ViTAL Economy ALLIANCE

Governance in the Connected Economy

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Over the past several years, a number of leading business journals have reported on significant concerns about governance issues within "New Economy" companies. Several of these same publications have also developed annual reviews of the "best and worst" of the S&P 500 boards in corporate America, many of these being so called "Old Economy" companies. Their concerns ranged from board composition, selection, independence, qualifications, and compensation to the need for entrepreneurial versus audit-based boards.

This increased focus on quality corporate governance is of critical importance to directors of every kind of enterprise. But this focus is often centered primarily on board priorities dictated by industrial?economy thinking, which has not substantially changed in the past 50 years. It should instead be centered on board priorities dictated by the fundamental principles of the New Economy, which is changing even now.

In our New Economy, traditional management practices need to change. Rather than the command-and-control aspects of managing, the New Economy requires different behaviors and infrastructures. We call these new behaviors and infrastructures the "Connected Economy."'

We use the term Connected Economy to better describe in our view what others term the knowledge, information, digital, or cyber economy. Whatever we call this economy, it appears to be substantially different than the industrial, agrarian, or feudal economies that have gone before. At the center of this economy is an essential transformation of the way we go about "connecting and communicating" to conduct commerce and build an economy.

Technology is allowing us to connect globally on a 24 x 7 basis with whomever we need, whenever we need them, for whatever we need, wherever we are, regardless of time or place. This connectivity revolution is causing a convergence in both competitor and stakeholder relationships-including relationships with employees, customers, and suppliers. It is changing everything we have been trained to believe is true.

The reality is that the world of a Connected Economy changes all of our assumptions about how a board of directors governs. We need directors who understand that the world has changed significantly, and that such significant change requires a total rethinking of how we allocate financial resources, how we hire, evaluate, and manage resources, and how we organize to succeed.

The first responsibility of directors is to hire the right senior managers, and hold them accountable on behalf of the shareholders. The right CEO is someone who understands the implications of connectivity on the business, and is able to take appropriate action based on this understanding. These executives must understand that connectivity is the key enabler of a Connected Economy and a connected enterprise.

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Successful corporations will look more like a web in their shape and function, and less like the pyramid shape of successful corporations in the industrial economy. The appropriate CEO will invest in the development of flat, Web-enabled partnerships of customers, employees, suppliers, and contractors, rather than heavy asset-laden balance sheets.

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Collaborative style. Today's CEO must also be committed to a collaborative management style versus one that is based on command and control. In a June 2000 *Fortune* magazine article, Professor Warren Bennis of the University of Southern California and an expert on the style and substance of leadership, was interviewed about the impact of network connectivity on leadership. He was quoted as saying, " Networks by definition connect everyone to everyone. Hierarchies, by definition, don't." Command and control worked relatively well in an industrial-age hierarchical management system. A connected world requires a climate of trust, which is the basis of a collaborative management system. This climate of trust applies to employees, customers, and supply-chain partners. The CEO will embrace the concept of the organization's most critical partner being potentially its chief competitor.

"Connected" budgets. Directors and executives, who understand connectivity and collaborative management will also set budgeting, spending, investing, and compensation recommendations and policies to enable and reinforce connectivity and collaborative behavior.

Technology needs to be understood as a fundamental resource that enables and connects the entire extra-enterprise of the corporation. Technology is not to be thought of as a program but as a mindset. It will require the hiring of a chief information officer (CIO) who acts more like a chief integration officer. This individual's role and responsibility is to see that the entire enterprise and its strategic objectives are integrated with a technology strategy and enabled by it. This CIO must be able to communicate and understand at the highest levels of the corporation the role of technology in enabling the firm's strategic and operational success. Techno-babble will no longer suffice.

Managing intellectual assets. Directors will need to rethink totally what asset management is all about. As we previously mentioned, we have always placed a high priority on the management of physical and financial assets. We employ auditors who are quite competent at telling us how well we have managed these assets according to Financial Accounting Standards Board best practices. However, in a Connected Economy, the management of human resource, information, and knowledge assets must be the first order of business. Directors need to recommend to the CEO the hiring of legal, financial, and strategy advisors that understand this reality, and help the company implement tools and processes that will assist management and the board of directors better manage these resources on behalf of the shareholders.

Connecting the outside and inside. Directors need to devote regular time on how innovation impacts on their business and their organizational structure. They need to focus on who is their competition, what is their stakeholder network, and what is their market. They need to make a conscious choice about whether they are providing products, services, or offers, and constantly re-evaluate their decision in light of market conditions. They must constantly evaluate the strategic effectiveness of their organization's ability to rapidly respond to swift and dramatic market changes. Is the organization organized around networks and constant change, or is it rigid and hierarchical?

The world in which we conduct business has changed far more dramatically than our approach to governance has changed in the last 30 years. Jack Welch has often said, "When the rate of change outside the organization is greater than the rate of change inside the organization, the organization is in trouble' " Whether we are Old or New Economy companies, let us assure our shareowners by our actions that they will be winners rather than victims of the Connected Economy.

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