Chapter XIV

The Impact of the Knowledge Economy on Leadership in Organisations

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ABSTRACT

The world economy is in transition. It is moving from the industrial age to a new set of rules — that of the “Information Society” or knowledge economy. This will change everybody’s work, affecting the flow of new ideas into enterprises, their management, organisation and procedures. These changes have major impacts on the roles leaders need to play, and on the skills they need. The focus of a leader has shifted towards more intangible issues, being a visionary, a storyteller and a change agent. Leaders need to change and to keep reinventing themselves, they have to be ready to adapt, to move, to forget yesterday, to forgive, and to structure new roles and new relationships for themselves, their teams and their ever-shifting portfolio of partners, and they need to have the capacity to employ more than one style of leadership. The chapter reviews the literature on the skills and abilities leaders need to be successful in the knowledge economy, and describes the way in which they need to manage their organisations by managing the organisation’s business model, creating a risk-encouraging culture and by playing different roles.

INTRODUCTION

You think the past five years were nuts? You ain’t seen nothin’ yet! It’s only going to get weirder, tougher and more turbulent. Which means that leadership will be more important than ever — and more confusing (Peters, 2001).

The world economy is in transition. The emerging new economy represents a tectonic upheaval in our commonwealth, a social shift that reorders our lives more than mere hardware or software ever can. It has its own distinct opportunities and its own new rules. Those who play by the new rules will prosper; those who ignore them will not (Kelly, 1998). In an increasingly competitive global economy — one that places a premium on innovation, flexibility and responsiveness — the focus of management’s efforts must shift from the more efficient management of tangible resources to the more effective utilization of a firm’s intellectual capital and human resources. To compete in the knowledge economy, organisations must increasingly rely on the knowledge, skills, experience and judgment of their people.

This knowledge economy is based on economic values different from those of the “traditional” economy, it has shifted towards intangibles and increasing value by incorporating knowledge into services and products. A greater proportion of economic output will be based on information and knowledge. A recent OECD study points out that “more than half of the total GDP in the rich economies is now knowledge based, including industries such as telecommunications, computers, software, pharmaceuticals, education and television. High-tech industries have nearly doubled their share of manufacturing output over the past two decades, to around 25 percent, and knowledge-intensive services are growing even faster. Knowledge workers…from brain surgeons to journalists…[now] account for eight out of 10 new jobs.”

The next major business transformation is represented by seven megatrends, all due to the new technologies; most of them already have become potent forces for business change. Taking advantage of these trends can offer great competitive advantage to organisations:

I. New information and communication technologies, coupled with the increased speed of scientific and technological advance, are forcing

Figure 1: The shift from industrial to knowledge-based economy

<table>
<thead>
<tr>
<th>Industrial Economy</th>
<th>Knowledge Economy</th>
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<tbody>
<tr>
<td>Wealth comes from leveraging machines, cash, raw materials—tangible assets.</td>
<td>Wealth comes from leveraging people, partners, suppliers, competitors and customer experience, know-how and knowledge—intangible assets.</td>
</tr>
</tbody>
</table>

Source: Auckland, 2000

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