

CHAPTER 1

# A Whole New World

World markets are unsteady, unemployment is on the rise, housing foreclosures are up, asset values are down, and the political landscape is shifting.

Under such tumultuous conditions people often look to leaders to soothe battered nerves and listen for reassurances portending better days. But in today's rough and tumble environment, there are reportedly few leaders the average person relies upon.

## A GROWING LEADERSHIP CRISIS

According to a recent study, 80 percent of Americans believe there is a major leadership crisis across many industry sectors with only two exceptions; leaders in the military and in medicine still rank relatively high. However, confidence in business leaders fell more than in any other area, including the highly unpopular government sector.<sup>1</sup>

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Globally, the crisis of leadership is also taking a heavy toll. IBM reported “companies are heading toward a perfect storm when it comes to leadership,” according to Eric Lesser who led the study. IBM surveyed 400 human resources executives from 40 different countries. In the Asia-Pacific region, 88 percent of companies reported concern over their ability to develop future leaders with about 75 percent reporting the same in Latin America, Europe, the Middle East, and Africa, as well as 69 percent in North America.<sup>2</sup>

The growing leadership crisis did not develop overnight. In fact after World War II, optimism, trust, and support for American business leadership soared. Harvard Business School Professor and *BusinessWeek* writer Shoshanna Zuboff reported that in the mid-1950s, 80 percent of U.S. adults said that “Big Business” was a good thing for the country and 76 percent believed that business required little or no change. By 1966, that number had skidded to 55 percent of Americans who held a high degree of confidence in big company leaders. And by 2006, business leaders’ good will had, for the most part, evaporated. According to a Zogby poll taken that same year, only 7 percent of Americans had a high level of trust in corporate leaders.

It took over half a century for leadership support to sink. But declining trust for executives is not the only trend wreaking havoc with the workforce populace. A completely different organizational landscape has been carved out of the relatively staid and bureaucratic structures of earlier eras. Leaps in technology and its use in global business are at the heart of this colossal shift.

## A CHANGED WORKFORCE

The speed and pace at which technology has forever changed the way we work, with whom, where, when, and how, is practically unfathomable. Out of all recent information and communication technology (ICT), the Internet outpaced all of its predecessors in reaching critical mass. To reach 50 million users it took:

- 75 years for the telephone
- 38 years for the radio

- 17 years for the television
- 11 years for the personal computer

However, it took only 3 years for the Internet to reach over 50 million users, as Figure 1.2 illustrates.

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IBM's Global Human Capital Study identified some of the most important critical success factors to developing an adaptable workforce. The top three highlighted were:

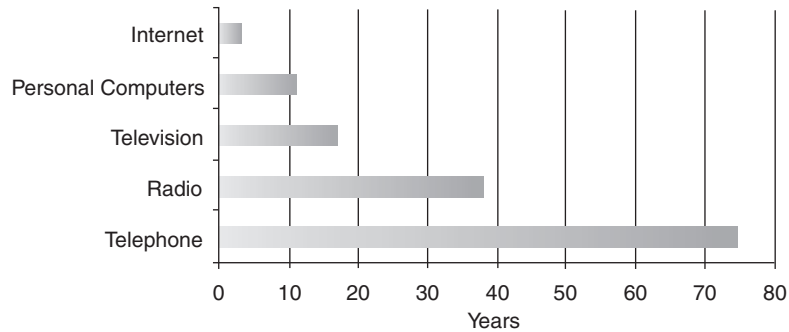
1. The ability to predict future skills
  - Successfully anticipating future business scenarios enables organizations to know what key competencies to target in advance of critical market shifts.
  - Only 13 percent of organizations interviewed believe they have a very clear understanding of the skills they will require in the next three to five years.
2. The ability to locate experts
  - While predicting future skills is important, so is the ability to apply existing knowledge and skills to new challenges.
  - Expertise location is cited by respondents as critical in identifying and allocating resources to address new opportunities and threats.
  - Only 13 percent believe they are very capable of identifying individuals with specific expertise within the organization.
  - Companies are using a variety of techniques to improve their expertise location capability.
  - More than 50 percent of companies that rate themselves as "very effective" in locating experts use some form of employee directory while only 39 percent of all respondents report using them.
3. The ability to foster collaboration
  - Once the experts are located and identified, collaboration is the next step to foster innovation and growth.
  - According to the study, only 8 percent of companies believe they are very effective in fostering collaboration across the enterprise.
  - Surprisingly, technology is not the deterrent to effective collaboration, with only 28 percent of companies indicating this is a significant factor.
  - Instead, organizational silos (42 percent) are the leading barrier of collaboration in an organization, followed by time pressures (40 percent) and misaligned performance measures (39 percent).

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**FIGURE 1.1** More Startling Stats

Source: IBM Global Human Capital Study: "Looming Leadership Crisis, Organizations Placing Their Companies' Growth Strategies at Risk." [www-03.ibm.com/press/us/en/pressrelease/22471.wss](http://www-03.ibm.com/press/us/en/pressrelease/22471.wss)

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**FIGURE 1.2** Number of Years to Reach 50 Million Users

Source: Adapted from numbers presented in William McGaughey, *Five Epochs of Civilization: World History as Emerging in Five Civilizations* (Minneapolis, MN: Thistlerose Publications, 2000).

With the commercial availability of the Internet via browser technology loaded on to every new PC and smartphone rolling off the assembly line, coupled with faster, cheaper, and better access to high-speed telecommunications, came significant corporate leverage of resources. Organizational leaders realized that people could work more efficiently and be free from physical location limitations. This led to higher management expectations of productivity that dovetailed increasingly elevated levels of technological skill across a wide swath of corporate foot soldiers. Not only did applications like spreadsheets and word processors quicken the pace of what had been manually intensive work, but when paired with anytime, anywhere Internet access, people were able to do more work longer.

Then came miniaturization. This led to the development of portable laptops, PDAs, and other intelligent computing devices that fit in the palm of a hand. And businesses took advantage. Many soon realized they could tap into mobile labor pools all over the world. In fact, the mobile workforce is rising dramatically. According to the International Data Corporation (IDC), the mobile workforce will increase from about 768 million, or 24.8 percent of the global workforce, to over 1 billion, representing 30.4 percent of worldwide workers by 2011. The largest percentage of mobile workers is in the United States, which had 68 percent in 2006, and is predicted to grow to 73 percent by 2011. Asia/Pacific (excluding Japan) will have the largest number of mobile workers. The

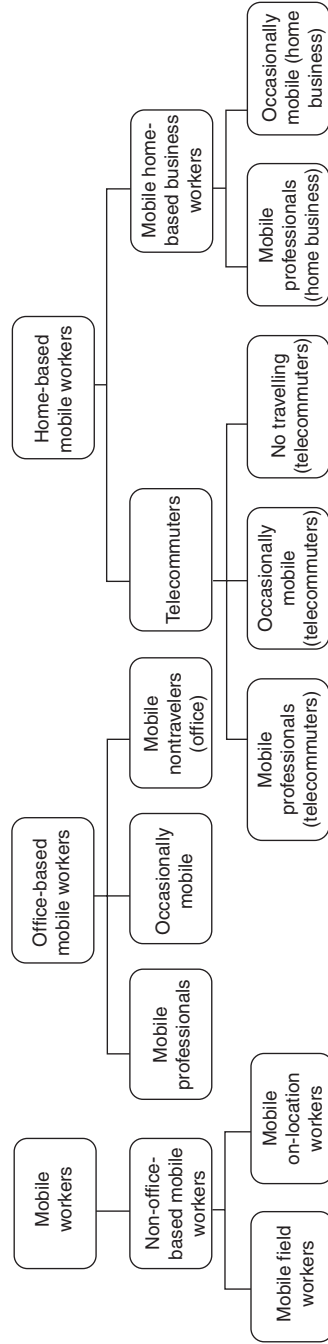
region had 480 million mobile workers in 2006, and that number will grow to reach 671 million in 2011—that’s more mobile workers in the region than the United States has population!

Substitute the word “mobile” as described by IDC, with the word “virtual,” and you end up with the workforce at the center of this book.

In addition to having unfettered, unbounded access to the virtual workforce, organizations found that labor costs were significantly cheaper outside and it became financially irresistible to increase the use of resources located in countries where pay scales were sometimes a fraction of U.S. wage standards.

The financial impetus to push performance levels ever higher using the newly equipped virtual workforce soon surfaced a glaring need; to change the way organizations were structured. Most organizations today are derivatives of the “vertical” structure. Vertically integrated enterprises are those that are tightly held together from top to bottom using strong, formal hierarchies. In a traditional vertical design all functions reside within the boundaries of the organization. For example, the Human Resources department employs people who work directly for the organization they support. Manufacturing is staffed with people who produce the product the company makes. Sales are made by people who work for the company that produces the goods and whose benefits are managed by the Human Resources department within the same company. In sum, the vertical organization houses everyone needed to produce goods and services as well as support customers and staff.

However, the notion of vertical organizations seems almost quaint, like antique furniture staged in an old farmhouse on display for those who have never been near dairy cows. With competitive closeness and cost constraints tightening rapidly, vertical institutions have gone the way of the dinosaur—in reality they have become extinct. Organizational charts and management theories used to describe them are like fossils—relic imprints of organisms long gone. And yet many of today’s most trusted management strategies ironically rely on these petrified frames. This begs the question: Do they still work as designed and should leaders use them as the best way to build lasting success? Figure 1.4 considers these questions.



**FIGURE 1.3** The IDC Workforce Hierarchy

Source: Adapted from IDC, 2008

Consider for a moment the seminal work of Michael Porter, *Competitive Advantage*, a must-read for any self-respecting MBA student. Porter describes three main strategies to competitive victory: Cost Leadership, Differentiation, and Focus. Using the Cost Leadership strategy, organizations try to establish themselves as the lowest cost producer of goods or services. In the Differentiation strategy, organizations try to build unique value across a broad market segment. And in the Focus strategy, organizations target a narrower segment using either Cost Leadership or Differentiation.

Porter espoused that executing competitive strategies successfully required resources with specific skill sets against the backdrop of particular organizational elements. For example, in the Cost Leadership strategy, “intense supervision of resources” is required along with “highly structured organizations and responsibilities.” But today’s modern executive wants little to do with close supervision of anyone. As a matter of fact, many cost-cutting strategies rely upon flattening the organization, allowing people to work from anywhere, shedding real estate as well as management layers to streamline operations. Organizations and their underlying structure change rapidly these days. Therefore any attempt to enforce discrete divisional definitions or territorial margins is likely to fail.

In Porter’s Differentiation strategy, leaders are guided to look for people with “creative flair” and pay them on the basis of “subjective measurement and incentives that are not quantitatively based.” Of course anyone who has been in the workforce for any given amount of time knows that performance metrics in the twenty-first century are based almost exclusively on hard numbers—exactly when and how much of something is delivered. Can you imagine going to a conference offering a track entitled, “Subjective, Qualitative Incentives: The Key to Innovation and Profit”? Not one manager we know would spend precious financial resource to send anyone to that one. And yet we still expect Cost Leadership and Differentiation strategies, as originally designed and currently taught, to work in today’s marketplace.

**FIGURE 1.4** What Does Competitive Advantage Mean Today?

Source: Adapted from Michael E. Porter, *Competitive Advantage: Creating and Sustaining Superior Performance*, (New York: Free Press, 1998)

While bits of competitive advantage and other management theories are still episodically applicable their essence feels a little like the man behind the curtain in the *Wizard of Oz*; obscure, antiquated, and in denial. Tried and true they might be; however, inherently these models are based on assumptions that have long since perished.

In his 2006 *Foreign Affairs* article, Sam Palmisano, Chairman and CEO of IBM, talked about the pressing need for executives to let go of dated conceptualizations of business structures.

Many parties to the globalization debate mistakenly project into the future a picture of corporations that is unchanged from that of today

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or yesterday. This happens as often among free-market advocates as it does among people opposed to globalization. But businesses are changing in fundamental ways—structurally, operationally, culturally—in response to the imperatives of globalization and new technology. As CEO and chair of the board of IBM, I have observed this within IBM and among our clients. And I believe that rather than continuing to focus on past models, regulators, scholars, nongovernmental organizations, community leaders, and business executives would be best served by thinking about the global corporation of the future and its implications for new approaches to regulation, education, trade, and commerce.

—Excerpt from Samuel J. Palmisano, “The Globally Integrated Enterprise,” *Foreign Affairs*, (May/June 2006), 127 [Vol. 85 No. 3]

The structures that many still adhere to belong to an era past; a time when vertical organizations were locked into place in the early part of the twentieth century, guided by gurus like Frederick Winslow Taylor who espoused one-to-one reporting in a top-down closely knit structure with management at the top overseeing the unskilled workers at the bottom. Lattices like these provided the foundation upon which long-term competitive strategies were developed in the context of a market where there still shone a bit of patience; a sense of time and scale about what it would take to bring a product to market and diffuse to the point where the company could claim cornering. But all of that has changed.

Institutional frameworks have morphed into what look more like pancakes; flat, lumpy, and a bit overdone around the edges. They are fueled by highly skilled, specially trained knowledge workers, spread out, communicating side to side, and at the fringe, consist of contractors and other malleable resources that carry no fixed costs and are easily disposed of when belt-tightening is needed. Even so, ask a typical person to draw a picture of their organization and most often they will render a traditional top-down org chart, representing formal hierarchies and reporting relationships. While pictograms of this sort are helpful in seeing who’s who, they no longer represent the relationships that really matter. So organizations are suffering an identity crisis as well as a leadership crisis.

## VIRTUAL WORKFORCE DYNAMICS

While massive shifts in organizational structure occur at the macro level, workers are shuffled around much like the ball in a street shell game. With laptops and smartphones in hand, the traditional worker has been downsized, outsourced, right-sized; swept up by the latest merger and assigned a new affiliation or divorced completely from corporate relationships only to re-emerge as an entrepreneur or self-employed consultant hired by the same company. This type of organization looks much more like a network; a network of people linked together by binding ties like deliverables and project assignments, regardless of organizational affiliation. But many still try and shove individuals into boxes on a fossilized diagram with all the performance expectations that come along with tightly integrated formal management processes and assume people will carry out edicts as described by Taylor and others. This view presupposes that because we have really “nifty” collaboration technology it will all “come together at the end of the day.” Yet it doesn’t.

When leaders use old management models to try and solve new challenges *and*, at the same time expect individuals in social networks, tied together by electronic gadgetry, to behave exactly the same way as they did when grouped next to each other in offices where the organizational chart truly represented the working hierarchy, phantom expectations of leader effectiveness and worker performance emerge and usually miss the mark. The reason—the rise of Virtual Distance.

### The Rise of Virtual Distance

The higher one goes in an organization, the more tempting it is to hang on to outdated frameworks, because, let’s face it, they’re straightforward and easy for everyone to understand. And for all the talk and endless books that decree social networks, crowd-sourcing, and unimagined creative powers being unleashed by the worldwide web, generally speaking, experience tells us that organizations have not been able to effectively describe or implement leadership models or performance standards that take advantage of this vast virtual array. The more the new virtual

workforce is managed using obsolete models, the more performance and innovation degrades.

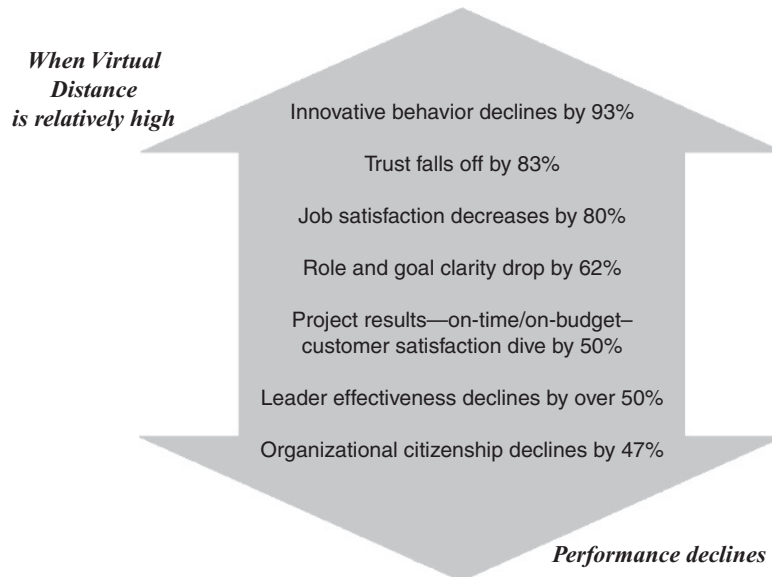
As this mismatching continues, new phenomena appear. They show up as unintended consequences or “revenge effects” like those Edward Tenner described in his book, *Why Things Bite Back: Technology and the Revenge of Unintended Consequences*.<sup>3</sup> Revenge effects are the detrimental and unplanned byproducts resulting from the introduction of technology in one form or another. To combat them one has to first admit they exist and, second seek out and detect them.

One of the revenge effects of ubiquitous communication technology and the expansion of the virtual workforce, introduced under the auspices of vertical vestiges was detailed in the predecessor to this book entitled, *Uniting the Virtual Workforce: Transforming Leadership and Innovation in the Globally Integrated Enterprise*.<sup>4</sup> The newly discovered phenomenon was called *Virtual Distance*.

To summarize, Virtual Distance is a perceived distance that gets bigger and bigger as people rely more and more on communication technology like e-mail, IM, avatars, and so on. The most important aspects of Virtual Distance are that it can be measured, predicted, and when it is high, can have significant and negative consequences to the organization. As Figure 1.5 shows, as Virtual Distance increases critical success factors decline significantly.

When Virtual Distance is relatively high, individuals and groups unconsciously grow to feel or experience others as being far away. And here’s something that at first was surprising but quickly became obvious: Virtual Distance exists in many instances among people who sit right next door to each other as well as between geographically dispersed individuals and teams.

Collaboration technology, meant to help people feel closer to colleagues and peers, is of no use when Virtual Distance is high. Virtual Distance not only prevents that from happening, it can exacerbate both real and perceived differences between individuals, groups, and organizations. In addition, when Virtual Distance is high, leader performance is perceived as relatively low. To say it another way, when Virtual Distance is high it creates low trust or in many cases distrust, blurriness



**FIGURE 1.5** When Virtual Distance is High, Performance Declines

about roles and goals, and significantly less citizenship behaviors like helping fellow workers when it calls for extra time and effort outside of the normal job. When these dynamics are set in motion, perceptions of the leader's effectiveness also take a dive.

Despite some popular views that a "leaderless" business organization can be a workable reality or that somehow "newly empowered" people will simply figure things out on their own, good leaders remain crucial to organizational networks. Some argue that it's possible to run organizations without any "organization." In *Here Comes Everybody: The Power of Organizing without Organizations*,<sup>5</sup> Clay Shirky uses colorful examples of how ubiquitous access to the web has resulted in some astounding social movements. He argues that Web 2.0, wikis, blogs, and other digital developments are revolutionizing the social order. But so far our bouillabaisse of change includes a growing worldwide leadership crisis, mounting organizational identity crises, and big blows to performance and innovation brought on by increasingly high levels of high Virtual Distance. Just because anyone can get on the Internet and

in certain settings rally people to act in impressive ways for social and political change, doesn't really change the pecking order in which they live day to day.

Paul Saffo is a well-known technology futurist. He likes to say that "it takes 20 years to become an overnight success."<sup>6</sup> Similarly, in his book *Outliers*<sup>7</sup> Malcolm Gladwell dispels the myth that people like Bill Gates and other superstar greats like Mozart had such special gifts they leap-frogged their contemporaries and rose to the top by virtue of pure genius alone. Instead Gladwell shows that it takes at least 10,000 hours or about 10 years of intense work and practice before a star is born. Do some get lucky? Of course. And luck plays a big part in the lives of those who have clocked the time as well.

So while the temptation is there to buy in completely to the notion that a finely crafted "blogpost" or "wiki" is going to suddenly change much in the long run, it's a dangerous and slippery slope. And when this fantasy gets transmogrified into the widespread dogma that enabling new social networks through technology alone is going to instantaneously create well-oiled, productive, and profitable workforces, companies fail. While it may seem that everyone out there suddenly and miraculously has the power to move mountains, it is in part yet another myth being shaped by digital dynamos.

The fact of the matter is that effective leaders are desperately needed; as demonstrated by the vast number of people around the world who report worry about the future in light of a growing leadership vacuum. They are needed because hierarchy dynamics based on power and status, as well as attention and recognition, emerge just as readily in cyberspace as they do in office space—human nature goes unchanged.

The lapse of ages changes all things—time, language, the earth, the bounds of the sea, the stars of the sky, and everything "about, around, and underneath" man, except man himself.

—Lord Byron (1788–1824), British Poet

Leaders are needed to positively affect change and advancement while overseeing and ridding the organization of nonproductive behaviors that can quickly become destructive to fiber-based teams. Therefore, today's

leaders need to be concerned with not only the usual suspects of performance and team-building, they also need to be aware of invisible on-line politics and other human tendencies that can preclude progressive achievement, and instead, stoke the flames of innovation and cooperation in a complexly interwoven world. All the while, leaders must also remain fully grounded in the reality that people are people and will behave in ways that are both positive and negative to gain power and control in whatever form, adventurous or social, to which they are inclined.

A crisis is only dubbed as such if there is a breakdown in something that's needed; a rapid deterioration of shared values and respected exemplars. Growing Virtual Distance between leader and follower in part fuels the leadership crisis that has arisen worldwide. In addition a perceived lack of respect for human beings in general has grown. There are some leaders who unrealistically apply fantastical and magical powers to the underlying inert virtual communication technology. They espouse the virtues of non-face-to-face encounters using words that unintentionally yet determinately deconstruct and disrespect the human being. John Schwartz, the leader of Sun Microsystems, dubs in-person encounters as "flesh meetings" and blogs about how wonderful it is to avoid all that comes along with such woefully "overrated" interactions.<sup>8</sup> At *Fortune* magazine's 2008 Brainstorm conference, technology leaders incessantly used the word "eyeballs" to describe the main feature of their customer base. And yet, leaders at Google, the world leader in providing virtual content and information, believe that people work best when seated together side by side. Google managers insist that employees come into an office each day and stay there as long as possible—using free food, concierge services, day care, healthcare treatment and other incentives to do so.

While terms like "flesh meetings" and "eyeballs" used to describe human contact and relationships may sound harmless enough in isolation, when taken on as widely-used cultural euphemisms they become eminently powerful and inherently intimate certain kinds of behavior that runs counter to virtual workforce leader expectations. As technology changes everything about the way in which people work it actually changes very little when it comes to social dynamics. People still need

authoritative role models and trustworthy organizers to mold and configure the organizational structure in ways that complement new skills and situations enabled by virtual workspaces. But that's not all. The workforce also needs leaders who demonstrate fairness across electronic workspaces; who seek out new ways to show they are not only in charge, but also care about all. It is these most fundamental and cherished leader attributes that have always been the main motivators of healthy human behavior.

### The Need for New Models

To overcome the leadership and organizational identity crisis now subsuming many organizations, original ideas about how best to nurture the global workforce need to come to light as soon as possible. In this book, we take one step toward illuminating a new kind of leader to achieve that goal. We name this person the **Virtual Distance Leader**.

The executives and other thought leaders selected and studied for this book all have the requisite skills, abilities, and intuitive powers needed for this enormous challenge. They represent authoritative figures that wield power and influence with others yet mindfully step out of old management paradigms and find new ways to motivate the human spirit. They embody varied industries and areas of expertise. What sets them apart is their meta-cognitive abilities; their willingness to look beyond themselves and what has worked in the past, to forge new ways forward. These and other luminaries demonstrate that the **Virtual Distance Leader** maintains an open mind and a sense of wonder about their cyber-based surroundings and finds ways to enliven and unite those that populate them. The leaders showcased in this work express authentic caring and responsibility for those who depend upon them. But most of all they demonstrate respect toward their fellow human beings, an all-too-frequent casualty of our time.

### NOTES

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