Part One

A CALL TO ARMS

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The Need for Change

In his 2004 book, *The Future of Work,* Thomas W. Malone, the Patrick J. McGovern professor of management at the MIT Sloan School of Management and the author of the foreword to this book, wrote about a dramatic shift that is occurring in how businesses are organized. According to Malone, the first and second stages of the shift are already mostly complete, as large, centralized corporate hierarchies have come to replace small, informally organized businesses over the last 200 years.

There is a third stage, however—one in which corporate hierarchies evolve to more decentralized business networks—and it's just beginning. In this stage, enabled by technologies that drive down the cost of communications, large corporations actually shrink in size through a combination of outsourcing and vertical disintegration. Through outsourcing and vertical disintegration, big companies offload work to contractors and create networks of separate but interrelated businesses. These business networks perform much of the work that previously has been done inside large organizations.

Malone often cites eBay as a prime example of a company that operates as a business network. Today, several hundred thousand eBay sellers around the world make their full-time living on eBay. If these people were employees

of eBay, the company would be one of the largest global employers and retailers in the world. But eBay sellers are independent business people.

This way of organizing delivers huge benefits to eBay, which can grow bigger and faster with fewer resources than traditionally organized companies. But it also creates new and interesting challenges. Because eBay has less control over its direct business activity than many other companies, it must take into account opinions from both sellers and buyers in the eBay network before making many of its decisions.

This increase in what Malone calls human freedom in business—where employees, suppliers, partners, contractors, and even customers get to have a say in how organizations are run—is just one of the many changes that result as businesses decentralize.

But even before the emergence of radical new business structures such as the one exemplified by eBay, the trend toward decentralization in business gave rise to changes in the roles employees play in organizations—especially employees whose main contributions depend on the productive use of information instead of manual labor.

Nearly 50 years ago, Peter Drucker coined the term "knowledge worker" to describe this category of employee. Back then, Drucker predicted that knowledge workers would grow as a proportion of the total workforce, becoming its "center of gravity" and forever changing the nature of organizations, management, and work.

Drucker was right. Today, knowledge workers are an increasingly large percentage of the global workforce, especially in developed countries. Across all industries, knowledge workers represent at least 25 percent of the workforce, and in financial services, health care, high tech, and media, the percentage is even higher.

And today, knowledge workers perform many of the key frontline activities in organizations. In so doing, they have

become primarily responsible for driving day-to-day performance in business—fulfilling another Drucker prophecy. In his 1966 book, *The Effective Executive,* Drucker wrote, "Every knowledge worker in modern organization is an 'executive' if, by virtue of his position or knowledge, he is responsible for a contribution that materially affects the capacity of the organization to perform and to obtain results."

WHAT'S WRONG WITH THIS PICTURE?

You would think that with more than 50 years to think about it—a time span in which knowledge workers evolved into the key managers of day-to-day performance in organizations and technology has enabled access to information and better, faster, cheaper communication—organizations would have figured out how to provide their people with the information and tools they need to do their jobs.

Yet, in most organizations today, people waste countless hours searching for the data they need—even when it resides in their own companies. Countless more hours are wasted trying to coordinate their work with others. The fact that the volume of corporate email—the communication tool of choice in business—has risen to 35 billion a day from just 10 billion a day five years ago is testimony to the difficulty of this task. And just imagine how many of those emails include spreadsheet attachments.

There is something wrong with a picture of modern business that shows people in critical positions struggling to get the information they need to do their jobs. But there is an explanation for it. Many organizations today are still coming to terms with the changes in their businesses so eloquently described by experts such as Thomas Malone, Peter Drucker, and others. And they are still using models of management designed for large, centralized organizations and using management systems—people,

processes, and technology—that support these outdated models.

Organizations' technology investments reflect this disconnect between modern organizational structures and outdated management models. Here is one example.

Over the past two decades, companies have poured hundreds of millions of dollars into transactional systems, especially enterprise resource management (ERP) systems. As a result, most businesses today can take orders, fill orders, generate invoices, populate a general ledger, and so on with great efficiency—all of which are critical to running a large business.

But *managing* a large business is an entirely different endeavor. While it may start with the same data at the same level of granularity as running a business, managing a business requires access to value-added information—raw data that has been transformed, analyzed, and presented to individuals who use a variety of management processes appropriate to their organizations to make decisions and take actions from a variety of perspectives. Managing a business is, by definition, a dynamic activity requiring flexible processes and tools that are different for every organization and that can adapt to change over time.

But because the purpose of ERP systems is to perform and store vast amounts of mission-critical transactions, they are inflexible—by design. And ERP systems automate processes that are inflexible—by design. In fact, once these systems are in place and working well, organizations will do just about anything—including changing the way people work—*not* to have to change them. And while they generate large amounts of valuable data, most organizations have many ERP systems—a dozen or more—that are not integrated.

To cite just one example: A multibillion dollar European provider of retail and wholesale services with 120 business units across seven divisions and operations in seven

countries has more than 20 ERP or accounting systems. In companies such as this—typical of businesses its size and scope—reconciling so many different views of reality is a challenge—a challenge, by the way, the company has mastered.

Viewed this way, it's clear that what's needed for organizations to manage performance is the mirror opposite of what transactional systems deliver: flexibility. They need flexible processes and technologies because managing performance today is a dynamic activity full of complexity and nuance.

Bottom line, ERP systems help organizations *run* their business by standardizing and automating high-volume, transactional business processes across an organization. But they do little or nothing to help them *manage* their business.

A SIMPLE MODEL FOR A SIMPLE BUSINESS

To gain greater insight into what is needed to manage a business, let's consider the example of a single-proprietor candy store.

In a single-proprietor candy store, the owner likely does everything associated with managing the business, including front room and back office functions. For example, he observes firsthand the makeup of his customer base and their buying patterns. He knows which customers prefer which products and how often they buy them. He knows when he is serving a repeat customer or a new one. He knows which of his products are more popular with his customers than others are. And he knows when customers are asking for products he doesn't carry.

Because it's a business managed by one person, information can be quickly analyzed and incorporated back into

strategy and decision making. He may decide that he needs to increase his inventory of some products and decrease others. He may decide to start carrying new products for which there is demand. And after having made decisions like these, he can evaluate whether they were good or bad ones and make midcourse corrections, if necessary, in a very short period of time. The activities and processes required to run his business are simple and straightforward and, since the owner is the only person who uses them, they don't need to be documented.

But what happens if the owner hires a counter clerk or a bookkeeper so he can spend less time in the store? Or decides to open another candy store in the next town?

As soon as more than one person works in his business, the owner must formally define, possibly modify, and definitely document critical management activities and processes. He must do this because he can no longer personally observe and take part in everything that goes on in his business. He must do this because he wants to make sure his business is managed in the right way even when he is not around. For all its elegance and simplicity, the single-proprietor candy store model just doesn't scale.

However, there are lessons to be learned here that apply to all businesses of all sizes. And regardless of scale, we must all strive to attain the customer intimacy and business agility of the single-proprietor candy store.