

## **E-business and leadership: Is the emerging knowledge economy changing leadership practice?**

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### ***Introduction***

Imagine the scene. There are hundreds of start-up companies vying for new business, perhaps a thousand of them. At this stage it is hard to guess who will be the winners: who will emerge with businesses that are going to be sustained over decades - rather than months. At the same time, suppliers are having a wonderful time, as demand keeps going up, and their businesses keep prospering. Finally, there are enduring worries about infrastructure - is the basis there to keep this industry going as more and more customers emerge?

What am I describing? No, it is not the current 'dot.com' craze, but the motor car industry one hundred years ago. Then, in the USA and Europe, there were hundreds of companies emerging, many of them truly 'back street enterprises'. Suppliers of tyres, steel, leather, and other components were seeing unprecedented growth, as all these start-up companies tried to get out cars to customers, and establish real businesses. And there were worries about infrastructure: roads and petrol, in particular. However, the real point I want to make is - what would the stock market have been like, if it operated then as it does today? The answer is easy. There would be many new companies being floated, often on a promise (and almost certainly making losses), all in the belief that they were going to make huge profits in the future. A few years later, the investor bubble would have burst, and, as happened in the USA, eventually just a few major companies emerged out of the thousands that preceded them.

There is another point to this story, of course, which is to remind you that we have seen business booms fed by hype before (cars, PCs, and many others), and they all go through the same cycle. Companies in the 'new industry' grow rapidly in the face of opportunity; most collapse; just a few survive, and often they are hard to spot in the early, heady phases of the boom. Today, a company that thrives on email and sex-chat rooms (America-On-Line, AOL) can buy one of the world's largest multimedia infotainment enterprises (Time Warner), even though AOL can't make profits, and has a minute turnover compared to Time Warner. A company whose products were 'Snaglets' and 'Hot dogs' (Sausage Software) leveraged itself up to link with an accounting software company and form a giant worth some \$2.5bn, and then lost value almost as dramatically. It seems crazy - and it is!

## *Understanding e-business*

It is also very easy to get confused about the nature of e-business, because there are a number of different businesses being developed in this current boom, each with very different characters and prospects. First, like the carmakers of one hundred years ago, there are companies trying to develop Internet based businesses: e-businesses. It is useful to distinguish between two major variants of these - those concerned with 'business to business' trade (B2B) and those concerned with 'business to customer' trade (B2C). Then there are the suppliers to these businesses. Finally, there are those concerned with the infrastructure. Let's look at each one in turn.

First, the most popular area in terms of hype are the B2C businesses - like Amazon, whose CEO, Jeff Bezos, was the 'person of the year' for Time earlier this year. B2C businesses fall into two types:

- those that deal with physical products and services (often called the 'bricks' area), and
- those who deal with digitised information (the 'clicks' area).

B2C companies that deal with 'bricks', like Amazon, to date have made tiny profits or none at all. This is not surprising, since they face the major challenge of logistics. Except for those companies that simply advertise themselves in a local area on the Internet, most are seeking to develop 'new' business by extending their reach across countries and even across continents. While this seems to make great sense, the instant nature of the order process masks the challenges of delivery to the customer of the product or service they have purchased. Buying a book on the Internet is easy - but getting it from the USA to Warracknabeal (in outback Australia) is not quite so easy - and the costs of the logistics often make the savings offered on the item (because of bulk buying) quite illusory.

It is instructive to look a little more closely at Amazon, which until recently dealt with relatively light objects (books and CDs). Even when focussed on these items, it has faced enormous logistics challenges. Now it has hundreds of distribution points, and it is still not making a profit! Industry comments suggest the company lost heavily before Christmas because of some familiar mistakes - betting on particular products that they believed would sell, finding out that the market guesses were wrong, and now having to sell some of this stock at greatly discounted prices. Let me be bold and suggest that the only money to be made in the B2C area for most of us is lucky gambles on the stock price of the companies concerned. It is a gamble, as the share market gyrations of this year have shown, and most of the e-businesses launched with such a fanfare this year will be out of business in the next decade.

However, despite all this, there will be some important, innovative and even transformative B2C companies. Some are already setting the pace, utilising the potential of Web-based activities to do things differently: for example, some companies are creating C2C opportunities. These include places for customers to use email, and contact other customers, and chat rooms and forums where views (even critical views) can be expressed. Companies that provide such opportunities find that they are also creating opportunities for themselves, with customers helping them redesign what they do (see, for example, Werback, 2000; McWilliam, 2000). B2C

companies that are market-oriented and profitable will survive and become another important part of the business landscape.

B2B is rather different. In theory, business to business e-trade is about creating almost perfect 'virtual marketplaces' for companies. Major manufacturers set up B2B systems, like Ford, GM and Daimler/Chrysler, all of whom have done this recently. Within these, they can purchase what they want in a virtual marketplace, always getting the best price available (which is the idea behind the B2B 'Cosivint', to be created out of the car manufacturers' separate B2B businesses). Similar B2B set-ups include GlobalNetXchange (for retailers) and the Mining and Metals Marketplace.

At first glance, this kind of business seems great for the buyers - and not so great for the suppliers. Prices in a perfect market are constantly being forced down, and margins become thinner and thinner. A variant of this exists for consumers, as well, as with these net-based organisations that find the 'best price' for you - say on an air fare from Melbourne to Singapore (through, for example, the 'C2B' business Orbitz). Again, great for the ticket buyers, but not so great for the supplier: the margins will be thin, and the profits small.

However, B2B may well not turn out to be quite as cut-throat as it first appears. At present, suppliers in some industries have tended to hold the upper hand, and the 'assemblers' have had to accept their prices (motor car manufacturing is a good example). B2B markets may restore greater competitiveness, but they may also operate as 'closed shops', with buyers and sellers working together to ensure good profits for both, at the cost of consumers, and those who are not admitted to the market. Moreover, it is unlikely that all transactions will be undertaken through these markets, and there are likely to be many deals made by physical negotiations - especially where these are seen as advantageous to the buyer for some reason. At this early stage it seems B2B is more likely to work well in commodity markets, and less well where the suppliers are specialists.

However, when B2C and B2B businesses are compared, it seems that the growth is in the second of these areas. In 1998, B2C business was around \$US8bn, and B2B was around \$US40bn. By 2004, it is expected that B2C will have grown to \$US400bn, but B2B will be more than \$US4,000bn (for example, Cosivint is expected to have a \$250bn market, and GlobalNetXchange (GNX), the retail virtual market, a potential of \$350bn a year).

Together B2C and B2B businesses are clearly going to continue to see experimentation, new business models, and the refinement of existing business practice, and while many will fail, some will grow and emerge as major players in the future. The e-business approach allows cost leadership, enhanced services and new ways of doing business (look at the emergence of *mp3* in the music industry). They also create management challenges: should you integrate your e-business activities with your other businesses, or should you keep them separate? They demand superior functionality (especially in IT infrastructure and logistics), personalisation, safeguarded privacy, and streamlined systems. They will create change.

What about the suppliers to e-business? Well, as with the motor car industry some 100 years ago, that is a great area in which to be operating. For those in the growing areas of e-business (consumer goods, travel, and other traditional retail areas), there is a new channel, and the possibility of new markets.

Even more impressive is the demand for infrastructure. The network industry (dealing with telecommunications, routers, servers, etc.) is predicted to be worth something like \$US8,000bn over the next few years, as increased Internet capability is sought. While gamblers on the share market may make big profits betting on the next successful dot.com company, strategic investors are more likely to a healthy return on investing in a specialised supplier - like Cisco Systems, that seem to have a major share of the router market. The returns may not be as great - but they are a lot more certain over the next few years!

Finally, there are some big opportunities in an area of B2C business that was deliberately passed over earlier in this paper – the ‘infotainment’ industry. Thus one category of ‘supplier’ that merits special mention includes those companies who are able to provide digitised ‘content’. Digitised content includes films, television, and media more generally. If there is a battleground that looks interesting today, it has to be in this area. Some analysts suggest that the total value of the digitised content industry might be worth \$80,000bn over the next decade. No wonder Mr. Murdoch, Mr. Packer, and some much bigger players in the USA are so concerned to try and control this area!

The Internet hype of today looks much like the previous bubbles of development that have occurred in the past. If you think of the Internet as another form of the market, as the suppliers as developing new versions of the television and the telephone, then it is easier to see things in perspective. There is money to be made in e-business: while some will be made, and a great deal lost, on trying to spot the winners on the stock market, one area of potential ‘good bets’ would seem to be concentrating on the suppliers to e-business and its supporting systems. These include the hardware and software suppliers for the Internet - the Cisco Systems and Oracles of this world; the content providers - the infotainment companies, who look after the ‘clicks’, if you can keep up with the pace; and the logistics companies, those will have to help make the bricks side of the e-business boom deliver.

### ***The changing context of leadership practice***

You might conclude from the first part of this paper that I consider e-business to be “business as usual”, but that is not the case. Indeed, having set aside the hype, I see the emergence of e-business as part of a wider process of change, and a process that has some very interesting leadership implications. Let me now take a different perspective, and look at the debate on change and leadership we have witnessed over close to three decades.

For the last thirty years, there have been many books launched on the catch cry: “what we need is leaders, not managers”! It is a call which has been heard many times, and rests on a presumed distinction between ‘managers’, who are people who just get on

an administer, make things work; and 'leaders', people who decide what needs to be done. In the last decade or so, however, that familiar approach has been given a new twist.

In the face of a more rapidly changing environment, we have sought to change the structure of organisations and our expectations of leadership. We are told organisations are to become more flexible, responsive and have to develop a 'learning' approach. Given this, leadership is no longer the prerogative of those at the top, but critical throughout the new organisation. Now we need leaders everywhere, and, presumably, even fewer managers!!

Somehow this doesn't seem to make sense – and so the issue of the relationship between 'managing' and 'leading' will be given further exploration in this section of this paper. Having done that, the final section of this paper will examine how the more general debate about changing leadership needs relates to the recent development of the e-business sector.

Let me start by getting one major issue out of the way. In the last twenty years, the number of people whose occupation falls under the heading 'manager' has increased, not decreased. Indeed, five years ago the Australian Report on Leadership and Management Skills, 'Enterprising Nation' (1995), indicated that there might be as many as 800,000 people in Australia who were managers (although that number did include farmers managing their farms, and a number of other categories that fall outside of 'managers in organisations'). Today, despite some minor variations within the categories, it seems the number is still about the same. In other words, despite some 15 years of downsizing embracing white collar as well as blue collar workers, and despite intense overseas competition in the past five years, there are still a lot of managers around. Of course, there may well be a decline in the next few years, but that is turning from addressing issues of 'what is' to exploring 'what might be'..

Now, the business world **is** very different from that which existed some twenty odd years ago, (and so is the world in which the public and not-for-profit sector organisations operate, for the same reasons). Increasingly rapid rates of technological change, in the information and communications technologies especially (but not exclusively); the rapid growth of globalisation (competition between companies across countries, not just within them); dramatic changes in the regulatory environment (especially as a result of the World Trade Organisation and its predecessor); almost overwhelming floods of information (even if it seems there is little more knowledge, and hardly any new wisdom on offer); and even increasingly well educated consumers - all these forces are making the world appear a more complex and unpredictable place.

Complex and unpredictable - even chaotic! If you doubt that, the last twelve months of trading on NASDAQ and similar exchanges in the "dot-com" companies have underlined that point. Traditional manufacturing and service companies making healthy profits have seen their share prices decline, and then start to go back up again. At the same time, start-up Internet companies that have never made a profit have seen shares increase in value by orders of magnitude, and then see them drop by a similar amount months later. They continue to swing all over the place. If the acquisition

referred to earlier in this paper of 55% of Time Warner by America on Line (AOL) at the beginning of 2000 was the major event it was claimed to be, it was as much that a company that makes its money out of email and sex-chat rooms had the capital to buy a multimedia entertainment company with major assets and property. That was extraordinary!

In a complex and unpredictable world, one of the few things that seems clear is that a traditional, hierarchical, command and control organisation is poorly suited to adapt to the pace and nature of change with which it is confronted. That fact has given a multitude of academics a wonderful opportunity to write about new organisations and new management (several hundred books already, and the number is still mounting). We happily talk about network and virtual organisations, donuts and webs, and praise flexibility, nimbleness and agility. Meanwhile, many businesses are trying to work out how to manage differently, experimenting with e-commerce, skunk-works, incubators and spin-offs. In other words, there is a great deal of agreement that yesterday's approach does not work so well today.

So, what are the competencies that a person will need in the next two decades (bearing in mind that it takes some 10-20 years for a person working in business to develop the skills and experience that make them truly effective at a senior level)? Well, recent research has suggested that organisations will need people who are:

- strategic opportunists (strategic in their thinking, but opportunistic in their ability to see and take advantage of events as they unfold)
  - globally adept (able to understand and work in cultures around the world)
  - capable of working across organisational boundaries (with partners, consultants, contracted specialists, temporary staff, outsourced and on-line workers, etc.)
  - data analysts (able to work with data, analysing problems, making decisions, thinking laterally, being creative, 'reframing and rethinking')
  - continuous learning practitioners (involved in lifelong, reflective, action learning)
- (Conger and Benjamin, 1999, page 242).

Incidentally, if that list of attributes were not daunting enough, in addition it has been suggested that these paragons of the future will need to:

- sensitive to diversity, and excelling in inter-personal relationship management
  - be outstanding communicators and motivators
  - be able to build communities, and aligned organisational 'architectures', and
  - be able to develop the leadership skills of those with whom they work!
- (op cit., page 250).

Now, if all this sounds a bit much, these suggestions make a very interesting point. Most of the competencies that I have described have more to do with leadership than with management, and the traditional skills of the managers (managing information, resources, finances and people) seem to play only a tiny part in the competencies skill set for tomorrow. However, that must be a logical consequence of what has been stated earlier. If the organisational structures of yesterday - that worked so well in stable and simple environments - are no longer appropriate, so the skills of people inside organisations will also be less appropriate. Computer software and 'expert systems' are addressing many of the things that used to comprise the traditional skills

of the manager (managing information, resources and finance). In the future, we will not need people to do a lot of the routine work that is part of many of these things.

On the other hand, adaptability, responsiveness, intra- and inter- personal skills, strategic and opportunistic competencies - yes, these are increasingly important. They are skills we need in people in organisations already, (maybe more of them will also be taken over by increasingly smart systems in the longer term, but at least not in the immediate future). We may not be able to describe what organisations will look like in the next couple of decades (the experimentation is still under way), but I think that we can see that our expectations of how people behave, and what skills they will be expected to exercise will be different from those of yesterday.

So far, I have not made mention of the 'information revolution' or 'knowledge revolution' to which many commentators refer. The omission has been deliberate. Knowledge has always been a key part of organisations and their competitive situations – and the management of knowledge has always been an important part of the manager's role. The change that has taken place in the last few years is simply that knowledge is playing a larger part in the success and failure of organisations than before. But knowledge is not information – knowledge is about using information, and much of the important knowledge is tacit rather than explicit (the kind of knowledge that really does 'walk out of the door' when an employee leaves). Managing explicit, codified knowledge is a well understood, if challenging, task; managing tacit knowledge is really about managing people, and that is something that remains an important task.

### *E-business and leadership*

Insofar as information and knowledge are seen to be critical sources of competitive success in the future, a central question we need to address is whether e-businesses are at the leading edge of the knowledge revolution. There are two points to be made about this.

First, as the analysis of the current range of e-businesses in the first part of this paper makes clear, the term 'knowledge-based business' is not synonymous with 'e-business'. Many companies using e-commerce do make a great deal of use of knowledge. This is easily illustrated by becoming a regular customer of Amazon: you will see how quickly they develop an understanding of your buying profile, and start making 'suggestions for you', and similar targetted marketing strategies. However, for many the e-business and e-commerce approach is just another medium for fairly conventional buyer-seller interaction.

Second, many knowledge-based businesses are not in e-business itself (for example education), even though some may use e-commerce and Internet-based activities as part of their operations. Thus part of the 'revolution' is taking place independently of e-business itself. Taken with the previous point, this suggests that e-business is not leading change so much as part of the larger process of change – albeit a change where information and communications technologies are playing a critical role.

Similarly, we can also ask whether e-businesses are at the leading edge of new leadership strategies. This is a more difficult question to answer. Many of the companies that are said to typify the knowledge revolution are small, flexible, and adaptive. Moreover, many are 'fluid' – for example, it has been suggested that Silicon Valley is best seen as one loose, amorphous and organic business, rather than a series of discrete companies. People keep shifting and reforming activities, and are often simultaneously involved in a number of ventures, at different stages of development, even competing among themselves. However, many others are giants – major technology companies with a long history of innovation and technological development in the information and communication technology fields.

The business practices of many of these companies are well captured by Brown and Eisenhardt (1998), in their study of IT and communications companies. They observed that such companies have had to develop strategic approaches that combine reactivity (at a higher speed), anticipation (assessing change directions), and leadership (determining the path of change). In their view, this leads to strategies that are not concerned with plans, so much as developing approaches that are unpredictable, non-directive, and experimental. They describe strategy and organisational activities as diverse, proactive, and continuously changing. At the same time, they see the leadership challenges as balancing structure against chaos, past competencies against future skills, and established activities against continuous innovation. The leadership that is required is one that combines 'survival' - in competing against others; 'development' - to meet anticipated changes; and 'reinvention' - to create business leadership for the future.

However, looking at business practice is not the same as considering leadership and strategic challenges. The business practices of new e-businesses are often very different. Typical 'start-up' entrepreneurs - driven, passionate, directive and single-minded - often lead these organisations. They exhibit the kinds of leadership practice that characterise new small companies at any time - and in many cases they represent an approach that will only be successful in the first few years of operation. As with many areas of business, the founders are often ill equipped to run the continuing business that emerges over time. Indeed, the e-business sector has similar short lifetimes for CEOs as in other sectors at present, with many getting out when they successfully sell their idea to a bigger company (and then going on to develop the next idea), or being pushed out just prior to the company going under. Moreover, while some other companies are more traditional (and bureaucratic) in their overall approach and structure, many are trying to 'bring Silicon Valley inside', to borrow from the words of a recent paper by Gary Hamel (1999).

## *Conclusion*

E-business represents a fast changing and complex area of business development. It comprises a number of different activities in an industry that is showing the typical signs of 'youthful development' -

- many start-ups

- high rates of innovation, change and failure
- emerging moves towards consolidation and stabilisation.

As such, this is a sector that shows typical entrepreneurial leadership practice, which might be characterised as passionate, committed, directive, and even autocratic; high rates of failure; generally poor command of people skills; and a tendency to make decisions based on intuition and guesswork rather than more analytical bases.

At the same time, the leadership field more generally is shifting quite dramatically, as a result of rapidly changing business environments and requirements. These can be typified by contrasting the models of ‘yesterday’ and ‘tomorrow’. In yesterday’s model, we needed managers to control and administer the operations of the company. Indeed, since those operations were driven from the top, we needed a hierarchy of managers to translate overall plans into detailed directions, and then to monitor and control performance. In tomorrow’s organisations, we will still need to ensure that operations are managed, but this will be a smaller part of the working life of the ‘organisation person’. I don’t want to call that person a manager, because only a small part of what is being done will be traditional management, and people will work in more fluid and networked structures than today. Indeed, you could say that tomorrow’s organisation person will have to exercise management, leadership, strategic and analytical skills, and there will be little place left for anyone who is “just a manager”

So, we don’t need managers in the 21<sup>st</sup> Century for two reasons. First, because the role and skill set of the manager represents only a small part of what a person inside an organisation will need to do - the role and the associated competencies are going to be far broader. Second, we don’t need managers in the 21<sup>st</sup> Century because the word, and the image (the model) that it entails, is 20<sup>th</sup> Century, pulling organisations back to a mechanical view of the enterprise and how it operates that will ensure failure and collapse in the future. The only remaining problem is to find the new name for the key occupation for the 21<sup>st</sup> Century - not managers, not leaders, but perhaps something different.

Equally important and paradoxically, it seems that e-business is not the best place to see this new approach, despite the content and character of the industry. E-business is sustaining an approach to leadership that is both out of kilter with broader changes in organisational leadership practice, and is more typical of behaviour in the last century. The very business developments that are seen as being critical to the emerging economy of the 21<sup>st</sup> Century are being brought to fruition by people whose own approach more closely resembles that of the industrialists at the turn of the 19<sup>th</sup> Century. In the field of leadership practice, e-business has a lot to learn from manufacturing.

