VIEWPOINT

LEADING IN A HYPER-CONNECTED SOCIETY

BY MICHAEL ARENA AND SHARON BENJAMIN

We live in a society today in which conventional wisdom is not only no longer conventional, but apparently not so wise either. Business schools and organizations continue to teach leaders the basic principles of such things as market demand, elasticity, the leveraging of competitive advantages, and systematic approaches to managing organizational performance. Leaders learn to understand the fundamentals, to drive execution and optimize returns. While these functions are critically necessary, they alone are insufficient in a radically dynamic world.

We live in the networked society, with over 1 billion people connected to the Internet and a projected 3 billion by 2015. More than 95 percent of all enterprises today leverage the Internet as a strategic element of their business. In such a hyper-connected, networked economy, behaviors have shifted radically. Individuals expect real-time information, collaboration has become the norm, and pervasive technologies no longer seem so pervasive.

In a networked economy, experience and experimentation are the primary means of learning. Individuals no longer rely on an expert model for advice and guidance; instead, bottom-up information emerges from the masses and is rapidly distributed across social networks to influence behavior. Passive, top-down learning seems to have given way to a more active process of exploration and inquiry. Consumer personalization is no longer a concept that is forecasted for the future; in fact, a do-it-yourself population deconstructs products and services in order to adapt them for their own personal needs. The boundaries between buyers, producers, sellers, and consumer have become so radically blurred that new models of double-sided markets have emerged to describe these relationships. A consumer today may be a provider tomorrow. Self-organizing networks are proliferating at an unprecedented velocity, and intense, real-time feedback loops have the capacity to revolutionize markets at a moment's notice.

We're now finding that, when our time-tested principles are challenged by radical change, they are found wanting.

Pervasive connectivity has the potential to generate swarm-like behaviors that replicate the spreading of a virus. Yet leaders are still taught command-and-control tactics to influence and manage behavior. The bias of deep analysis, comprehensive planning, and methodical execution still rules the day. Adaptation, experimentation, and collaboration are only considered in desperation when conventional wisdom has failed. But we're now finding that, when our time-tested principles are challenged by radical change, they are found wanting.

TEAM TIP

As a group, look at the "conventional wisdom" at work in your organization or industry. Come up with scenarios of how different leadership models might help or hinder the effort to respond creatively in a networked economy.

The Napster Example

We don't have to look too far for examples of such limitations. In the late 1990s, when the music industry was at its heyday, 85 percent of the recording business was owned by what was then considered "the big five." However, in 1999, a 19-year-old student attending Northeastern University in Boston changed the industry forever. Shawn Fanning, known by his friends as "Napster," wrote a simple peer-to-peer search and retrieval system for online music. His aspirations were quite simple: to develop a program that provided online users an easy way to download music.

Fanning couldn't have predicted that, almost overnight, online file sharing would become a creative, musical epidemic. From June of 1999 to February of 2001, Napster (the name Fanning gave to his software) had grown to 26.4 million users. Based on conventional wisdom, the recording industry responded to the rise of Napster by filing a flurry of lawsuits for copyright infringements. In July 2001, a district court ruled in the recording industry's favor, and Napster was forced to shut down services. The industry declared success and turn their attention to the Napster clones.

What the recording industry seemed to ignore was the impetus behind the Napster explosion. Napster created an easy user interface to download music while also enabling users to select one song at a time. Record companies had become incredibly profitable by selling a complete CD through the popularity of a couple of best-selling songs, an approach that often frustrated consumers. The industry seemed to ignore the unfolding opportunity around distributing songs one at a time and instead dedicated its attention to protecting its profit pool.

According to the recording Industry Association of America statistics, this strategy proved to be a costly mistake.

The dollar value of the sales of physical CDs has shifted radically since the introduction of Napster. In 1999, revenue generated from physical sales exceeded $14.5 billion, while annual sales for 2007 were less than $8 billion (Recording Industry Association of America, Year-End Shipment Statistics, 2007). The recording industry launched an irrational war on the peer-to-peer providers, filing more than 20,000 lawsuits against individual users while ignoring the basic premise behind the shift—a new consumer preference.

At the same time the recording industry was applying conventional wisdom to squeeze out what leaders saw as a threat, Apple's management was observing the emergence of a new channel for online music distribution. On October 23, 2001, Steve Jobs announced that "listening to music will never be the same again." The new iPod provided users with the ability to place their entire music collection in their pockets, and iPods quickly became a major fashion icon of the early 2000s. Generation after generation of enhancements and the launching of the iTunes store in 2003 have made Apple the number one retailer of music in the United States and the dominant force in online distribution, providing more than 85 percent of downloads. Thus, the conventional leadership wisdom of the music industry proved not so wise within the dynamic context of a networked economy.

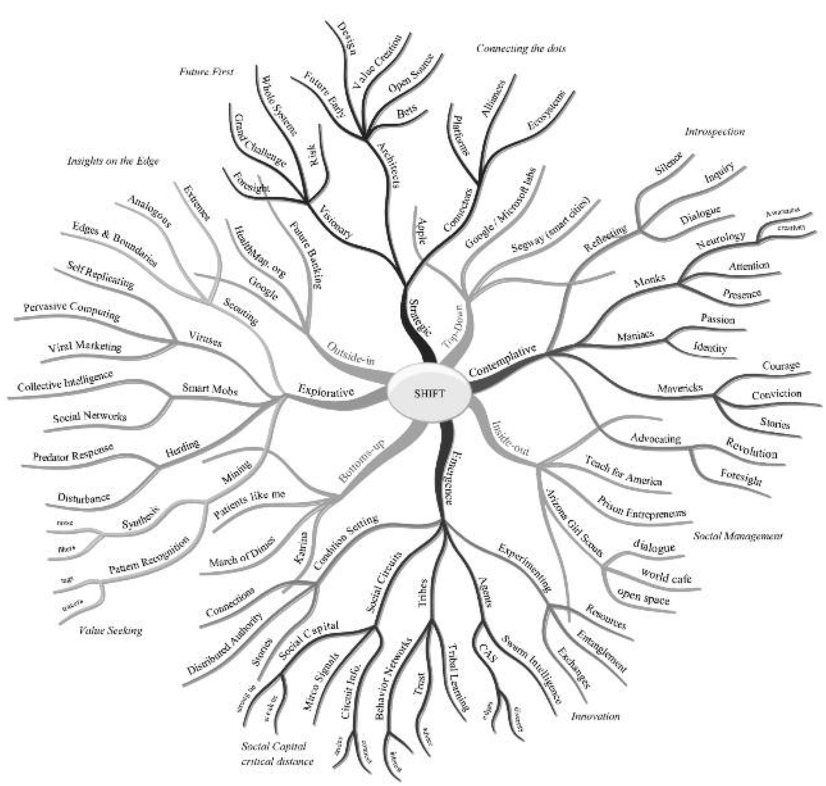
A Shift in Leadership

We no longer live in a world dominated by hierarchies with rigid boundaries. Today's institutions are much messier and require a constant need to explore and discover on a real-time basis. In a real-time environment, no single individual can know everything, and no one person has control. To believe otherwise is at best illusionary or at worst pure arrogance. Complexity has surpassed individual human capacity, significantly limiting the ability of our command-and-control design.

These days, we live in a world that is becoming more plastic and liquid and ever less concrete in nature. The world's financial services ecosystem changed within a month, just as in the early 1990s we saw an old paradigm around dominant government control crumble with the Berlin Wall. Likewise, the fear and cost of threats of continued disruption from terrorism keeps us in a constant state of heightened awareness.

In government and business alike, we need to create new models to balance a need for appropriate control and the fluid nature of open markets. We must move beyond outdated paradigms of static and behaviorally based approaches to leadership. There are still times when conventionally wisdom holds true. The ability to shift between traditional and emerging models of leadership represents a new type of navigational wisdom. ▪

MACRO-LEVEL LEADERSHIP NETWORK MAP



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For Further Reading

Brafman, Ori, and Rod A. Beckstrom. *The Starfish and the Spider: The Unstoppable Power of Leaderless Organizations* (Portfolio, 2006).

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Tapscott, Don, and Anthony D. Williams. *Wikinomics: How Mass Collaboration Changes Everything* (Portfolio, 2006).