

FROM THE WORLD-RENOWNED EXPERT ON CHANGE

e-Nolve!

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SUCCESSING IN THE DIGITAL
CULTURE OF TOMORROW



Introduction

The New Economy Lobotomy

We want to learn from the past. But we want our dreams to wipe away our memories.

—Christopher Galvin, CEO of Motorola

Life is now defined by where we stand with respect to the Internet. Real mail (the kind that comes in envelopes and doesn't require downloading) is called "snail mail" because e-mail has become the standard. At meetings, people cut off discussion by saying "Let's continue that conversation offline," even though they are meeting face to face, not online; "offline" is a new synonym for "in private," as though everything public were now on the Internet. We have switched from understanding screen-life by using real-life analogies—desktops, trash barrels, real estate, stores, and malls—to defining all of life in terms of the World Wide Web. A New Yorker cartoon shows St. Peter requesting user name and password before admitting a man to heaven. Another one features "The Off-Line Store"—"All items are a actual size! Take it home as soon as you pay for it! Merchandise may be handled prior to purchase!"¹

You don't have to be in business to see the cultural changes wrought by the Internet, but business is a good starting point. Soon there could be only three main types of companies in the world: dotcoms, dotcom-enablers, and wannadots.

Dotcoms are the pure Internet companies, operating online businesses. Their activities tend to exist primarily in cyberspace. Many were formed in the heady last half of the 1990s, and most died fast. But successful pioneers such as eBay, Amazon.com, and Yahoo! have already transformed industry dynamics, opened new career aspirations, and become emblematic of a new workplace style. Others threaten to revolutionize industries, from Napster's attack on the recorded music business to the rapidly multiplying e-learning companies challenging colleges and universities. Already the purely digital are swallowing real-world companies, from AOL acquiring TimeWarner to Amazon acquiring warehouses.

Dotcom-enablers are the technology and service providers who spread the Internet gospel. Sun Microsystems's mission, its leaders say, is to "dotcom" the world, to be the "lumberyard for the Internet." IBM is now an e-evangelist for e-business and the world's largest e-business itself. Cisco Systems uses its own lean e-business model to convince others to buy its routers and communications products. Lucent Technologies, once the research and manufacturing arm of Ma Bell, aspires to be a venture capitalist, business incubator, and fast-moving provider of Internet infrastructure. For a time, the growth companies among consulting firms and advertising agencies were a raft of new Web strategy firms, such as Razorfish, iXL, Digitas, Mainspring, and Brand Farm. Operating in Internet time themselves, the Web technology and service companies are change agents that can succeed only if they turn everyone else into Net-based companies. Their rhetoric makes it sound like we are witnessing the Second Dot-Coming.

Wannadots are everyone else—existing businesses, schools, hospitals, and other established organizations. Corporate giants that were once the industry standard are now defined as “not-Internet”—referred to as offline, land based, or bricks and mortar (BAMs). Or they are known by how much they have embraced the Web—for example, multichannel “clicks and mortar” or “bricks and clicks” companies. They follow a variety of paths to cyberspace (and we will trace their journeys, later in this book). Cookware catalog and retailer Williams-Sonoma took several years to become convinced of the importance of e-commerce despite its direct marketing know-how. After a modest experiment during the 1998 holiday season, it launched a wedding gift registry in the spring of 1999 and a full e-commerce department six months later—but still has to work out the relationship between stores, catalogs, and e-commerce. NBC had several early starts before relaunching CNBC.com as a financial services website and now talks about how closely the website should be aligned with the television channel—where they should be tightly coupled and where they should diverge. Arrow Electronics, a leading semiconductor distributor, knew it could be driven out of business by online procurement. So Arrow approached its own online marketplace; if its business was going to be cannibalized, at least Arrow stockholders would be the ones enjoying the meal. General Electric CEO Jack Welch points to “a number of our units you could call DestroyYourBusiness.Com aimed at attacking our existing businesses.”

The three types aren't pure types, of course. Dotcoms are developing land links, wannadots are morphing into multichannel hybrids, and a range of dot-orgs and dot-nets are increasingly hard to classify. The largest e-commerce companies in the world are not dotcoms, they are IBM and Cisco. In Taiwan, hardware manufacturer Acer founded more than forty software or dotcom subsidiaries between 1997 and early 2000, investing in Internet-related businesses in Greater China and Asia Pacific and forming alliances with—who else?—IBM and Cisco. In the United Kingdom, two of the largest portals through which users get their e-mail and news are Tesco.net and FreeServe, both of which are offshoots of traditional retail chains.

Still, dotcoms and wannadots, with dotcom-enablers egging them on, represent contrasting styles and face contrasting challenges, both of which I examine in this book. Ask big companies about their goals for the Web, and they are likely to reply, “Cautious experimentation.” Ask dotcoms the same question, and they declare, “Total world domination.”

That difference in rhetoric and attitude sums up the contrast between those reluctant to let go of the past and those hurtling into the future at warp speed. For companies that were not born digital, the big problem is change—when to change, how to change, and how to prepare people to live with the consequences of change.

Wait a minute! Before we rush off the cliff into the future, let's catch our collective breath and pause for perspective. Many discussions of the New Economy take place in a historical vacuum. Mention the Internet, and intelligent people sometimes act as if they have had a portion of their brain removed—the memory. (That's why I called this introduction “The New Economy Lobotomy.”) As we search for the new and different things that occur in the wake of revolutionary communications technology, it is also important to recall what can be learned from previous waves of innovation. In earlier decades, television was going to replace radio, teaching machines were going to replace teachers, and Sunrise Semester, a set of televised lectures, was the first sign that mass media were going to replace college classrooms. The broad reach and interactivity of the Internet are much greater than that of television or other media, and so is the potential for displacement. But history demonstrates that new channels tend to coexist with old ones and sometimes even join them.

New Economy rhetoric is often extreme, at both ends of the spectrum of love-the-Web or hate it. Not since the Marxists roamed the earth has the word revolution been used so freely. Evangelists urge companies to “blow up your business model,” while critics decry the “toxic excesses of capitalism” in the Internet boom. In both cases, people feel free to fling around provocative slogans without thinking about what they really mean or examining what is really happening. Media critics have faulted journalists for reporting financial news with little perspective on its meaning and little analysis of the business models of the glamorous companies they lionize. In 1999 and 2000, the press swung from being overly bullish, featuring young millionaires on magazine covers who never made a dime, a critic said, to being overly bearish after the spring 2000 market downturn.²

Because the United States was the launch site for the world’s journey into cyberspace, I suppose this lack of interest in history is understandable. To tell someone they are about to be “history” (as in “You’re history!”) is an Americanism for impending elimination. Legacy has become a negative term in the information technology community, referring to traditional systems that now impede progress. It has long been a hallmark of American popular culture to look for the fresh face, and it has long been a tenet of American entrepreneurship to value the fresh start. The late great anthropologist Margaret Mead once claimed that America was the first culture in which the young taught the old instead of the other way around. She was referring to the children of immigrants’ children who learned the language first, and then taught their parents. Today, that observation could be made about the Internet.

The Internet economy exaggerates antihistorical tendencies, offering a premium for new ventures and new ideas deliberately detached from tradition—witness the higher market valuations placed on dotcoms that separate from their parent companies. How many years a company has been in business and what its track record has been counts for less in some marketplaces than whether it has the newest, latest offering. History not only seems to matter little, but also may be seen as an encumbrance, or a sign that the company is stuck in the past. Even recent experience—“What have you done for me lately?”—is less important than “What do you promise to do next?”

As I was beginning the work for this book in 1999, popular exhortations to leaders to “forget everything you know because the Web overturns every accepted business principle” filled the air. So I tried to approach the e-world by assuming that I knew nothing. Before designing my massive research venture, I sat at the feet of twenty-year-olds and asked them to teach me. (My Harvard Business School MBA students were already influenced by their work experience; I was looking for the truly fresh new thoughts.) One weekend a set of four college students, aged nineteen to twenty-two, brought laptops and flip charts and industry statistics to my country retreat and talked through new business models. (They were then vetting business plans for a venture capital firm, while trying to find time for their college courses; one had started a Net business he sold eighteen months later.) When I suggested to a young magazine founder, who was tempted to leave the print magazine in the dust in rushing to the Web, that the print magazine was an asset that the Web wouldn’t eliminate so fast, I was stung by his retort that “you’re not twenty-five,” so I redoubled efforts to shed preconceived notions. (P.S. I was right, as the founder has since acknowledged; the print magazine is the biggest single driver of traffic to the website and the vital lure for advertisers.)

My virtual lobotomy was illuminating, but a little went a long way, and my memory started returning to normal. I started to see that cyberspace is full of reinvented wheels. Yes, the technology is revolutionary, network economics are different, and all the wheels must turn a lot faster, but the problems of leadership, organization, and change are similar to those we have experienced for decades. So even though this book breaks new ground in examining a set of big new challenges, it also rests on a foundation of enduring truths about people and organizations—a foundation that serves as a springboard for an evolutionary leap into a new, networked age.

The research that led to *Evolve!* is both broad and deep, involving not only the United States but also on-the-ground investigations in Canada, Europe, and Asia carried out by my research team at Harvard Business School and augmented by conversations in Israel and Latin America. (See the Credits for the names of my terrific team, led by Daniel Galvin and Michelle Heskett.) Three pillars were used to develop and test hypotheses:

- A global print and online survey included responses from 785 organizations of all sizes and types, primarily from North America and Europe but including Latin America and Africa. Survey respondents included Global 2000 companies that belong to the World Economic Forum and emerging fast-growth companies in the Inc. 500 and Young Entrepreneurs Organization.
- My Harvard Business School team conducted over 300 interviews in nearly eighty companies and other organizations in North America, Europe, and Asia, using both a structured guide to identify the dimensions of e-culture and an open-ended search for best practices and object lessons. We included prominent and newborn businesses of all types, as well as a sprinkle of professional firms (law and consulting), schools, and trade associations. Interviews were augmented by e-mail dialogues and a discussion forum on theglobe.com.
- Over two dozen companies from three continents were examined in depth through multiple interviews and richly detailed case studies. These included Abuzz, AlliedSignal, Amazon.com (and partners), Arrow Electronics, barnesandnoble.com, Blackboard.com, Cisco Systems, CNBC.com/NBC, Digitas and clients (Bausch & Lomb), EarthWeb, eBay, Hewlett-Packard, Honeywell, IBM, iSteelAsia, iXL, Lucent Technologies, Mainspring, Razorfish, renren.com, Reuters, Sun Microsystems, Tesco, and Williams-Sonoma. IBM's Reinventing Education initiative and Bell Atlantic's partnership with a New Jersey school system were included to extend the research beyond business to public education. For several of the United States-based companies, we interviewed at international as well as American locations. (See Appendix A for company descriptions.)

The result of all this work is reflected in the lessons of this book. I show that the Internet and its associated network technologies play two primary roles. The World Wide Web is both the stimulus for a new organizational culture (making it necessary) and a facilitator of that same culture (making it possible). I call that new way of working e-culture. E-culture defines the human side of the global information era, the heart and soul of the New Economy. People and organizations everywhere must evolve to embrace this business culture of tomorrow—no matter where they are on the continuum of Internet use.

Taking full advantage of the potential of the Internet Age requires leaders to lead differently and people to work together in new configurations. Consider these truths of e-culture as the new truths for success in general:

- E-culture is about creative destruction. It means getting serious about continuous dramatic change, even if it destroys your own already-profitable business.
- E-culture is like living in a glass house under a huge spotlight that's always on, 24/7. Mistakes are immediately visible and magnified. And no one wants to hear excuses. They only want to hear about what's new, what's next.
- E-culture is superficial—in good ways. Communication is the core of e-culture. Internet time requires fast, cryptic communication among strangers who cannot take the time to interpret subtleties or build a deep relationship based on intimate knowledge.

- Done right, e-culture protects against armed combat. It fosters a spirit of cooperation because the network requires it, despite battles over screen space or brand image or merchandizing decisions. There is no time to fight it out, no time for thorough debate. People need to get on with it. They have to learn to collaborate.

- E-culture is made up as you go along. It involves emergent strategies, improvisation in response to opportunities.

- E-culture is full of paradoxes. The e-world is highly decentralized and hard to control, but it forces organizations to become more integrated—even centralized. New media rely on old media that they claim to displace to promote use of the new media. The value of unproven companies can increase with the rate at which they lose money.

- E-culture can be a lot of fun. Companies compete for talent by staging the goofiest games, sponsoring the most exotic trips, and stocking the most lavish snack bars.

The messages of this book derive from the deeper implications of those simple statements. *Evolve!* consists of insider stories and lessons about effectiveness drawn from organizations at all stages of Net change. It describes role models and best practices: how life is lived and work gets done in companies that lead the pack. It tells cautionary tales: why change is fumbled or resisted in those that lag behind. And it includes practical conclusions that readers can use to ensure personal and business success in their own ventures and workplaces. *Evolve!* explores the readiness of companies to embrace e-culture, the capability of leaders to lead within it, and the willingness of people to commit themselves to it.

The Way to Evolve!

It is common in the business world, and increasingly wherever busy people are found, to provide an executive summary at the beginning of documents. In this book, I am providing two. One of them is conventional—the verbal tour through the contents of the book that comes next. The other one is the result of the hours I spent in dotcom offices that had music on all the time—it's the song whose lyrics are found just before the table of contents.³ Take your pick.

Part One. Searching, Searching: The Challenge of Change

The three chapters in the first part of the book set forth a variety of challenges. First are the ways that the Internet affects all of us, like it or not. In chapter 1, I argue that e-culture derives from basic principles of community: shared identity, sharing of knowledge, and mutual contributions. Online, community is a metaphor. Offline, the spirit of community is required to implement the changes that the Internet makes possible—to give customers more choices, citizens more voice, educators more capacity to improve children's learning, and businesses greater market reach and internal efficiency. Understanding the dynamics of community is also required to respond to the changes the Internet forces on us—whether they work in your favor or represent communities of opposition and protest. The Web represents opportunity for some, an enormous threat for others.

To some people, it seems that only the young can master this new, bewildering environment. It is no accident that young people of the Net generation are disproportionately represented in dotcom companies. Are those youth and those companies pointing the way to the future? Dotcom culture is described in chapter 2, along with the reversal of generational roles when the younger mentor the older. There is a distinctive dotcom workplace style that my team found everywhere in the world. But that style by itself is not enough to create a viable business. In chapter 2 I introduce some young companies with the substance to succeed—that begin to reflect elements of a new culture. But it's not youth that leads the way, it is new ideas executed with discipline and traditional values.

New companies do have one advantage: the fresh start. Wannadots, in contrast, can be inhibited by their size and organizational legacy from incorporating the Internet successfully, as chapter 3 shows. They face numerous barriers to change, and they are tempted to let those barriers stop them. Some wannadots are laggards, moving slowly through predictable stages en route to the Web—denial, blame, and insignificant cosmetic change. Others, however, are pacesetters that exhibit organizational curiosity and the desire to innovate. These pacesetters share many e-culture characteristics; along with the best dotcoms, they serve as models for the future.

Part Two. In the Green: The Essence of E-Effectiveness

“In the green” means “all systems go,” and it also suggests financial viability. The four chapters in the second part of the book analyze the implications for business of the advent of the Internet and identify best practices in implementing e-culture principles. Each chapter covers one of the four big things companies—and organizations of all kinds—must do to achieve excellence:

- Treat strategy development as improvisational theater (chapter 4). When outcomes cannot be known in advance, the action itself creates the goal. Instead of following a script, e-savvy companies run an improvisational theater. A general theme is identified to get the actors started. Then the actors try out different scenarios, develop the story as they interact with each other, and create a different experience with each round. Because it is impossible to know which model, which standard, which concept will prevail, it is unwise to follow a script written in advance of the action; it is better to launch many small experiments and learn from the results of each—a hallmark of improvisation.

- Nurture networks of partners (chapter 5). In the Old Economy, partners were an afterthought or a relabeling of existing transactional relationships with a vow to treat each other better. The New Economy builds networks through multiple partners—important not only for online links among dotcoms but also for offline links among dotcom-enablers who need complex multilateral partnerships to build the technology for cyberspace.

- Reconstruct the organization as a community (chapter 6). The outlines of the “new organization model” are familiar: flatter hierarchies, more fluid boundaries, more team oriented, an emphasis on processes over structure. But often that model led to decentralization, one of the fashions of the late 1980s and 1990s, as the pendulum swung toward divisional and departmental autonomy. The Internet is a recentralizing force in that it makes more urgent the need to present one face to the customer, link separate systems for seamless integration, and meet the demand outside and inside the organization for full connectivity. But because of a legacy of decentralization, many of the battles inside wannadots (“dotcombat”) involve turf and territory. This chapter deals with two overlapping issues: (1) how to get best business proposition on the Web—the face to the

outside; and (2) how to work together differently because of networks in order to get the benefits of the technology and implement e-culture inside.

- Win the battle to attract and retain the best talent (chapter 7). Is commitment an outmoded concept in a world of mobility, or are there new ways to build bonds between people and organizations? In chapter 7 I describe culture-building at the workplace level—how to treat people as volunteers who renew their commitment periodically through the three Ms of mastery, membership, and meaning.

Part Three. Morphing: Leading Fundamental Change at Internet Speed

The final three chapters offer a practical guide to change—how to move fast to transform a whole organization, how to lead change, and how to cultivate the human skills required for an Internet-enabled world.

Let's say you like the idea of a new organizational culture but don't know how to get there—or that you're on the road and want to make sure you're headed in the right direction. Chapter 8 is a working chapter for people responsible for big changes, especially a major overhaul and comprehensive shift to e-business and e-culture. It focuses on overcoming the common barriers we have encountered throughout the book and successfully implementing systemic change. It shows how to ensure that the organization has been transformed to a new way of working that will permit continuing successful change. It addresses comprehensive change activities—not single projects, but building the entire organizational platform. A step-by-step practical roadmap is included.

Change is not a decision; it is a campaign. So chapter 9 is for leaders—appointed, elected, or self-appointed. The stars of this chapter are entrepreneurs and innovators of all stripes—in independent ventures or within already-established organizations—who have appeared earlier in this book as the forces behind successful e-ventures and change efforts. Change in the e-world involves mass mobilization, resembling a political campaign or community organizing. Change involves shaking up thinking (like shaking a kaleidoscope), communicating with internal and external audiences, staging pep rallies and other events, and building support within and outside the organization. This chapter pulls together leadership lessons about the skills required at every stage of a change process.

In chapter 10, I encourage all of us to stand back to put e-culture in perspective. What does all this mean for individuals and society? Are we on the verge of the next stage of social evolution—a great leap forward to shared consciousness? The advent of the Internet, if guided by leaders who understand its full potential and deeper implications, can help connect people in powerful ways that build human community. But there is also the danger that unless offline communities nurture social interaction, the Internet could become an isolating force, and children could grow up without the very skills that the Internet requires to run. The best online businesses have a community element; the best e-culture companies operate like communities internally and serve the external communities in which they live. Those individuals who will be most successful in the Internet Age will exemplify this possible evolutionary leap toward shared consciousness: They will be more collaborative systems thinkers, excellent communicators, and great members of improvisational theater troupes able to make quick adjustments as they interact with their multiple audiences of users and partners.

Overall, then, this book is about change—what to change and how to change. It is about a new culture, e-culture, that involves better ways of leading, organizing, working, and thinking. Through *Evolve!*, I hope to help readers prepare to evolve—to be leaders who can make the right decisions in an uncertain world and execute them quickly and effectively. This involves deep systemic change, not cosmetic change, and a deeper emphasis on human skills that build meaningful community out of mere connections.