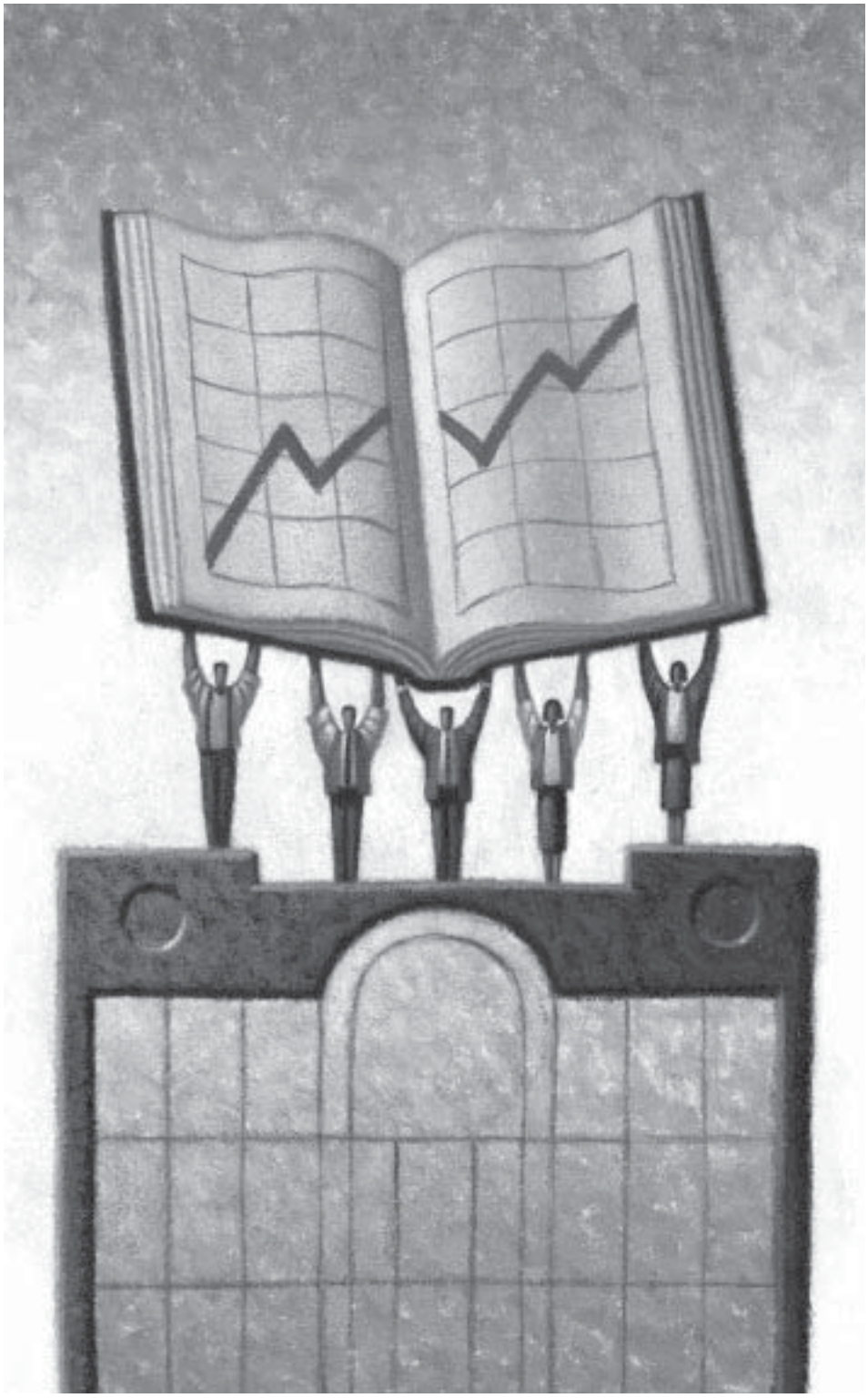
Leadership and the Networked Economy

Albert A. Vicere, The Smeal College of Business Administration, The Pennsylvania State University



"The times," once sang Bob Dylan, "they are a changing." No better anthem exists to describe the dawn of the 21st Century. We are surrounded by change, continuously challenged to rethink our values, our careers, our lifestyles. It is no different for organizations. Today's volatile economic environment demands that organizations rethink their strategies, processes, and cultures. And that places a powerful premium on leadership capabilities. This article discusses the fundamental "waves of change" that have affected the economic environment over the past two decades and how those changes have redefined the nature of organizational and leadership effectiveness. Suggestions are made regarding how organizations can enhance their approaches to leadership development in this exciting but demanding era of change and opportunity.

The Shifting Economic Landscape

Despite the economic chaos of the past two years, the term "new economy" still exists as a popular descriptor of our evolving economic environment. But keep in mind that this "new" economy has little to do with the rapid growth and equally rapid demise of the dot.com sector. Rather, it involves major philosophical and infrastructure shifts that have challenged and fundamentally changed traditional assumptions surrounding leadership and organizational effectiveness.

A better description of today's business environment may be the "networked economy," and two major inflection points have driven its emergence: globalization and the information technology explosion. Globalization has brought us flatter, faster-paced organizations with global reach. Information technology has enabled us to work in partnerships linked by powerful information networks. Together these forces have triggered the ongoing reconfiguration and restructuring of both industries and organizations worldwide.

The First Wave

"Old" economy views of organizational effectiveness were built on notions of control. People were controlled through structure and hierarchy, and resources were controlled through vertical and horizontal integration—in today's terminology, control of the major elements of an industry's supply chain. In the old economy, the most successful companies often were those that mastered tight controls and established supply chain dominance to gain supremacy over their respective industries. Companies like U.S. Steel, Xerox, Polaroid, and Eastman Kodak are prime examples. Those companies helped to create their industries and ruled them for decades. Today, all of them are struggling.

Part of the problem is that those companies grew up in a primarily domestic marketplace. They may have sold products outside their home country and even manufactured products overseas, but the real heart of their business was a robust and growing domestic marketplace where, as dominant players, they set the standards and effectively controlled the pace of change in their respective industries.

Globalization changed all of that. Take the steel industry. When competitors from Japan entered the North American steel market in the 1960s and 1970s, U.S. Steel's dominance of the domestic marketplace did not matter to them. They had their own sources of materials and capital and were able to develop new channels of distribution. Whether they were subsidized or not is irrelevant. What was most important was that they forever changed the rules of the business game. In rapid succession, industry after industry was attacked by offshore competitors, all of them equally unencumbered and unafraid of dominant U.S. market leaders. They went after machine tools, consumer electronics, automobiles, and so on. Eventually, established U.S. companies had no choice but to respond.

During the 1980s and 1990s, in response to this global competitive challenge, established companies aggressively pursued a new organizational model that was faster, more efficient, closer to the customer, and above all, flatter. The resulting de-layered organizational form was a natural response to global competition. Speed, efficiency, and customer focus were the competitive advantages used by offshore competitors to combat incumbent market leaders. Flatter organizations seemed far more likely to spawn those critical competitive characteristics. Yet, although downsized companies often saw short-term improvements in business conditions, they frequently found themselves back in trouble a few quarters down the road. This led many companies to engage in a cycle of continuous downsizing that not only failed to pay off in business performance improvement, but also triggered a permanent shift in traditional employee values toward loyalty and commitment in the workplace. Many companies find themselves caught up in this death spiral even today.

The Second Wave

Why don't reductions in headcount, in and of themselves, produce sustainable performance improvements for organizations? When an organization simply has fewer people trying to do all the things they did in its pre-downsized form, the end result is likely to be confusion and burnout—not performance improvement. A breakthrough in addressing this challenge was proposed by C.K. Prahalad and Gary Hamel in a series of *Harvard Business Review* articles that culminated in their 1994 landmark book, *Competing for the Future*. They noted that high-performance companies tended to organize around "core competencies," the things the organization did or wanted to do better than anyone else.[1] We learned in the 1990s that downsizing, coupled with a focus on

core competencies, could enable an organization to flatten, focus, and move ahead with exceptional intensity.

But there was a catch. The flat, focused organization did a few things exceptionally well, but it needed help. That help came in the form of tactical partnerships such as outsourcing arrangements that enabled the organization to handle efficiently operational tasks that were not core competencies. It also came in the form of strategic partnerships that helped the organization to grow revenue through joint ventures, alliances, or partnerships. We learned in the later half of the 1990s that flat, focused organizations that operated in webs of partnerships were far more likely to succeed than those that stayed committed to tall, monolithic bureaucracies.

The Current Wave

The lessons of the past two decades have immense implications, especially for long-established companies—organizations that for the most part were used to control, hierarchy, and going it alone. That is because old economy management processes were based primarily on *control* while networked economy management processes are based primarily on *relationships*. Without question, there is a fundamental difference between the two perspectives.

Clearly, no business can maintain performance without effective control over its operations. But in the old economy, companies ensured control by operating in tightly defined hierarchies and doing everything themselves. That is not the case in the networked economy, where partnerships—strategic and tactical, customer and supplier, personal and organizational—are essential to competitive effectiveness. And an organization's ability to manage, coordinate, and control such webs of relationships is directly related to the second inflection point in the evolution of the networked economy: the information technology revolution.

The technology transformation taking place today has spawned the development of computer and telecommunications networks, e-commerce systems, enterprise software, and other forms of connectivity that link networks of business partners together in a new business infrastructure, one built upon webs of information linkages. These linkages enable organizations to control and streamline their businesses in ways never before imagined. They enable both individuals and organizations to work in tightly linked partnerships. In effect, they have redefined requirements for organizational effectiveness in today's business environment and redefined the essence of effective business infrastructure.

The impact of integrated information sharing software like SAP, Oracle, Baan, Siebel Systems, and PeopleSoft is undisputed. The rapid expansion of electronic market exchanges and e-commerce business platforms is unprecedented. The dominance of the information superhighway as the foundation for a new wave of economic development is nearly unquestioned. The technology revolution is changing the face of nearly everything around us, especially processes for managing organizations. And the demise of the dot.com sector is only helping us to get it right. The soul of the e-revolution is not just buying and selling via the Internet; another consideration is the fundamental reconfiguration of business infrastructure. Michael Porter referred to this in his recent *Harvard Business Review* article, "Strategy and the Internet." [2] From massive gains in productivity, to operational flexibility, to the gathering of insightful customer intelligence, to the opening of new markets and the creation of new channels of distribution, to real-time learning platforms, the Internet has an effect on all aspects of the value chain and influences new approaches to organizational effectiveness and leadership development.

The Next Wave

In the aftermath of these waves of economic, technological, and organizational change, one of the most challenging questions facing the CEOs of major corporations today may be: How do we create globally competitive, networked organizations that are capable of sustained effective performance in an environment of economic and technological transition? That is a mouthful and a tough question indeed. To answer the question, it is necessary to rethink the essence of leadership. Broadly speaking, leadership may be defined as the art and science of enabling an organization to get results while building stakeholder commitment to its values and ideals. The evolving economic order necessitates that we put these requirements into a new context.

Organizational effectiveness in the networked economy involves the ability to get results and at the same time build commitment and enthusiasm among networks of highly mobile knowledge workers, independent business partners, performance-minded investors, and service-demanding

customers. It requires an ability to inspire these diverse constituents to function in teams, work in partnerships, share information, and operate in networks. To accomplish this task, organizations need leaders that can create what Doug Ready of the International Consortium for Executive Development Research calls "collective ambition," a common sense of focus and purpose that drives cooperation and performance.[3] Developing collective ambition in our era of change requires us to rethink the essence of leadership and leadership development in our evolving economic environment.

Two dimensions of organizational effectiveness frame this challenge: *value and uniqueness*. Value may be defined as the essence of an organization's identity—why stakeholders (customers, employees, investors, suppliers, partners, etc.) choose to do business with that organization. Uniqueness refers to the inimitable aspects of the organization that incite stakeholders to stay loyal to the organization over time, in effect, the things that make the organization special. The most critical challenge facing 21st Century leaders may well be the need to ensure a relevant sense of value and uniqueness for their organization. And relevance in a world of change means helping the organization to develop both "roots"[4] and "wings."[5]

An organization's "roots" constitute its sense of identity, what it stands for in the marketplace. Jim Collins and Jerry Porras referred to the notion of roots in their landmark book, *Built to Last*. In it they show how organizations with a strong sense of identity and a clearly defined set of enduring values tend to prosper and evolve over time. At the heart of organizational longevity are healthy roots, a lasting, value-based culture that elicits a competitive energy that sparks organizational members to strive for success. Collins follows up on that notion in his new book, *Good to Great*. He again shows that greatness in an organization—that is, sustained top-level performance—is directly related to a clear, compelling sense of purpose that enables an organization to carve out a positive identity with customers, investors, employees, and other stakeholders.

"Wings" refers to an organization's ability to change and evolve in advance of the perceived need to change. Clayton Christensen, in his book, *The Innovator's Dilemma*, profiles this challenge quite effectively. He notes that "roots" also frequently reflect a commitment to an established business model. If an organization has strong roots, it also has a tendency to overlook what he calls "disruptive technologies." These are new technologies and developments that challenge existing business models and, should they catch on, have the potential to undermine and destroy the essence of the firmly rooted organization's value and uniqueness in the marketplace. Missing a disruptive technology can cause an organization to lose relevance in the eyes of stakeholders at all levels. "Wings" are the cultural characteristics and organizational capabilities that enable an organization to change and innovate—to build on the past but also to advance beyond history to maintain relevance in a changing world.

Leaders face a real dilemma as we shift from the industrial-based, domestically focused business models that were the norm at the outset of the first wave of change to the information/knowledge-based, globally focused business models of the future. That is, how do we retain relevance to our existing stakeholders—customers, investors, employees, etc.—all of whom have become committed to our organization's current capabilities and values, and at the same time evolve what we stand for to establish relevance and uniqueness in a world of change? Either extreme, hanging on to old world views and models at the expense of new, or throwing out the wisdom of experience in favor of only the new, will result in disaster. On the other hand, a compromise without careful thought is likely to breed mediocrity and the loss of uniqueness. True resolution requires a leader to take the best of the old and the potential of the new and blend them together into a new organizational order, one that not only attracts and maintains customers, investors, employees, partners, and other stakeholder relationships, but also inspires commitment and transfers responsibility for success across the entire stakeholder network.

Rethinking the Essence of Leadership

What does all of this mean for leadership in the networked economy? Consider the following three propositions. First, core competencies, by definition, are knowledge sets and technical skill sets. It stands to reason, then, that until companies master the science of creating knowledge-management systems, core competencies will continue to reside in the minds of the people who are within an organization's network of stakeholders. Second, relationships are owned

by people within organizations and not by the organizations themselves. People make the difference with regard to establishing and maintaining relationships. Third, the ability to initiate organizational change requires respect for the past (roots) and enthusiasm for the future (wings).

These three propositions suggest why effective leadership is so crucial in today's relationship-driven world. Leaders must be able to attract stakeholders (customers, employees, investors, partners, etc.), motivate them, keep them networked and connected, keep them engaged in the organization's progress, all while helping the organization to evolve in an effort to stay relevant in a changing world. And that brings leadership development to the forefront of business strategy as a key element of an organization's ability to compete in a relationship world.

Nearly 30 years ago, Henry Mintzberg outlined the roles of an effective leader in his landmark book *The Nature of Managerial Work*.[6] He noted that effective leaders play three sets of roles: interpersonal roles that include serving as an internal leader and external liaison; informational roles that include the collection and dissemination of information both within the organization and with external constituencies; and decisional roles that include the identification and pursuit of opportunities and resources, the handling of disturbances, and the allocation of resources. Mintzberg's work has remained remarkably relevant over this period of economic transition. Yet, the shift to the network economy has put these roles into a new context. Leaders today do indeed have interpersonal and informational responsibilities, though it may be argued that the informational responsibilities have moved to a position of primacy. And leaders indeed retain decisional responsibilities, but those responsibilities increasingly are shared with various stakeholders and network partners. The nature of leadership, as defined by Mintzberg's work, may be similar today, but the networked economy places new demands on leaders at all levels. And that requires us to consider, perhaps, a different set of roles.

Unquestionably, most leaders today are aware of the basic essence of their job: *To get results and to build stakeholder commitment to the organization's culture and values*. There is also little doubt that today's leaders face an incredibly complex challenge. Not only are they charged with ensuring the performance of the organization and building on its cultural legacy, they also are charged with helping the organization transition to the new economic order. Based on discussions with dozens of leaders and first-hand observation of them dealing with leadership challenges, leaders in the networked economy have four key roles. These roles can be broken down into 13 key dimensions, described later. The framework is not intended to serve as a competency model, but rather as a delineation of the perspectives essential for effective leadership in today's business environment.

Boundaryless Thinker

Leaders in the networked economy need to think outside of the box and help their organization to do the same. They cannot be bogged down in traditional orthodoxies, but must be open to new ideas. They must help their organization and the people within it to know themselves—their strengths, competencies, and limitations. And they must help them to recognize both the value of new ideas and the strengths and capabilities of potential partners, whether internal or external to the firm, who can be sources of unique synergies and differentiated competitive advantage. Three skill sets seem essential to developing this broad-based mindset:

1. Big picture perspective—the ability to rise above details and activities to see a situation in terms of correlations, patterns, and potential. This includes boundaryless views of markets, products, services, organizational forms, business models, and the myriad potential opportunities that face a leader at any given point in time.

2. Openness to ideas—the ability to appreciate and integrate new ideas and different ways of thinking across the organization at all levels and across all functions and processes.

3. Willingness to look beyond oneself for capabilities and resources—the understanding that no one individual or organization can possess all the capabilities and resources necessary for success in today's environment and that partnerships and linkages, both internal and external to the firm, are essential to the future. This includes a perspective in which customer relationships are seen as partnerships that involve the sharing of resources, information, and capabilities.

Network Builder

Leaders who think in a boundaryless manner are more likely to have a relationship mindset,

one focused on helping the people around them to share ideas, information, knowledge, resources, and capabilities. Organizational effectiveness in the networked economy is rooted in relationships and networking on both a personal and technological level. Complementary partners must be identified and linked together in a knowledge-sharing culture in focused pursuit of organizational success. Four skill sets are essential to developing a network-oriented mindset:

1. *Relationship mindset*—an openness to finding and linking with complementary partners across the value chain, including viewing customers as partners in the execution of a business proposition.
2. *Knowledge of own uniqueness*—the ability to identify and clearly articulate the core competencies and capabilities of oneself and one's organization.
3. *Ability to recognize others' uniqueness*—the ability to recognize, identify, and appreciate the core competencies, capabilities, and capacities of potential partners.
4. *Searching for synergies*—the ability to recognize and articulate how one's own competencies, capabilities, and capacities, when combined with those of a prospective partner, can create potential that extends well beyond the potential that exists for the stand alone entities.

Diplomat

To develop and maintain the effectiveness of networks, today's leaders must be able not only to bring constituencies together, but also to help them work together and appreciate that by working together they can achieve more than they could on their own. Three critical skill sets comprise this dimension:

1. *Ability to relate*—the ability to identify and connect with others, to be seen as credible and trustworthy.
2. *Ability to communicate*—the ability to communicate and interact effectively with others, both on an interpersonal basis and via information networks.
3. *Ability to negotiate*—the ability to create connections and commitments among potential partners, both internal and external to the firm and including customer networks.

This particular dimension requires a little more reflection. In the traditional "tall pyramid" organization of the Industrial Age, the most senior leaders had the luxury of "outsourcing" the preceding requirements to professional functionaries (the public relations department, the human resource management department, the legal department, the IT department, etc.). Often, the specialists did all the heavy lifting around these skill sets with the leader as the advisor. In the networked economy, these requirements have emerged as hands-on, roll-up-the-sleeves, and get-in-there-and-do-it imperatives for leaders. They are absolutely essential leadership skills in the networked economy.

Interpreter

To complement their skills of diplomacy, leaders must have the ability to interpret the nature of business opportunities to the network, the perspective to help partners understand each other, and the skills to coach, facilitate, and provide feedback to an organization that is no longer a collection of lines and boxes, but a living, growing, expanding ecosystem. Three skill sets seem essential to this role:

1. *Solid knowledge of the organization*—the ability to explain and articulate the value and uniqueness of the network and delineate its capabilities and cultural characteristics across stakeholder groups.
2. *Broad knowledge of the marketplace*—an awareness of market trends and developments, knowledge of competitors and their capabilities, and knowledge of the needs and capabilities of potential partners and customers.
3. *Ability to influence others*—the ability to inspire, communicate, and connect with others, to convince stakeholder groups and constituents to work together to address challenges and capitalize on opportunities.

Leadership Development in the Networked Economy

This list of capabilities makes it easy to conclude that developing effective 21st Century leaders is a daunting task for any organization and a considerable challenge for any individual. Not because the perspectives outlined are new; individually they are not. Not because they have heretofore been disassociated with effective leadership; they have not. In the networked economy, leadership will be the telling factor. Boundaryless thinking, network building, diplomacy, and

EXHIBIT 1

Networked Economy Leadership Roles

Boundaryless Thinker—
Thinking beyond the status quo

1. Big picture perspective
2. Openness to ideas
3. Willingness to look beyond oneself for capabilities

Network Builder—
Finding and linking with complementary partners

1. Relationship to mindset
2. Knowledge of personal value and uniqueness
3. Ability to recognize others' value and uniqueness
4. Searching for synergy

Diplomat—
Developing the skills to manage networks

1. Ability to relate
2. Ability to communicate
3. Ability to negotiate

Interpreter—
Helping partners see the benefits of working together

1. Solid knowledge of business
2. Broad knowledge of marketplace
3. Ability to influence others

interpretation are critical skill sets that need to be cultivated, practiced, and developed among leaders at all levels. And they are skill sets that require both organizations and individuals to understand the evolving essence of leadership in our ever-changing world. All of that suggests that leadership development initiatives must be reconsidered from a new perspective, one that reflects the critical role they play in helping organizations to transition to the networked economy. Some reflections to consider:

✓ *Make leadership development a strategic priority.* Developing leaders who are able to get results and be boundaryless thinkers, network builders, diplomats, and interpreters is no easy task. It cannot be left to chance, nor can it be left to consultants. Rather, it must become a strategic priority, championed and driven by an organization's senior leaders who must be the spokespersons, teachers, mentors, and sponsors for the process. Now is the time for leaders to address the dilemma of the networked organization and take on the real responsibility of leadership—generating results today while developing leaders for the next generation.

✓ *Get leaders to lead.* In the old economy, leaders were often auditors. They watched over things, approved things, and kept things running smoothly. Today, that is not enough. Today's leaders must facilitate, interpret, coach, teach, mentor, and develop both people and relationships. They cannot do those things unless they have the right skills and mindsets, and they will not develop those capabilities until they are educated in them and held accountable for demonstrating them. Leadership development, in this sense, becomes a strategic imperative for all organizations. Leaders must be helped to master the shift from the old control-oriented management philosophies of the industrial age to the new relationship philosophies of the information age. No company will continue to grow and succeed until it addresses this challenge, until it ensures that its leaders can not only get short-term results, but that they can do so while demonstrating the ability to be boundaryless thinkers, network builders, diplomats, and interpreters.

✓ *Expand the definition of diversity.* In the networked economy, diversity takes on a whole new meaning and becomes even more critical. Diversity is no longer an individual or personal issue, it is a strategic issue that requires a new view of people, structures, and strategies. The relationship imperative of the networked economy demands that leaders be able to appreciate, respect, and synergize differences. They must recognize value in unique perspectives and capabilities across both individuals and organizations. They must appreciate the best of what is along with the potential of what can be. They must cultivate roots and at the same time develop wings across their partner networks. Understanding and embracing diversity in this broader context is the order of the day and a critical strategic imperative.

✓ *Facilitate networks.* A networked-economy organization is made up of talented people who work together, share resources and information, and are committed to both personal and organizational success. By seeking out the best minds in the organization regardless of where they reside, putting those minds to work on challenging opportunities, and creating

mechanisms to share the knowledge they possess across the organization, resources are generated that can be allocated to pursue even more opportunities. The networked-economy organization must keep people challenged and connected, help them to learn from and with each other, and support their continued growth and development.

- ✓ *Never doubt the power of purpose.* What is the difference between a job and a calling? It is a sense of purpose, a feeling of making a contribution, making a difference. Human beings long for a sense of purpose and identity. They want to be part of something bigger than they are. For further information, read Jim Collins' *Good to Great* or, better yet, Viktor Frankl's *Man's Search for Meaning*.[7] The only way to create a network of committed, enthusiastic stakeholders is to create an organization with a purpose, a cause, a sense of passion. That cannot be done by analysts. It must be done by leaders.
- ✓ *Champion learning.* Critical to an organization's ability to make the transition to the networked economy is its ability continuously to seek out sources of information and ideas, and to learn from them. Real-time, just-in-time enterprise learning platforms through which organizations can catalog and disseminate the wisdom gained through experience as well as the ideas gained through futuristic, long-range, lateral thinking are the next big challenge. Knowledge management is not a fad, but rather an essential capability. Organizations that lead the way in the effort to unlock the secrets of effective knowledge management systems development will be the leaders in the early 21st Century business environment.
- ✓ Make leadership development hands-on, real-time. Ongoing, relevant opportunities for leadership development are essential in the networked economy. These experiences should be less classroom-oriented, and more linked to real-time learning from hands-on experiences. Action learning, leader-led development, and just-in-time education are the watchwords of the day for strategic leadership development in the networked economy. Dare to be creative when structuring the work environment. Use project and task force assignments to keep the workplace enriched and vibrant, but make sure project team members get the coaching and feedback they desire and the development plans they need to move ahead.

Conclusion

The networked economy requires that companies rethink and refocus their leadership development practices to accommodate the shift to new, relationship-oriented business models. To make that shift, organizations must redefine requirements for leadership effectiveness, refine practices and policies for leadership development, and hold leaders accountable for real leadership in the networked economy. Perhaps most importantly in this era of transition, leaders themselves must understand that their real legacy will not be the past performance of their organization, but its sustainable success. Helping leaders learn how to get results by being boundaryless thinkers, network builders, diplomats, and interpreters is a first step in meeting this challenge. Holding them accountable for getting results today and developing next-generation leaders for tomorrow is the quantum leap.

Biographical Sketch

***Albert A. Vicere, Ph.D.**, is Executive Education Professor of Strategic Leadership at Pennsylvania State University's Smeal College of Business Administration and president of Vicere Associates, Inc., a consulting firm with clients spanning the globe. He is a recipient of the Smeal College's MBA Excellence in Teaching Award, the Institute for Management Studies' Distinguished Faculty Award, and two Literati Clubs Awards for Excellence in writing and research. He is the author of several books and more than 70 articles focused on leadership development and organizational effectiveness.*

Endnotes

1. Core competencies and organizational focus were brought to attention by G. Hamel and C. K. Prahalad in their landmark book, *Competing for the Future*, Boston: HBS Press, 1994.

2. Michael Porter recently updated his concept of corporate strategy in the networked economy in an article entitled, "Strategy and the Internet," *Harvard Business Review*, March 2001, pp. 63-78.

3. The importance of "collective ambition" is effectively discussed in a paper prepared by D. Ready, *Mobilizing Collective Ambition—How Effective Top Teams Lead Enterprise-Wide Change*, Lexington, MA: The International Consortium for Executive Development Research (ICEDR), 2000.

4. Some of the essence of the idea of organizational "roots" can be found in J. Collins and J. Porras, *Built to Last*, New York: Harper Business, 1994. Collins has followed up on his work with a new book, *Good to Great*, New York: Harper Business, 2001.

5. Similarly, some of the essence of the idea of organizational "wings" can be found in C. Christensen, *The Innovator's Dilemma*, Boston: HBS Press, 1997.

6. Henry Mintzberg's groundbreaking work on the essence of leadership first appeared in *The Nature of Managerial Work*, New York: Harper and Row, 1973.

7. Viktor Frankl's classic and powerful book, *Man's Search for Meaning*, has been published in numerous English editions since 1959.