Core meme has been associated more recently by MIT Professor Thomas Malone with the concept of decentralization, accelerated by democracy technologies that enable small groups to accomplish missions more effectively than centralized structures. Part of Malone's loosening of the corporate ties that bind is a concept of internal marketplaces – different parts of the corporation providing services to others on a market-demand basis. These processes may be composed of "deep structures" – the core IT assets and workflows associated with selling for example.

Malone redefines the concept of an organizational core by moving the model from a central command-and-control orientation towards bigness, to a connect-and-cultivate distributed model that realizes bigness by leveraging a more well-informed and autonomous workforce: "With cheaper communication costs, many more people can make decisions for themselves, because they have the information they need. And when more people make more of their own decisions, they are often more creative, more motivated, more dedicated." As we see in the accompanying article on "Engaging Talent", employee engagement is directly tied to economic performance, and so thanks to Malone we see the impact of lower communications costs on the decentralized company's bottom line.

DECENTRALIZE

*The Porous Enterprise*

Connect the Core to everything in the enterprise by making it less centralized.

THE CORE

# Speak the Truth to Talent

## masks of command vs. authenticity

### Tear away the 'Mask of Command,' your Talent needs to hear from the Authentic You.

What does this mean? First, let's talk about the mask. In a recent review of the collected works of Warren Bennis, Harvard Business School Working Knowledge newsletter posed Bennis' question to its readers: "Can a leader be authentic, or do the masks of command ... force the leader to be something other than his or her true self?" Almost 100 comments were filed, many of them small essays in themselves. Most concluded that the mask of command was dead, and that authenticity rules the day.

Until now, companies were designed to become more efficient by growing ever larger, and that is how they created considerable economic value. However, the rapidly changing digital infrastructure has altered the equation: As stability gives way to change and uncertainty, institutions must increase not just efficiency but also the rate at which they learn and innovate, which, in turn, will boost their rate of performance improvement. Scalable efficiency. . . must be replaced by scalable learning.

— JOHN HAGEL III & JOHN SEELY BROWN  
co-authors, *The Shift Index*

But before we explore authenticity, let's ask ourselves, who cares besides the Investor relations department? The answer is: your best talent. The more disturbing news is that they don't believe you are.

Your Talent's #1 Priority is You. In a global survey of 90,000 workers, employment specialist Towers Perrin examined the top 'engagement drivers' across the generations in the workplace. Engagement is the vital metric for firms, because the higher the level of employee engagement, the higher the financial performance of the organization. In 4 out of 5 age groups, one of the top 3 drivers was "Senior Management sincerely interested in employee well-being" – in fact it was #1 for 3 of the 5 groups. Towers Perrin notes "to expect that these individuals [top executives] to actually connect in any genuine and meaningful sense with increasingly diverse groups of employees around the world – most of whom they rarely, if ever, meet – is probably asking a lot." And guess what, the Talent knows this: Towers Perrin reports that "only 1 in 10 of our respondents agreed

that senior leaders in their companies actually treat employees as vital corporate assets." It's clear there is a major authenticity gap here.

The gap is significant in even the most successful companies, Towers Perrin segmented respondents into those from companies that outperform their sector and found that less than half agreed with the statement that "senior management has sincere interest in employee well-being." In the case of the under-performers, that level of agreement plummeted to 26%.

How to fix this huge and potentially massively value-creating gap? One more metric from Towers Perrin sets the finding: the top two drivers agreed to by respondents in defining engagement with their company were:

- Enjoy challenging work assignments that broaden skills – 84%
- Seek opportunities to develop new knowledge skills – 83%

This is about learning, and as Hagel and Brown report in *The Shift Index*, organizations that achieve 'scalable learning' are those that will thrive in the new porous environment. How does that tie to authenticity? By having a leadership model that engages talent in the scalable learning process, indeed, has the talent 'teach' management. As discussed in our analysis of *The New Core*, Talent and Customers are both key channels for management to tune into, using the new flows that social media and collaboration tools have opened up.



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Trust your employees. With autonomy comes expectations.

# References

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This report was greatly influenced by a publication earlier in 2009 that has caught the imagination of many of us here in Silicon Valley. The storied team of John Hagel III and John Seely Brown, working out of the Deloitte Center for the Edge gave the world a magisterial review of corporate performance and its drivers over the past 40+ years in their pioneering opus, The Shift Index. This has been a seminal work for us, further enhanced by John Hagel's gracious consent to be interviewed for Pascale Diaine's video documentary which accompanies this report.

That video features voices from the next wave of business leaders, and includes David Weekly, CEO of PBWorks; Bryan Phillips, CEO of Thread; Jerry Michalski of Sociate; Dan Olsen, CEO of YourVersion; Mark Williamson of Zoodles, and Pip Coburn of Coburn Ventures. Matt Farwell's contribution as always was invaluable.

Finally we'd like to thank GenY for creating the flows inside and outside the companies where they work – big and small – without waiting for permission, and with an eye on a more open future.

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