THE IMPACT OF THE VIRTUAL ECONOMY ON LEADERSHIP IN ORGANISATIONS

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The world economy is in transition. It is moving from the industrial age to a new set of rules – that of the "Information Society" or "virtual" economy, this will change everybody's work, affecting the flow of new ideas into enterprises, their management, organisation and procedures. These changes have major impact on the skills and attributes necessary for successful and effective leadership, and although some of these based on traditional values, there are others that need to be added for the "Virtual" Economy. Leadership is an improvisational art, the game keeps changing, competition keeps changing, therefore leaders need to change and to keep reinventing themselves, and they need to have the capacity to employ more than one style of leadership.

1. INTRODUCTION

You think the past five years were nuts? You ain't seen nothin' yet! It's only going to get weirder, tougher, and more turbulent. Which means that leadership will be more important than ever -- and more confusing.¹

The world economy is in transition. It is moving from the industrial age to a new set of rules – that of the "Information Society" or "virtual" economy, this will change everybody's work, affecting the flow of new ideas into enterprises, their management, organisation and procedures. This emerging new economy represents a tectonic upheaval in our commonwealth, a social shift that reorders our lives more than mere hardware or software ever can. It has its own distinct opportunities and its own new rules. Those who play by the new rules will prosper; those who ignore them will not (Kelly, 1998). This new virtual economy will change everybody's work, affecting the flow of new ideas into enterprises, their management, organisation and procedures. The impact of e-business is not limited to the "internet companies" but requires new business models from each and every enterprise².

The next major business transformation is represented by seven megatrends, all due to the new technologies, most of them already have become potent forces for business change (Neilson, Pasternack, Viscio, 2000). Taking advantage of these trends can offer great competitive advantage to organisations:

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1. New information and communication technologies are forcing companies to transform themselves, rethinking their strategies, organisations and business models: The extended enterprise concept of electronically networking customers, suppliers and partners is now reality.
2. New channels are changing market access and branding and causing disintermediation in traditional channels. Since companies can now build real-time, intimate relationships with their customers, they are often cutting out the intermediaries- and improving service and reducing costs at the same time.
3. The balance of power is shifting to the customer. With unlimited access to information afforded by the new technologies, customers are much more demanding than before.
4. The face of competition is fundamentally changing. Not only are new competitors coming out of the woodwork, but traditional competitors are exploiting the new technologies to become much more innovative and efficient.
5. The pace of business is moving to "warp speed". Planning horizons, information needs and the expectations of customers and suppliers are reflecting reductions in time.
6. The new technologies are pushing enterprises past their traditional boundaries. Traditional enterprise boundaries between companies and their suppliers are a thing of the past, as internal boundaries separating processes, functions and business units.
7. Knowledge is becoming a key asset and source of competitive advantage. No longer can organisations account for intellectual capital in a "goodwill" category. In short, we are moving from a "traditional" economy towards a (knowledge-based) digital and virtual economy".³.

Figure 1: From an industrial to a knowledge-based/digital economy

As enterprises world-wide are awakening to the opportunities of the virtual economy, there is a growing realisation that the transition has barely started and that a vast number of challenges remain to be addressed before potential benefits materialise to the fullest⁴. The challenges of today and tomorrow demand new ways of leading organisations, building collaborations, and creating communities. In the new world of business defined by accelerating change and unforgiving competition, new models of how to organise and compete are essential.

2. A NEW ORGANISATION

The traditional organisation of work, based on the ideas of mass industrial production, have been questioned more and more, leading to the implementation of team work, just-in-time systems, quality circles, and others, as an attempt to improve productivity. In parallel a fundamental change in the organisation of work is taking place, a shift from fixed systems of production to a flexible, open-ended process of

organisational development. This new concept of a process of continuous change is sometimes described as "the flexible firm" and the workplace a high trust and high skill workplaces. There is no one model, but an infinite variety of models, which are constantly being adapted to the circumstances of the individual firm and its workers⁵.

When big business first emerged throughout the industrial world around 1870, it did not emerge out of the small businesses of 1850 -- it emerged independently. The only model available, the most successful organisation of the 19th century, was the Prussian Army, which had just been reorganised and had learnt from the inability of the Americans in the Civil War to organise, transport, and communicate with masses of people. It was the first modern organisation. It defeated the Austrians in 1866, who had a much larger and better-armed army, and then, four years later, defeated the French, who were even better armed. The Prussians succeeded because they had created an organisation. They were the first ones to use modern technology effectively, which in those days meant railroad and telegraph. Business copied the command and control structure of the Prussian army, in which rank equalled authority. We are now evolving toward structures in which rank means responsibility but not authority. And in which the job is not to command but to persuade.

3. ORGANISATIONAL CHANGE

The new network technologies reverse the traditional relationship "the organisation determines the task" into: "The nature of the task and the needs of those involved can now determine the organisational form adopted⁶". It is not a question of technology or power, but of relationships. In organisations integrated by networks, authority does not work anymore as a base for labour relations.

A revolution is taking place in the way that work is organised within companies. New organisation structures, corporate cultures, working methods, training programmes and motivation and reward systems are being introduced in organisation and companies. The new organisational structures are focused on process-based and market-oriented organisations, team working and flatter decentralised structures with more empowerment and devolved responsibility.

New corporate cultures, including greater trust, more participation, greater personal autonomy, better alignment of employee and business objectives, increased consultation and greater focus on the customer and quality.

New organisational structures characterised in most companies by the implementation of market oriented or process orientated business units or divisions, or, as, in an extreme way, Kjell Nordstrom and Jonas Ridderstrale, state in their book *Funky Business*: "Hierarchy is an organization with its face toward the CEO and its ass toward the customer."

New more flexible and less hierarchical working methods, including more flexible working time, working patterns, job groups and job content, multi-skilling, greater use of part-time workers and new management models based on coaching and supporting.

New performance measurement techniques shared through the company and designed to focus both employees and managers on long-term drivers of competitive success as well as traditional financial results.

Figure 2: Modes of Work Will Change. Source: Gartner Group

These changes in the working environment create a need for a great cultural revolution inside an organisation. Changes to roles, jobs, business processes and the collective sharing of information, must be addressed and any difficulties overcome⁷. The organisation as a whole needs to create a new cultural framework that is strong enough to replace hierarchy.

As management faces greater and greater levels of volatility and uncertainty, so it will instinctively try to implement yet more control. The only way to deal with this new business environment will be to relinquish complete control by:

- Understanding the nature of chaos and complexity
- Accept complexity but do not add to it
- Measuring the immeasurable
- Trust, tolerance and co-operation
- Look outwards

For successful leadership in this new working environment, managers must adopt new approaches in five key areas: managing information, managing people, managing information, managing teams and managing facilities, but the most important issue is to manage themselves. Leaders operate in four dimensions: vision, reality, ethics and courage. The visionary leader thinks big, thinks new thinks ahead....reality is the opposite of vision, the leader as a realist faces reality as it is, not as he wants it to be. The ethics dimension refers to basic human values and represents a higher level of development, courage is the realm of will, it involved both the ability to make a stand and the internalisation of personal responsibility and accountability. The challenge for a leader is to develop all dimensions at the same time, and fulfil their full potential instead of limiting themselves.

The task of management will to a lesser degree become managing and controlling, and to an increasing degree become inspiring and motivating: it is spiritual management. Real leaders communicate, then communicate the same thing again, and again and again. Communicating a vision not only involves repetition and a carefully distilled message it demands the ability to tell a story.....metaphors and language are incredibly powerful for transferring a message.

4. LEADERSHIP IN THE NEW ECONOMY

There are three historic sources of authority and a brand new one coming out of the

Information Age: charisma and tradition led the nomadic age cultures, force ruled in the agricultural age, rule of law dominated the industrial age, and shared purpose of the new authority in the information age.

Napoleon Bonaparte believed that a leader was “a dealer in hope”; and Harold Geneen, Chief Executive of ITT during the sixties and seventies noted how, “leadership is practised not so much in words as in attitude and in actions”. The question arises if the old ideas and definitions of leadership, as it fitted into the 20th century still work in today's new business environment.

According to a recent study by the Centre for Creative Leadership and Forrester Research⁸, leadership today is characterized by five key paradoxes.

Table 1: The five leadership paradoxes:

The paradox		The Dilemma
<i>Swift AND Mindful</i>	When research participants were asked about the impact of technology on leadership, the most common response was the need for speed. As a result, many organizations and individuals make bad decisions because they have not taken the time to understand the situation and think through alternatives.	How to balance efficient, habitual responses with fresh ideas and innovation.
<i>Individual AND Community</i>	Technology provides us with tools that give individuals a great deal of autonomy, just think of the increased use of e-mail as the main communication means. But creating a feeling of community and involvement of the employees happens through face-to-face interaction and shared experience.	How to create ways for individuals to be autonomous without feeling isolated.
<i>Top-Down AND Grassroots</i>	Many organizations are still based on a hierarchical structure, which is predicated on the idea that someone is in charge, is presumably in control, and has "the answer." The trouble is that many people who are at the top of organizations today don't know the answer and in fact, there may not be one.	How to decide when to use control while also increasing collaboration.
<i>Details AND Big Picture</i>	The need to manage and prioritise an enormous amount of data has never been more demanding. Yet to stay competitive, leaders must also be able to link all these bits of information together to identify patterns	How to sift through vast amounts of data and weave it together so that it becomes meaningful.
<i>Flexible AND Steady</i>	With new technologies and changing economic conditions, organizations have to be able to sense needs and opportunities, adapt and improvise. Ongoing mergers, acquisitions, alliances and downsizing mean that employees are frequently working on teams of continuously shifting players. At the same time, we must maintain some sense of priorities and movement toward a common direction.	How to maintain focus and purpose in the midst of continuous change.

The American company Federal Express thinks that the traditional leadership skills are still valid in today's world and has identified nine personal attributes shared by the best leaders, and that are used to rating aspiring leaders on whether they possess these attributes.

Table 2: Attributes of leaders according to Federal Express

<i>Charisma</i>	Instils faith, respect and trust, has a special gift of seeing what others need to consider. Conveys a strong sense of mission
<i>Individual consideration</i>	Coaches, advises, and teaches people who need it. Actively listens and gives indications of listening. Gives newcomers a lot of help
<i>Intellectual stimulation</i>	Gets others to use reasoning and evidence, rather than unsupported opinion. Enables others to think about old problems in new ways. Communicates in a way that forces others to rethink ideas that they had never questioned before
<i>Courage</i>	Willing to stand up for ideas even if they are unpopular. Does not give in to pressure or to others' opinions in order to avoid confrontation. Will do what's right for the company and for employees even if it causes personal hardship
<i>Dependability</i>	Follows through and keeps commitments. Takes responsibility for actions and accepts responsibility for mistakes. Works well independently of the boss
<i>Flexibility</i>	Functions effectively in changing environments. When a lot of issues hit at once, handles more than one problem at a time. Changes course when the situation warrants it.
<i>Integrity</i>	Does what is morally and ethically right. Does not abuse management privileges. Is a consistent role model

Judgement	Reaches sound and objective evaluations of alternative courses of action through logic, analysis, and comparison. Puts facts together rationally and realistically. Uses past experience and information to bring perspective to present decisions
Respect for others	Honours and does not belittle the opinions or work of other people, regardless of their status or position

Some believe that not much has changed from the Old Economy. A study among more than 1,300 U.S. executives shows that according to them, the management skills and personal attributes necessary for successful leadership, although acknowledging the impact of new technologies, are solidly grounded in traditional skills and qualities. The personal attributes that are still relevant today are, among others, communication skills, integrity, ability to coach and mentor, and creativity⁹. But Digital leadership demands more than the application of the skills of the Old Economy, new ones that enable speed, flexibility, risk-taking, an obsession with customers and new levels of communication inside the organization, are needed.

Citrin and Neff's six augmented qualities of leadership in the Virtual and Digital Economy are as follows (Citrin and Neff, 2000):

1. **Obsessing about the customer:** no business can succeed without customers. The Digital Economy inverts the traditional relationship between the company and the customer, dramatically lowering customer's costs in switching suppliers, therefore customer obsession is a critical leadership characteristic in today's world.
2. **Building a flat, cross-functional organisation:** As mentioned before the command and control style of management was the rule in the Industrial Economy, a style that has now given way to greater organisational flexibility.
3. **Managing via business model:** The difference between developing and maintaining a winning strategy, an essential element of leadership, in the Old Economy and the Digital on is the strategy development process. Relationships are much more fluid and multidimensional and as a result, leaders, rather than managing via a detailed annual strategic planning process, they manage via a strategic framework, or business model, using scenarios to test assumptions on future developments.
4. **Evangelising and generating positive buzz:** Organisations have always had to communicate effectively with their employees, but in the Digital Economy, effective communication has to go a step further, an organisations needs to be able to "evangelise" the company and to generate public-relations buzz, as a first step to success.
5. **Encouraging risk-taking for real:** In the Digital Economy where barriers to entry are low and the rewards for success huge, continuous innovation and new approaches are needed to gain, or maintain, a competitive advantage. An innovative environment must have an exceptionally high tolerance for mistakes, as innovation requires experimentation. The innermost mechanism of human progress is called failure, therefore leaders need to make risk-taking a reality, not just talk, making it less risky to take risks.
6. **Rolling up the sleeves and working hard:** of course all the above mentioned won't make a difference if it is not combined with hard work and commitment.

Leadership in the new environment should not be seen as a "position" based on power and authority, but as a "function" based on principles and personal abilities, as well as on the capacity to involve others to reach consensus on critical decisions and on problem solution. Only this level of trust and the resulting productivity will offer the company a clear competitive advantage. Leaders trust trust: every word,

every action, every initiative they realise must build trust, according to Carly Fiorina, Hewlett Packard, "you have to be conscious about your behaviour, because everyone else is".

Surrounded by conflict and uncertainty – in their environment, among their people, and within themselves - leaders of the future need to have an experimental mind-set. Some decisions will work, some won't. Some projects will pay off, some won't. In other words, facing reality means facing up to mistakes and failures, nobody gets it right the first time, Winston Churchill said it: "success is the ability to go from failure to failure without losing your enthusiasm".

5. CONCLUSIONS

The new virtual economy is about reinventing how business is conducted, in every single job and in every single organisation, there is a revolution going on. None of the historical references on understanding the world, the marketplace and work apply anymore: "speed is the holy grail"¹⁰.

There will be more confusion in the business world in the next decade than in any decade in history. And the current pace of change will only accelerate. It's only going to get weirder, tougher, and more turbulent, which means that leadership will be more important than ever -- and more confusing. Leadership will emerge as the most important element of business -- the attribute that is highest in demand and shortest in supply. In between all this turbulence three common tendencies in leadership can be seen:

- from strategist to visionary: people do not establish strong emotional bonds with strategies, they do not compromise them as they respond to the what-question and not to the why-question, and to know the why is much more important....Vision is "a shared image on what we want organisations to be or to become" (Albrecht, 1994), creating a vision means being brutally honest about yourself and what you want to be as well as what the organisation is and what it wants to be. In other words, have a personal vision convincing enough for others to share, to express what others could not express. A good example is Walt Disney's vision: "Make people happy".

- from commander to storyteller: strategic leaders can control and command, while visionary leaders stimulate and "seduce". Howard Gardner, in *Leading Minds*, *An Anatomy of Leadership*, states "the key to leadership is the effective communication of a story", and these are accepted more easily if they are of the "Star Wars" type, simple histories that contrast the good and the bad. Not only the form is important but also the content, therefore leaders need to dominate rhetoric, including the use of metaphors, and rhythm.

- from system architect to change agent: the leaders prepared for the new economy force people to think and prepare for an uncertain future, they concentrate less on managing and controlling employee behaviour and more on the development of their abilities for initiative and the support of their ideas, the leader opens up the way for the others.

Figure 4 The attributes of the leaders that made the history books, according to Tom Peters:

Committed!	Flouted the chain of command!
Determined to make a difference!	Creative / Quirky / Peculiar! / Rebels! / Irreverent!
Focused!	Masters of improvisation / Thrive on & exploit chaos!
Passionate!	Forgiveness > Permission
Irrational about their life's project!	Bone honest!
Ahead of their time / Paradigm busters!	Flawed as the dickens!
Impatient! / Action Obsessed	"In touch" with their followers' aspirations
Made lots of people mad!	Damn good at what they do!

Leadership is an improvisational art, there is no on-size-fits-all approach. The game keeps changing, competition keeps changing, therefore leaders need to change and to keep reinventing themselves, they have to be ready to adapt, to move, to forget yesterday, to forgive, and to structure new roles and new relationships for themselves, their teams, and their ever-shifting portfolio of partners. And most important they need to have the capacity to employ more than one style of leadership. Leaders need to realise that "people don't leave companies -- they leave leaders.¹¹". Moreover all important business gurus agree, failure is a necessary experience to become a leader, you have to learn not to be careful.

But some things will never change: successful leadership still remains the result of hard work and commitment, and just as in this century and the last, the same will most probably be true in the next.

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