

# **The Leadership Challenges of the Next Economy**

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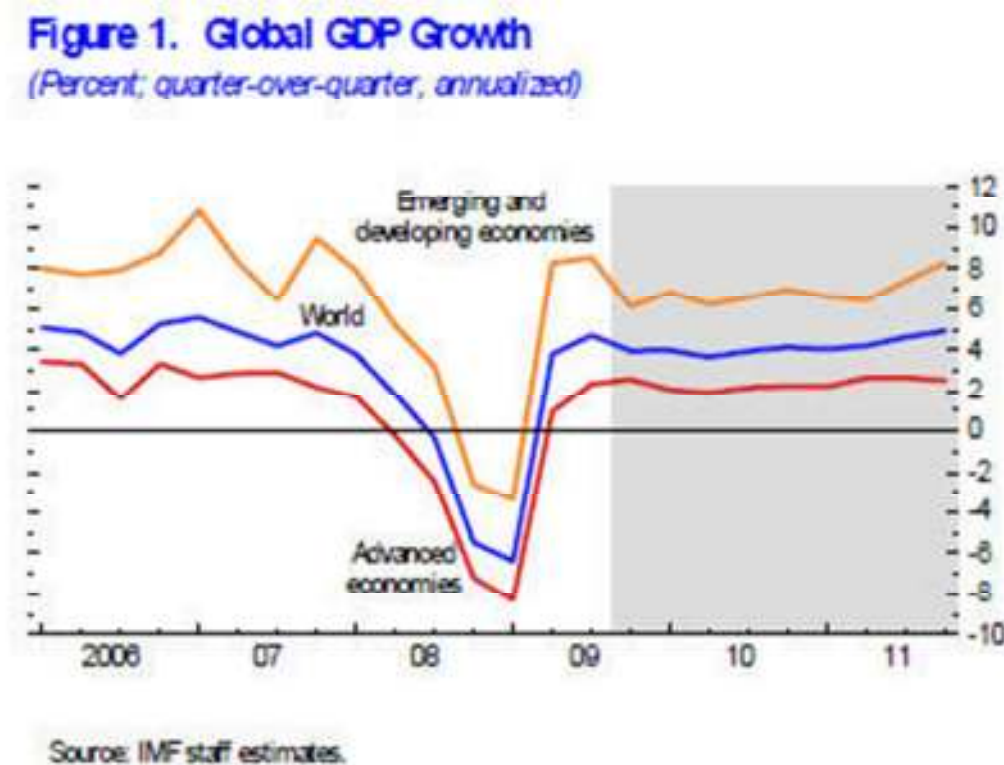
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# The Leadership Challenges of the Next Economy

The slogan for today could well be ‘We all live in creative times’. If the last century was the century of production, this century is proving to be the era of innovation and creativity. The evidence is abundant. The UK economy has been transformed over the last 30 years. A generation ago a third of the workforce were directly employed in manufacturing. Today it is less than 10%. Then manufacturing contributed 25% of total GDP. Today it is 12%. Globalisation has opened up opportunities for disaggregation and integration previously undreamt of. Trade has boomed in both goods and services, despite the major hiccup of the recent global finance-created recession. As a proportion of global GDP, world trade grew by 50 per cent between 1990 – 2008 to reach more than 30%.<sup>1</sup>



As can be seen from Figure 1 emerging and developing countries as a whole are growing at around 8%. This rapid growth is allowing countries such as India and China to rapidly catch up with West. Within the next 20 years China will have overtaken the United States as the

<sup>1</sup> [http://www.wto.org/english/news\\_e/pres10\\_e/pr598\\_e.htm](http://www.wto.org/english/news_e/pres10_e/pr598_e.htm)

largest economy (though per capita GDP will still be only a quarter of the US's given the difference in population size). In 2010 South Korea grew by 6.1%, India grew by 8.2% and China by 9.8%.<sup>2</sup> Whereas growth in developed economies was largely slow to stagnant.<sup>3</sup> Coming out of the deepest recession since the 1930s the UK has been able to benefit from a benign exchange rate and trade and manufacturing exports grew by over 6% in February 2011.<sup>4</sup> Some commentators see future strong growth for UK exports particularly to the other side of the globe. Exports to China, India and Brazil are expected to grow during this decade by 14.5%, 12.7% and 11.4% respectively. The processes of disaggregation of manufacturing and supply chains across the globe will continue apace with a continuing trend to have manufacturing production sited in low cost economies while the research and innovation processes are predominantly conducted in the developed economies. As classic economic theory predicts nation states are concentrating on those areas where they have a unique competitive advantage. For the UK it is clear where ours lies. We are a creative nation, a knowledge nation, an innovation nation.

However in this new economy the developing world is also investing heavily in its raw material for its own knowledge-based economies. China produced around 7 million graduates in 2010.<sup>5</sup> In Korea 83.8% of the student age population go into Higher Education.<sup>6</sup> Put simply all economies now recognise that along with capital and labour, knowledge itself has become a factor of production.

Alongside globalisation, the other driver of change in the global economy has been the rise and rise of digitisation. The digitisation of texts, symbols, instructions, patterns, visual images, and music allow huge data sets to be marshalled more efficiently than in the past. It also means that many economic activities that once depended on physical proximity, and face-to-face encounters, can now be conducted at a distance. Knowledge is now amplified through the medium of digitisation and is the key ingredient of this new form of economic activity. And it is not just the presence of knowledge but also the ability to use knowledge as a raw ingredient – much as our forebears used raw materials such as iron ore, coal and water – to innovate and create new products and services. New communications technologies are

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<sup>2</sup> <http://www.tradingeconomics.com/Economics/GDP-Growth.aspx?Symbol=CNY>

<sup>3</sup> *Ibid*

<sup>4</sup> Office for National Statistics

<sup>5</sup> <http://www.chinaeducationblog.com/university/2010-05-07/20-percent-of-chinese-university-graduates-do-want-to-become-public-servants-dont-they/>

<sup>6</sup> [http://www.koreabrand.net/en/know/know\\_view.do?CATE\\_CD=0011&SEQ=184](http://www.koreabrand.net/en/know/know_view.do?CATE_CD=0011&SEQ=184)

reducing transaction times and shrinking the time organisations enjoy competitive advantage in new product design as globalisation continues to intensify trade flows. Fashioning a competitive response in an environment where easy sources of advantage soon dry up, demands a renewed focus on the genius of people and what they hold in their heads.

And new transformative technologies – so-called general purpose technologies (GPTs) – are also disruptive technologies. This makes the job of leading and managing organisations even tougher. If we look at the history of GPTs as illustrated by Figure 2 we can see the relentless increase in the rate of change. The human race went from tackling 7 GPTs in the 10,000 year period from 9,000BC to 9 GPTs in the last century alone. Some futurists are arguing that this century will see 21 GPTs that include nanotechnologies, energy from fusion, advanced materials, carbon sequestration, managing the nitrogen cycle, water, health informatics, customised medicine, and enhanced virtual reality.<sup>7</sup>

Figure 2: A Short History of GPTs.

<ul style="list-style-type: none"> <li>• <b>9000 BC –1400AD</b></li> </ul>	<p><b><u>Seven GPTs</u></b> domestication of animals and plants; wheel; smelting of ore; writing; use of bronze, iron &amp; steel; creation of water wheel</p>
<ul style="list-style-type: none"> <li>• <b>1400 –1750</b></li> </ul>	<p><b><u>Two GPTs</u></b> three masted sailing ship and printing</p>
<ul style="list-style-type: none"> <li>• <b>1750 -1900</b></li> </ul>	<p><b><u>Five GPTs</u></b> steam engine, factory system, railway, iron steamship, communications</p>
<ul style="list-style-type: none"> <li>• <b>1900 –2000</b></li> </ul>	<p><b><u>Nine GPTs</u></b> internal combustion engine, electricity, motor vehicle, airplane, mass production, computer, lean production, internet, biotechnology</p>

Presentation by The Work Foundation, Ideopolis Team, July 2009

The third type of change that is now in evidence – despite the recent recession – has been the rise in demand for what might be described as ‘apex’ goods. These are usually services that

<sup>7</sup> The Work Foundation, Ideopolis programme

satisfy the soul as much as the body. They are services that speak to who we are not what we need to function. As developed economies like Britain have become ever more affluent so our needs have changed. Our basic wants are satisfied with a smaller proportion of our available resources. Experiences are the desire we can now more easily sate. This has driven the explosion in demand for customisation. Each of us wants to demonstrate our uniqueness somehow, and in some way, through our choices about what we wear, but also what music we like, what films we see, what art we enjoy, what books we read, how we adapt our digital devices to mirror ourselves. Think how quickly major rock concerts sell out or how many more films people watch and own on DVD than was the case even 10 years ago. Think of the rise of e-publishing. The explosion in computer games is extraordinary and the UK is a world leader.

This rise of the apex economy has also been mirrored – in part – by the rise of a more differentiated and demanding workforce. As the Generation Y and the Workplace Annual report for 2010 states *“The advent of the Generation Y into the workplace is bringing new changes that need to be addressed. The Generation Y is, perhaps, the most digitally sophisticated generation we have ever seen. They are looking for a sustainable environment offering a social structure within both a physical and virtual environment.”*

A more educated workforce in many parts of the knowledge economy wants to be led and managed differently. It is why old notions of command and control and Taylorist ideas of efficiency don't work when so much value adding activity is about people's discretionary effort, about their willingness to commit more of themselves to what they do at work.

This is all well and good but there can be no doubt that the recent recession and fragile recovery has hurt the UK's economy. Like a newly retreating ice-age it has left large scars across the economic landscape. Output shrank by a record 6.2% of GDP in little over a year. Unemployment rose by over a million. Long-term unemployment has doubled and youth unemployment is a fraction under a million 16-24-year-olds. Every sector of the economy was hit - and hit hard. For many sectors the recession led to more people leaving the sector early - particularly women, more being forced to go self-employed or freelance and more small business failures.

We await the figures for the first quarter of 2011's economic performance but the 0.6% fall in output in the last quarter of 2010 has set off alarm bells. A double dip recession is still unlikely (the Institute of Fiscal Studies believe the chance is around 20%) but 2011 will be a difficult year. The economic bad weather is compounded by a lively academic and not-so-academic debate about interest rates with inflation topping 4% in January and likely to continue rising due to the rise in global commodity and energy prices, especially oil. Thus far the Monetary Policy Committee of the Bank of England has kept rates at their historic low of 0.5%.

Compounding these known shocks is the entirely unknown outcome of events in the oil-soaked Middle East, where waves of pro democracy protest are rippling across the region threatening security of oil supplies to a carbon dependent west including the UK.

The Government's strategy has been clear. The fiscal deficit – a record for peacetime – must be reduced through spending cuts worth £81 billion over four years. The first stage of these cuts will roll out from April where local authorities up and down the land are making many workers redundant, slashing services from libraries to care homes and reducing support for a host of community and voluntary groups. This, the Government argue, is the necessary medicine that we must all take in order to keep the UK a credible destination for direct investment, reduce the risk of higher interest rates on our collective debt and enable a private sector-led investment boom as the state gets out of the way in those areas better served by the private or voluntary sector.

On the supply side the Government's growth strategy has established 21 Enterprise Zones in echoes of the 1980s, a sharp reduction in corporation tax for larger firms and a host of smaller micro initiatives (all welcome) designed to kick-start the economy. These initiatives are planned both in those regions which have become very public sector dependent and also in those sectors such as high-medium tech manu-services; creative and cultural sector and the green economy that promise the best chances of the UK rebalancing its economy towards exports and trade and away from financial services. The Project Merlin agreement with the UK's major banks is also welcome in that it seems to promise more lending by those banks to small and medium size enterprises which make up the vast majority of firms in the UK economy.<sup>8</sup>

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<sup>8</sup> <http://stats.bis.gov.uk/ed/sme/>

In such an environment the temptation is to retreat from progress. To hunker down in the bunker and focus on cost-cutting and staff shedding. But the evidence is that many more firms during this latest recession held on to their workers, knowing that it was the workforce that were the business. There is too little evidence that alongside that more enlightened approach the same firms have been adopting a more enlightened approach to leading and managing their workforces.

Moreover though more-and-more organisations could be described as knowledge organisations too few innovations have been taken up. The Work Foundation's Good Work Commission's preliminary findings found that a form of 'Digital Taylorism' was at play in the UK's organisations. These findings concluded that autonomy (the perception of the scope to exercise discretion over how to do a job) has fallen dramatically since the early 1990s. Comparing 1992 and 2006 it is today 14% lower overall. Practices that support autonomy and adaptability to problems, such as being trained beyond the immediate job spec or organisation into decision-making teams, have also declined.

Work is more intense and there has been a sharp rise up to the early years of this century in 'work strain'. Since then rises have levelled off but not declined. In addition skills are poorly used while the supply of new skills may be outstripping demand for those skills. The numbers of workers who say they are 'overqualified' has risen 10 per cent (to 40%) between 1986 and 2006. This is acute amongst graduates: a third claimed they did not need a degree to do their job in 2006, against a fifth in 1986. But more so at level 3 skills (roughly A-level equivalent) where more than half claim over-qualification. Upping the supply of 'knowledge' without a clear demand for it risks further exacerbating the trend.<sup>9</sup>

So there we have it – an economy continuing to restructure away from the production of manufactures, the extraction of minerals and provision of low level services towards an economy that provides research, ideas, innovation, creative content, high level services and medium-high tech manu-services. Moving away from an economy where no qualifications was not a barrier to work to one where the minimum for progression and survival is level 3 and above and where knowledge is the only route to a decent job. This new world of work requires a differently calibrated set of responses from those who lead and manage such a

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<sup>9</sup> <http://www.goodworkcommission.co.uk/>

workforce. Arguably such a response needs to be more dialogic, more Socratic, more distributed with higher levels of adaptability and resilience and more inclusive.

## **Responding to the leadership challenges of the Next Economy**

Our response to this challenge is to describe a set of assumptions and approaches that we sum up as Good Work.

First Good Work is not just about the intrinsic it also pays due attention to the extrinsic – to the need for organisations to anticipate and cope with the exogenous shocks that buffet them on a regular basis whether from the wider economy (downturns, recessions, exchange rate volatility etc), competitors new and old, or changes to the regulatory environment such as new taxes. This requires the people who manage organisations to focus much of their attention on the external environment in order to produce efficient outcomes for the owners of the enterprise whether shareholders or citizen-consumers.

Intrinsically Good Work assumes that work is a ‘fully human activity’.<sup>10</sup> As such it needs to combine elements of efficiency, equity and voice which are bounded by democratic principles of fairness, justice and inclusion. Work should be bounded by the sort of democratic norms found in other walks of life. In this perspective work is not some form of ‘separate’ existence where democratic ideas of justice, due process, equity, fairness and ‘rights’ disappear. Given the importance of work to our sense of self, our dignity and our self worth it is critical to see work as the place where equity and voice do exist. Work is in essence a public domain as opposed to a private one. And this can give rise to conflict especially where many people believe that the owners of capital are the final arbiters over decisions within the workplace. In a knowledge-based economy such an understanding about work is critical to then developing approaches which release maximum utility from the workforce – a key challenge for leaders. It is not enough to be efficient. There must also be a sense of being effective and that is difficult to achieve without the application of good work.

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<sup>10</sup> See Budd, John, *Employment with a Human Face*, (2004), Cornell University Press and Coats, D, *Agenda for Work* (2005) The Work Foundation

In advanced knowledge businesses, efficiency and effectiveness cannot be truly harnessed to optimum effect without voice. For voice underpins the very autonomies that release the discretionary effort that is the explicit expression of innovation and creativity that underpins more and more of our economic activity. Worker voice is thus an essential ingredient and both a welcome support for leaders and a potential challenge. This more plural view of the workplace is directly at odds with the profoundly unitarist view of work held by so many of the Human Resources profession. In this view all that matters is the relationship each individual has with their line manager and the organisation. Yet the increasing evidence base indicates that work is as much a social as economic act. The rules of collaboration and engagement are as critical to the workplace as in any other walk of life and such rules require high levels of inclusion and voice.

In this context the old leadership certainties enshrined in the view of the authoritarian, competitive and individualistic leadership are looking increasingly insecure. The notion that the world operates in a state of permanently bounded predictability has been strongly challenged. Instead the leadership discourse is beginning to shift. In place of these old certainties we are increasingly confronted by two contradictory forces, interdependence and diversity, pulling in opposite directions. (Lipman –Blumen, 1996). In part the old certainties have broken down as the evidence of accelerating global interdependence have become manifest. Leadership decisions in one place have now been seen to affect everyone everywhere. The global banking crisis, political instability in the Middle East, environmental and ecological disasters and the advance of digitisation all call for a new global leadership which places interdependence at its heart. This is true of both nation states and the organisations that inhabit them. Given this description of an interdependent world it is somewhat surprising to find that the dominant discourse around leadership and management remains rooted in old certainties. “ There is a dominant discourse in which it is assumed, without much questioning, that small groups of powerful executives are able to choose the ‘direction’ their organisation will move in, realise a vision for it, create the conditions in which its members will be innovative and be entrepreneurial, and select the ‘structures’ which will ensure success and keep managers in control.” (Stacey 2010).

This dominant discourse is frequently embedded in MBA’s and a wide range of leadership and management programmes and it highlights control as its defining principle. An alternative view re-defines effective leadership as “ that of participating skilfully in

interaction with others in reflective and imaginative ways...It is in this practice that one is recognised as leader, as one who has the capacity to assist the group to continue acting ethically, creatively and courageously into the unknown” (Stacey 2010). This more relational view of leadership sees leaders “paying attention to the whole system of relations as the creative ground for leadership” (Drath 2001). It understands leadership as an aspect of the community and not a possession of the individual leader.

Whilst the forces of global interdependence create many ‘inconvenient questions’ and ‘knotty problems’ we are also faced with rapidly increasing pluralism in which distinctive identities and individualism are expressed. This diversity might take the form of emerging and fragmenting nations, diversification within major religions, the current expressions of identity and individuality as peoples in the Arab world demand to have greater voice in the governance processes that impact upon their lives or indeed the desire of organisational knowledge workers to be treated as thinking, feeling human beings and not just receptacles of knowledge. “This escalating differentiation, whether of nations, organisations, or individuals, demands recognition of separate entities with distinctive and valued identities. The cumulative effect creates a thrust toward diversity on a previously unknown scale.” (Lipman –Blumen 1996).

When interdependence and diversity clash, as they inevitably will, leadership will be required to make sense of the resulting paradox, dilemma and uncertainty. Heroic individual leadership with vested belief in control and certainty will not be able to make sense of this ‘mess’. A collective response based upon enquiry, fairness and dialogue might. This re-introduces the notion of Good Work, discussed earlier in this paper. If we are to have a collective response that produces a capacity to act in turbulence and uncertainty we need some form of compass to guide us. To get collective commitment to this compass we need it to guide us ethically toward mutually valued outcomes. Efficiency (performance), equity and voice provide a sound basis for this compass. Good Work can create the conditions in which the purpose (performance) of the organisation can be clarified, legitimised and progressed through dialogue (voice) based upon equitable access to opportunity and success (equity). It is this relational and dialogic quality that will allow organisations to build the resilient, adaptable and connected up communities that will be required of the Next Economy.

A potential difficulty with the relational and dialogic narrative on leadership presented by Stacey and Drath, amongst others, is the need for pace. Technological advancement and global political, environmental and economic trends and shockwaves will demand that successful organisations will need to quickly make sense of ‘events’ and where appropriate respond decisively. This, one might argue, is the hallmark of a nimble adaptive organisation. So how will the potentially time consuming activity of enabling voice and dialogue assist a fast and decisive response? One part of an answer might be that in organisations where voice and dialogic mechanisms and cultures are well established it becomes much easier (and faster) to assemble the voices necessary to make sense of the ‘event’ and to recommend future action. A decision can then be made.

However it would be risky to assume that every ‘event’ requires a ‘decisive leadership’ response. Decisive leadership, it could be argued, is characteristic of the heroic school of leadership. A bad decision made quickly and without reference to an intelligent analysis of the evidence and emerging patterns may have the merit of being fast but may also be ultimately flawed and costly. Where the capacity and architecture does not exist for the nimble convening of strategic dialogue and sense making activity this may impair a ‘fast’ response. The answer, we would argue, is not to abandon the use of voice in these circumstances but to build the capability required to work with it effectively. Indeed we would go further and suggest that the building of this voice architecture gives organisations a strategic advantage in better applying collective intelligence to complex problems and in so doing involving a wider group of people in leading the organisation. All of this does not deny that there may be some situations in which management teams may need to be decisive.

This might be a choice between going ‘tight’ and ‘loose’. In organisations in which there is trust in the dialogic process and culture, people better understand the ‘events’ as they unfold. They can therefore better see the need for swift and decisive action around timebound problems and challenges and will legitimise a ‘tight’ (high control) managerial response. They are highly unlikely to do this if ‘tight’ control is applied universally to all ‘events’. So a key for management teams, in addition to building their dialogic and relational capabilities, is to be clear and transparent around their definitions of what ‘tight’ and ‘loose’ might look like and where they might be applied.

In his book 'Creating Leaderful Organizations' (2003) Joseph Raelin offers further insight into the relational view of leadership that we have been exploring. He emphasises a genuinely mutual model that incorporates everyone in leadership, taking it from being the property of an individual into a 'leaderful practice'. He describes the transformation between conventional and 'leaderful' approaches in terms of the four C's of leaderful practice, Concurrent, Collective, Collaborative and Compassionate.

**Concurrent** - In any community more than one leader can operate at the same time so leaders willingly share power with others. Indeed power is actually increased by everyone working together.

**Collective** - Having dispensed with the notion of a group only having one leader we make way for many people within the community operating as leaders. The community does not then solely rely on one individual to make decisions or prompt action.

**Collaborative** - All members of the community would be encouraged to assert their views (voice) whilst remaining sensitive to the views and feelings of others, giving weight to alternative viewpoints. They seek to engage in a public dialogue in which they offer up their beliefs and values to the scrutiny of others. Their listening to others becomes pivotal.

**Compassionate** - By demonstrating compassion one shows a commitment to serving the dignity of others. Each member of the community is valued regardless of his or her background or social standing and diverse viewpoints are welcomed and considered. The adaptability of the organisation is dependent upon the contribution of others. By helping people to achieve a psychological stake in the organisation (equity) we foster their commitment and discretionary effort.

That this notion of distributed leadership advocated by Raelin and others is a markedly different approach to that embodied in the 'heroic' leadership model seems undeniable. Equally the degree of change required by practising managers may seem daunting. A couple of points are worth making here. First, that leaders in a number of organisations are already active in successfully building a collective leadership capability (John Lewis and W.L Gore & Associates spring to mind) and second, that employees are doing it every day in most organisations, often below the managerial radar. This manifests itself through employees

seeing a need for something to be improved or changed and taking personal responsibility for enlisting the support of others to ensure that this happens. Too often managers can actually get in the way of this process through perceived threat to control. This is wholly understandable given the leadership narratives and archetypes that we have all been subject to in which ‘taking control’ has been the legitimised route to managerial progression. A key transition point will come when most managers actually see that they need to encourage more leadership of this sort and that is the core of their role as opposed to ‘taking control’. When the discourse talks more of ‘great teams’ and less of ‘great leaders’ we may see managers more confidently inhabit this new role. Giving ownership to leaders at all levels will increasingly be seen as a key to good leadership practices.

The Next Economy will be built upon new realities that construct the world as a living dynamic system and not a predictable ‘machine’. The old certainties have palpably disintegrated. Leadership in the Next Economy will enable collective sense making of this complexity. Building community will be seen as the necessary precursor to an intelligent and sustainable response. It will, in short, successfully navigate the tension between the need to honour and value individuality, difference and diversity and the need for communities and citizens to act interdependently in the face of external turbulence and complexity. This might mean promoting dialogue and enquiry to help formulate the key ‘inconvenient’ questions and to simultaneously ensure that access to this dialogue is not just for a privileged few.

The need to listen to each other more keenly than ever becomes paramount as does fostering resilience and creativity in the face of continuous change. More than anything we need to create a context in which people willingly commit their talent and energies to organisational goals, not through fear, compliance or managerial manipulation but because as autonomous, thinking and feeling human beings we decide to connect with others around goals and outcomes that we perceive to be worthwhile and important. This is not, for the most part, what has been taught in MBA classrooms nor is it the basis of most organisational leadership and management programmes. It is however what we describe as ‘Good Work’. Before practice changes the discourse will need to shift further. In this context the question may really be the answer.