

What is New Economy?



Centre of Expertise
"Leadership & the
New Economy"

EXECUTIVE SUMMARY

This first Information Paper of LEAD-IN's Centre of Expertise on "Leadership & the New Economy"¹ aims at clarifying what New Economy means to LEAD-IN.

First a classical or historically original view on New Economy is provided. It is based on the technological revolution that took place at the end of the 20th century. The rise of the dotcom companies marks the transition from "old" to (this classical notion of) "new" economy. A transition took place from big vertically-structured, product-based companies to lean, service-based organisations. But the burst of the dotcom bubble in the early 2000s reduced the enthusiasm about this new way of economy.

LEAD-IN subscribes to the crucial role of technology in changing the economical scene, but revitalises the notion of new economy by integrating three levels of consciousness into it. The level of human dynamics consciousness describes the relation between employer and employee (as well as the one between employees) in "free" organisations.

The level of ecosystemic consciousness focuses on the harmony arising from the awareness of belonging to an ecosystem.

Finally, the level of purpose consciousness addresses the final goal of an organisation, acknowledging the importance of profitability and shareholder value creation, but rather as a means to achieving a noble goal than as an end-in-itself.

With this elaboration of what it could mean nowadays to be a new economy company, the paper proposes a set of questions allowing to identify, for any given organisation, to what extent it operates in a new economy spirit. The underlying idea is that many companies are somewhere on a transition path towards this new economy approach, having reached for instance a more mature stage on one of the consciousness levels and a bit less on the others.

The paper hopes to reflect an attitude of humility. The present paper isn't but the first step towards the development of a mature view on New Economy. While the authors firmly believe that companies should evolve in the direction of the levels of consciousness, the paper is not written as a set of normative statements. The reader is invited to help re-finishing the description of new economy and make up his own mind on the desirability/necessity to adopt this new economy thinking.

1. THE CLASSICAL VIEW ON THE NEW ECONOMY

In general, the term "New Economy" relates to the transition from a manufacturing-based to a service-based, technology-enabled, economy. This transition, which started in the late 1990s, has been mostly driven by the rapid and massive introduction of new ICT technologies (Internet, social media, telematics, etc.), biotechnologies and nanotechnologies.

¹ LEAD-IN aims to impact positively the transformation of our society through spreading inspirational and innovative ideas, concepts and experiences about leaders and their leadership among its member organizations and beyond, in all society. It hereby wants to become the Belgian leadership initiative, i.e. top-of-mind for Belgian organizations and their leaders. In order to make this difference, Centres of Expertise have been established to focus on the content, while Operational Centres translate this content to the outside world. One of the Centres of Expertise focuses on "Leadership and the New Economy". This Centre reflects how what the new economy is or should be and what kind of leaders we need to promote such a new economy. Its papers and events aim to inspire and support such leaders.

² A "Noble" goal is a goal that creates added value for the society and environment. It is about the "Why do we" question.

In the New Economy, technology takes over an increasing number of standardised jobs, shifting the focus to jobs requiring mental activities that cannot (so far) be simulated by technology (“brain workers”). High performance in these jobs is therefore better achieved by allowing the employee to self-define the most adequate environment to unleash his potential. Indeed, rather than a manager instructing the employee how to execute a task, the employee is better equipped to know how to best proceed than any manager could be. The resulting self-leadership and self-managing teams increase employee engagement but also substantially decrease the added value of the middle management layer. This leads to a transformation from vertically-integrated firms to matrix-based structures. The new technologies hence complement and facilitate changes in organisational structures and in the management of the workforce, leading to an increase in the pace of labour productivity growth.

This notion of New Economy thus marks a difference with what could then be called ‘Old Economy’, where many employees perform standardised jobs, allowing productivity to be objectively monitored and compared between employees. This gives rise to a substantial management layer, pushing employees to obtain the highest achievable productivity. The benefits of this managerially-driven productivity push outweighs the cost of the management layer itself.

Focussing on the impact of the technological revolution, the classical view of the New Economy addresses the transition from a rather industry-based economy towards a more service-based economy and the trends generally associated with it: dematerialisation (e.g. music CDs are replaced by on-line streaming), increased power of consumers, globalisation and interconnectivity. This view of the New Economy is closely related to terms such as innovation economy, knowledge economy, network economy, digital economy and e-economy.

The dot-com companies that emerged and boosted at the end of the 20th century serve as prototypical examples of this view. This also explains why the New Economy got severely criticised when the dot-com bubble burst in the beginning of the 21st century.

2. LEAD-IN’S VIEW ON THE NEW ECONOMY : ECONOMY OF THE 21TH CENTURY

LEAD-IN integrates the dimensions of purpose, sustainability and human well-being into its view on New Economy. It questions the conventional view on economy, which heavily focuses on financial profit and shareholder maximisation, accompanied by an implicit believe in infinite material growth. In the light of the current globalisation, technological, social, demographic and ecological challenges, such growth is deemed unsustainable, due to finite, scarce resources. Therefore, a shift is required from an anthropocentric view of the economy to a more holistic and systemic one in which the intrinsic value of nature and society can be considered.

2.1. CHARACTERISTICS OF THE NEW ECONOMY ACCORDING TO LEAD-IN’S VIEW

To paraphrase Rabelais², “the technology-enabled transition without consciousness is the New Economy’s perdition”. Indeed, new technologies as such are neither intrinsically good nor bad and are to be considered as ‘facilitators’: they can represent both opportunities and threats. For LEAD-IN, the New Economy that we should collectively strive for will therefore be driven by conscious business leaders, at three distinct but interrelated domains. As will be discussed further, New Economy companies display varying intensity levels of consciousness (refer to sections 2.1.1 to 2.1.3) in these three domains.

² “Science without conscience is the soul’s perdition.” (François Rabelais)



2.1.1. HUMAN DYNAMICS CONSCIOUSNESS (THE CLASSICAL “RESOURCES” LEVEL)

The first domain concerns the relation between employer-employee and inter-employees. As we have seen earlier, Old Economy companies are often accompanied by vertically-managed structures, in which employees execute clearly described tasks. They are to a large extent interchangeable, leaving little room for initiative. This generally limits the commitment of staff, turning many of them into disengaged or even actively sabotaging employees.

In a New Economy organization on the contrary, the personal touch of the employee is cherished, leading to “free” or “liberated” organisations. Such organisations generally foster, explicitly or implicitly, a work culture based on the following basic principles:

- Every employee is intrinsically respected as an equal;
- Every employee’s personal growth is a priority goal;
- Every employee’s self-autonomy is promoted.
- Both employer and employees are responsible to build and maintain this culture of the liberating environment.

By so doing, every employee wants, is able and has the liberty to take initiatives. This leads to lean, network-centric decentralised companies, with high interconnectivity. Self-leadership and self-managing teams become driving forces in such New Economy companies. Companies are said to be liberated as controls are replaced by decentralised follow-up systems and a culture based on transparency of information and decisions, on trust, proximity and mutual recognition and on a fair sharing of benefits. Such “liberation” is often facilitated by strong information & knowledge management apps such as those evoked in the New Economy classical view. But such ICT apps are neither strictly necessary nor sufficient to “liberate” organizations. Examples of companies with a higher level of consciousness at the Human dynamics levels are: Favi, Poult, Chrono

Flex, Gore, HCL Technologies, Semco, Whole Foods, MorningStar and many others.

2.1.2. ECO-SYSTEMIC CONSCIOUSNESS (THE CLASSICAL “PROCESS” LEVEL)

The second domain focuses on the consciousness of being part of an ecosystem, biologically and economically, in which all organisms, institutional and natural, interact with each other. Such consciousness implies making business in a greater harmony with the laws of nature, not against them.

While ecological awareness in the Old Economy (or the classical view on New Economy) would translate into measures to reduce the ecological footprint by a few percent, New Economy companies actually rethink and innovate – often through disruptive reframing of their markets or use of technology – their processes and business models. They also often take nature as their source of inspiration for organising their business.

Example of current “eco-systemic conscious” business trends, distinct but interrelated, are:

- Biomimicry (getting inspired by the continuous innovation in nature);
- Cradle-to-cradle (zero waste approach to production such as at Interface and Desso, producing carpets which are almost 100% recyclable);
- Product-service systems (transforming products into services such as Michelin selling kilometres instead of tyres);
- Functional economy (selling the usage performance which matters for the customer rather than mere goods or services such as at Econation, Safechem, Ubeeqo, BeeOdiversity, Lyonnaise des Eaux...);
- Circular economy (valorising waste materials or heat from one company as a resource/input for another company such as in the Degrés Bleus offer of Suez-Environnement or the eco-zoning in Kalundborg);
- Sharing economy (mutualisation of resources for production or financing, open source sharing of knowledge, transformation of consumption patterns by replacing owning by sharing such as at Floow2, Ouishare, ...).

It should be noted that these new business approaches are closely interrelated. Often one leads to another. For example, the cradle-to-cradle approach, successfully implemented at Interface and Desso, led these companies to engage also in a product-service system approach, starting to lease their carpets (as a service) rather than to sell them (as a product).

2.1.3. PURPOSE CONSCIOUSNESS (THE CLASSICAL “STRATEGY” LEVEL)

The third and last consciousness domain concerns the primary purpose of an organisation. For New Economy companies, volume growth, financial profit and shareholder value maximisation are not seen as ends-in-themselves, but rather as means-to-an-end, which enables a company to achieve “noble” goals². New Economy companies go beyond the classic perception of financial profit by including societal or ecological parameters. They are profitable to enable sustainability in their sense-making and meaningful purpose.

Purpose consciousness can express itself in different forms:

- Tying a large share of manager and employee bonuses to societal KPIs and projects such as at Danone;
- Adopting new articles for a company, such as those of B-Corp or the Charter proposed by Daniel Hurstel;

- Including stakeholders in the Board or setting up a Board of “Critical Friends” such as at Veolia Environment;
- Engaging in a Territorial ISO 26000 approach which allows to evolve from a contractualist vision on Corporate Social Responsibility to an institutionalist one, such as a number of organizations, private and public have done in the French Department of Seine & Marne, under the direction of Prof. Hervé Defalvard.

2.2. THE PATH TOWARDS NEW ECONOMY

The distinction between old or classical new economy and the presented view on new economy is not clear-cut: many companies are somewhere on a path leading them from the one to the other. They did not yet fully get rid of the vertically-structured, short-term profit-oriented, product-manufacturing focus where employees with rigid work schedules execute tasks monitored by the middle management. And they do not yet fully embrace the network-based, sustainability-seeking, usage performance-oriented focus where employees in a flexible working environment show commitment and strive for self-development. Some are more advanced in one consciousness domain than the others. New Economy should therefore be seen as a path of progressive transformation, whereby progress in one domain can eventually trigger progress in another.

3. HOW TO RECOGNISE A NEW ECONOMY COMPANY?

Only a few companies or business leaders in the world can today claim to act as fully “conscious” in the three domains described above. As mentioned earlier, a company’s transition to New Economy is an evolutionary process, with some characteristics already present, while others not yet or only partially.

Here are 20 questions to try to figure out how “conscious” a given company is on the three consciousness levels:

3.1. HUMAN DYNAMICS CONSCIOUSNESS

1. Are we placing our employees at the heart of our business model, assigning a strong priority to the development of the quality of labour (each worker has a role that makes sense and is enjoyable) and of the immaterial resources embedded in our workforce (skills, confidence, health, motivation)?
2. Have we set up a lean organisation with a network- (or matrix-) based decentralised structure, hereby reducing substantially our middle management layer?
3. Are self-leadership and self-managing teams driving forces for our company?
4. Do we foster the continuous development of our internal collective intelligence?
5. Do we have a fair/reasonable multiple between our top and bottom salaries?

3.2. ECO-SYSTEMIC CONSCIOUSNESS

6. Have we adopted a cooperative mindset with other stakeholders (suppliers, customers, competitors, public authorities, civil society, etc.) as a strong lever to create value through synergies, complementarities, mutualisation, exchanges, etc., replacing the traditional “value chain” thinking by “productive ecosystem” thinking?
7. Are we reducing the use of non-renewable material resources (raw materials and energy), thereby increasing the productivity of material resources (doing more with less)?
8. Are we generating value for the client/user/ecosystem through the sharing and development of immaterial resources such as knowledge, trust, relevance and human engagement?

9. Is innovation grafted on the systematic connection of value chains with a positive social and environmental impact? Are we connecting our business cycles?
10. Are we anchoring our activities in local territories by developing strong links with local stakeholders and favouring logics of decentralisation and proximity?
11. Are we incorporating social and environmental externalities in the heart of our business model and considering them as opportunities to generate both economic and societal value for our ecosystem of stakeholders?
12. Are we tending to replace products by services and goods ownership by access to use?
13. Are we fostering a culture of (disruptive) innovations and rethinking our way of doing business rather than optimising and fine-tuning the existing way?

3.3. PURPOSE CONSCIOUSNESS

14. Are we considering profit-making, growth and shareholder value maximisation as means to achieve goals that are noble and/or of intrinsic value, not as an end in itself?
15. Are we focusing on sustainability and hence adopting a long-term perspective?
16. Are we focusing on a triple bottom line, i.e. considering that environmental and social value can be generated at the same time as economic value (also known as the concept of Shared Value)?
17. Are we replacing the quest for volume growth (selling more) by the quest for delivering more value to customers, users and the whole local ecosystem?
18. Have we set up a more diversified board (including stakeholders)?
19. Are we engaging in the economic, social and environmental development of our territory in close cooperation with other local stakeholders ?
20. Which percentage of our bonuses are we linking to societal objectives or KPIs?

As indicated above, these questions can be used as criteria to assess to what extent a company fits in a new economy context. In this respect, a more in-depth study of the company and interviews with key people are required. E.g. on question 14, it needs to be examined whether a company's claimed adherence to a noble purpose is genuine or just a selling argument.

4. NEXT STEPS

In the present paper, we focused on the concept of the "New Economy". Forthcoming papers will tackle questions such as

- Why should there be a shift from Old to New Economy? Why should I make this shift with my company?
- What characterises leadership in a New Economy environment?
- How can one adopt a New Economy leadership style in his company?

Furthermore, interviews with CEOs of potential New Economy companies will be conducted. The outcome of these interviews will in turn allow for a refinement of the description of New Economy and its leadership.