

# Outlook

The journal of ideas that create the future

accenture

Special Edition: **The eSeries III**

## Governance at eSpeed

Effective decision making in the  
new economy

# Outlook

## Outlook

Special Edition

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# The Long View

## The new leader



**Joe W. Forehand**  
*Managing Partner & CEO*  
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Looking back 10 years, what it took to run a business seemed straightforward. Leaders planned ahead. We thought about ways to make our companies bigger and better, then put our long-term plans into action. We worked long hours, but usually we could shut off the lights and go home. And for the most part, business stayed in the office.

What a difference a few years can make. Now we conduct business around the globe at all hours. Urgent issues call for immediate action. Problems are solved overnight. Competitors become collaborators. Ideas breed fortunes. Markets merge. It's exhilarating and exhausting all at once.

To be a leader in the eEconomy, executives must make decisions faster—and they're tougher to make. For example, many successful leaders focus on technology-driven business strategies. Given the rate of technology change, executives must anticipate and address the business implications of technology before it reaches scale. And when it comes to strategy, executives must set a clear direction while preparing their companies both to respond effectively and to adjust when the market shifts. In other words, good planning now means improving as you go.

Job security for today's leaders is closely linked to business performance. As a result, we are seeing more hands-on executives interacting at all levels of their companies. They must develop plans that win quick approval from the board of directors yet are easily understood by the people who will implement them. When it's time for action,

executives must trust their management teams and empower others who can best deliver the desired results.

More than ever, leaders must communicate—and the quicker the pace of change, the stronger the need. A well-crafted plan goes nowhere if it's not communicated properly. A candid dialogue between employees and the executive team helps leaders clarify goals and build support. As leaders, we have a great challenge in equipping the people in our organizations to operate in an increasingly digital world. We must find talent and maximize the performance of the people we do have.

This issue of *Outlook* Special Edition explores leadership as one of three key aspects of effective governance in the new economy. One constant in this uncertain world is the tie between strong leadership and business success. As you read, I encourage you to think about how your organization can develop flexible, fast-thinking leaders who are eager to exploit new business opportunities.

Leadership used to be structural and hierarchical. Now it requires quick wits, quick decisions, judgment calls, guts and passion. It's dramatically different from what it was a decade ago, and it certainly can be intimidating. But given the power of the new economy and the potential to make an impact, it can also be a lot of fun.

A handwritten signature in black ink, appearing to read 'Joe Forehand', with a long horizontal flourish extending to the right.

# From the Editor's Desk

## Enduring values

"*Plus ça change*," the French have wisely noted, "*plus c'est la même chose*." It is an observation that executives, whether at dot-com startups or heritage companies, would do well to keep in mind these days as they navigate the new economy.

To be sure, the Internet has brought sweeping change to business. But as the authors of this Special Edition, the third in our eSeries, point out, one of the ironies of eCommerce is that "in a business environment where everything seems new, success can hinge on one of the oldest management building blocks: effective governance."

Four senior Accenture strategy professionals collaborated on "Governance at eSpeed," which is based on a six-month research project. It involved extensive interviews with executives at a dozen companies with eBusiness operations in global industries ranging from banking to pharmaceuticals. The objective was to identify the factors that create obstacles to achieving and sustaining early gains in the new economy.

This research came up with a long list of problems including setting priorities, roles and responsibilities, risk taking and approval processes. Yet it was clear that most were simply variations of the same bedrock issue: effective decision making and swift follow-through in the midst of constant market change. The key factor in determining success, in other words, is governance—or what the authors have termed *eGovernance*.

This important new work offers remarkable insight into the leadership challenges facing executives in the new economy. It also details practical solutions, grounded in entirely new governance models.

Perhaps not entirely new: With their emphasis on decisiveness, speed and flexibility, these models echo the same basic leadership traits that have been valued—in government, the military and business—throughout history.

As they say, "*Plus ça change . . .*"

David Cudaback  
Editor-in-Chief

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*"Governance at eSpeed" is the third in the Outlook Special Edition eSeries. The earlier editions in the series, "Endless shelf space," an examination of new eCommerce market mechanisms, and "The information edge," a study on how to get value from information in the new economy, are available electronically. Please visit the Outlook Article Index in the Ideas section of our website: [www.accenture.com](http://www.accenture.com).*

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# The eGovernance paradox

Success in eBusiness depends on embracing entirely new governance models—and the readiness to shed and reinvent them promptly in an environment of constant change.

Internet portal Yahoo! does a lot of deals—two to three a week, in fact, ranging from simple alliances to outright acquisitions. Completing each deal takes, on average, somewhere between 5 and 10 hours.

Can your company do that?

Charles Schwab needed just 14 months to become a formidable eBusiness player. In that time the company set up a separate line of business to explore Internet-based brokerage; established a fixed-price, online trading service; made up in volume what it was giving up with lower commissions; and integrated the new business into its heritage company.

Can your company do that?

**T**hese days even the best companies are finding it difficult to make—and then act on—tough decisions quickly and responsibly when presented with an eBusiness opportunity.

Many industry leaders have launched Web sites, but so far few have been able to fully exploit eCommerce. Other heritage companies, after fast starts, have encountered difficulties. Whirlpool, for example, recently acknowledged that its Brandwise.com eBusiness co-venture didn't work out.

Meanwhile, in the dot-com world, the list of names in the cyber graveyard is growing: RedRocket.com, Toysmart.com, CraftShop.com, Boo.com, Cybershop. As the CEO of a dead dot-com noted ruefully, "We all knew there'd be a shakeout. We just didn't think it would include us."

The culprit? Call it the "theory of decision-making relativity": The velocity of change in the new economy is so great that actions are distorted often. Nothing is quite the same in eBusiness, least of all decision making—it is faster and less conventional, and outcomes are more unpredictable and less permanent.

#### **Elusive reality**

In this environment, companies need leadership that will not only make the right strategic decisions but will also ensure that the company has the wherewithal to execute them swiftly. To do this, leaders must be certain that an appropriate organization structure is in place and that key processes are aligned properly to translate those decisions into results.

Although this sounds obvious, it is a reality that has eluded many executives operating in the new economy, both at heritage companies and at dot-coms. Ironically, in a business

environment where everything seems new, success can hinge on one of the oldest management building blocks: effective governance. Governance is about leading an organization—making the key decisions about direction, operating policies and funding. It is the responsibility of the most senior executives and the board of directors.

Accenture's research and work with company executives have uncovered a host of impediments to achieving and sustaining early eBusiness gains. Most of them can be overcome by effective decision making and follow-through.

For example, when asked to identify obstacles to eBusiness success, executives at most companies report some combination of the following:

The inability to give eBusiness initiatives the right priority among a maze of other change initiatives; the lack of clarity about roles and responsibilities surrounding eBusiness (particularly as they involve customer touch points), which acts as a brake on action; a lingering discomfort with the level of risk that comes with making decisions based on incomplete information or less-than-precise analyses; incentive plans that do not reflect the higher expectations prevailing in the new economy; approval processes that are too slow for identifying, selecting, funding and attacking eBusiness opportunities; and the lack of an infrastructure to support escalating eBusiness demands.

Some of these issues are about executive decisions and the level of commitment at the top. Others are about the organization's ability to deliver results. When an executive at a company with an established position in a traditional market makes a strategic decision, implementation usually can be safely delegated because the company's orga-

nization structure and operating processes have been designed to execute decisions around *current* products and services. That approach won't cut it in new economy.

In eBusiness, strategic executive decisions create new and often radically different products and services that are delivered through new channels. Decisions at this new "front end" cannot be sufficiently implemented by the old "back-end" organization structure and operating processes. To be successful, back-end business architecture must be reshaped or even reinvented to align with new front-end decisions about products and services. This alignment is as important as the decision to enter eCommerce and thus is part of what eGovernance involves today.

What is eGovernance? It is not the rigid, conservative decision making of industrial age boardrooms. Instead, it is characterized by responsiveness and flexibility, and by an ability to adapt, in a matter of days or weeks, to the ever-changing eBusiness environment. And it rests on three imperatives:

- Build a robust model that links strategy and implementation.
- Align the model with strategic intent.
- Adapt the model for each stage of the company's maturity.

The eGovernance message is simple: This stuff matters. The consequences of not taking the right actions at the right time can be significant—missed business opportunities, slow recognition of marketplace shifts, customer confusion and lost shareholder value. And although eGovernance issues are complex and easy to get wrong, success in the eEconomy depends on getting them right.

## About the research

For an emerging field like eGovernance, where there are relatively few case studies or precedents to draw on, research might be expected to err on the side of the theoretical. In fact, however, this study is based on the work of more than two dozen Accenture strategy professionals with eBusiness clients at 12 major multinational companies. The universe includes representatives from financial services, forest products, chemicals, pharmaceuticals, energy and other industries.

At the end of 1999 these professionals prepared reports on governance experiences at these companies, which were synthesized into a preliminary point of view. A smaller core team, or "master class," came together for a one-day meeting to

exchange and compare information about the critical eBusiness governance issues their clients were facing, the dimensions of the problems and the circumstances that would lead to various solutions. The group then identified the best practices needed for companies to develop eGovernance models most appropriate for their individual situations.

Follow-up interviews were later conducted at these and other companies; extensive academic research in the field of governance was done to gain a deeper understanding of the issues and to place eGovernance in the proper historical perspective. Finally, a peer review committee evaluated and further shaped the findings.



# Building a robust model

Effective eGovernance rests on three pillars: leadership, organization structure and process alignment. Without them, a company's business foundation is at risk.

In essence, governance in business is about decisions concerning critical elements of strategy and implementation. Effective eGovernance enables decision *making* as well as decision *follow-through* in the new economy. It requires an increased capacity to anticipate and effectively deal with the multiple consequences of a decision within the complex adaptive system of an eBusiness.

The first imperative of effective eGovernance is a robust model that links strategy and implementation.

Governance is made up of three elements: leadership, organization structure and process alignment (see box, page 10). Leadership provides clear and consistent direction, organization structure creates the infrastructure to support the implementation of decisions, and process alignment defines the activities that turn ideas into action. To be successful, an eGovernance model needs all three pillars firmly in place; without

them a company's business foundation is compromised and lopsided.

In the eEconomy, each of these governance pillars looks different from the corresponding component at traditional companies. Success is about speed, taking action in spite of ambiguous circumstances, and the flexibility to learn and grow as circumstances change. The time available to make adjustments in structure and process to meet the needs of changing eBusiness strategies has contracted dramatically. To ensure timely implementation, decision making must occur simultaneously at the strategic, organizational and operational levels of the business.

## Leadership

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### *The eBusiness executive*

Because of a growing recognition of the impact of eCommerce, the most successful corporate leaders are actively involved in eBusiness at their companies. The industry-lead-

ing companies we have studied consistently show the CEO driving the organization toward the eBusiness future. For example, Sir John Browne of BP Amoco simply declared eCommerce to be one of the primary planks of the company's strategy. Jack Welch at GE wrote shareholders that eBusiness initiatives have "changed the DNA of GE forever by energizing and revitalizing every corner of this company."

More important, these leaders moved beyond articulating a vision to supervising the creation of dedicated eBusiness initiatives within the company that are empowered to motivate and drive change.

With capital still relatively abundant and talent scarce, compensation rules and expectations are also changing. Large and small companies compete for the same talent and need to make increasingly attractive (and often creative) offers. One large financial services company developed a winning approach: The eBusiness employees are trained and paid differently than their employees in the heritage organization.

Senior executives at eBuilt, a custom eCommerce application supplier, developed another effective approach. They started an incentive program for technology team members, called eLabs, which encourages both employees and business partners to develop their own ideas—and even provides funding to spin off those ideas into new companies under the eBuilt umbrella.

Successful leaders have always needed to communicate complex strategies to other senior executives. This is even more true in the new economy. eBusiness leaders must hone their networking abilities and maintain strong business-unit and corporate relationships because they will be spending more of their time on activities aimed at persuading fellow executives (as well as employees) to embrace new, sometimes radically different strategies and initiatives. This skill is particularly critical where eBusiness success depends on support from divisions in the traditional business.

In the old economy, matrix reporting structures were installed in an attempt to foster cross-functional relationships without destroying tra-

## The pillars of eGovernance

A robust eGovernance model must have three primary components (see story):

**Leadership:** The roles, responsibilities and decision processes of senior executives and the board of directors that shape the organization's strategic vision, culture, goals, metrics and plans for action.

**Organization structure:** The organizational relationships that support decision making, foster appropriate culture and build essential skills so that the company can marshal resources effectively.

**Process alignment:** The alignment of operational processes on which the eBusiness depends but does not necessarily control; these processes may be part of the heritage organization or, especially in the case of dot-coms, outsourced to alliance partners.

ditional organizational forms, or “home bases.” The key to creating an effective matrix model is a clear understanding of why cross functions are important to home bases; a matrix reporting structure does not indicate which relationship is more important to the company.

Companies with a matrix history are best positioned in the new economy. There are two things they need to do to leverage the organization structure.

The first is to ensure that the eBusiness leader can network effectively across all divisions, explaining the potential value of eCommerce to each unit and identifying clearly which activities need to be coordinated across businesses and which can be left to the division’s business leader to decide. The second is to set up an “eCenter,” led by experienced managers, that helps focus and coordinate the enterprise’s eBusiness activities.

#### *The board of directors*

Leadership in the eEconomy can be enhanced significantly if it is provided not only by CEOs and other senior executives but also by the members of the board. In general, the basic responsibilities of a board of directors in the new economy remain unchanged: to represent the interests of the stakeholders by overseeing major strategic, financial and leadership decisions and to act as an advisory group to the CEO. Yet consider how differently each of these responsibilities is carried out today in eBusiness.

A traditional board works with a fairly stable “theory of the business” and with clearly articulated goals; a new economy board must work in a much more ambiguous environment, growing accustomed to general

direction-setting and a theory of the business that is often in flux. Major funding decisions for a traditional company often go through a full corporate-level review; a new economy board may find itself making many ad hoc funding decisions. In the old economy, boards operate under fairly consistent conditions of scarce capital but abundant personnel pools; eBusiness boards generally deal with precisely the opposite situation. A traditional board might live through perhaps one or two acquisitions or alliances; an eBusiness board may make decisions about these matters at every meeting.

Under these circumstances, to be of use to the CEO, traditional board members must be willing to become more deeply involved in the strategy and direction of the business well beyond what may be required at a company operating in a familiar, traditional business. The board must bring deeper expertise in venture capital and business startups, technology and alliances, and must actively pursue a portfolio of investments to spread risk in new ventures.

The board members must also make better use of their individual networking skills to stimulate strategic partnerships and actively oversee creative compensation and retention plans to attract top talent for both the eBusiness and the heritage business. Above all, the board must continuously assess its own effectiveness in meeting the needs of the enterprise, based on the organization’s stage of development and its strategic focus.

For heritage companies venturing into the new economy, boards often will benefit by appointing outside as well as inside directors with solid eBusiness track records. These board members can be organized into new committees for eBusiness or for managing eBus-

Leadership must move beyond articulating a vision to supervising the creation of a dedicated eBusiness within the company that is empowered to motivate and drive change.

iness portfolios; separate committees for incubating eVentures may be advisable as well. Deeper director involvement will require more frequent meetings and interaction.

In some cases, this kind of involvement may be less appropriate. For example, executives who manage large operations within global companies may find dealing with a hands-on board impractical. And the momentum that drives eCommerce often comes from strong regional or divisional leaders who have considerable autonomy. Typically they also have the trust and blessing—whether official or understood—of the CEO, which may lessen the need for input from the board.

Nevertheless, three things must be borne in mind. First, regional or divisional leaders would do well to familiarize themselves with the three pillars of eGovernance to ensure that the decisions made can be executed. Second, these executives may want to create an advisory group, a sort of “shadow board” that can provide the expertise, contacts and support that the best board would bring. Finally, they should anticipate when the eBusiness needs will go beyond their areas of control, and start building awareness throughout the organization so that they will be able to move quickly at the appropriate time to garner the wider support.

### **Organization structure**

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Although “boxes and lines” should not be the focal point of eGovernance, organization and strategy need to be aligned if target results are to be achieved.

In the new economy, the primary issue in organization design is how best to handle a heritage organization’s move into eBusiness. Should

the company establish a separate line of business to pursue the new strategic intent? Spin off the entity? Build a portfolio of eBusiness investments? Maintain both the eBusiness and the heritage business? These are all options to consider in light of company strategies, current capabilities and the competitive marketplace (see box, pages 14-15).

The separate line-of-business model is a popular starting point for many heritage companies entering eCommerce. Schwab started this way, and the eBusinesses at both Wells Fargo and Citigroup currently are organized in this fashion. One of the advantages of both the line-of-business and spin-off models is that they allow executives to focus solely on eBusiness needs, make quick decisions and woo top talent, both inside and outside the enterprise. However, making eBusinesses separate can also generate internal conflict and external confusion.

Executives from the heritage organization will most likely be reluctant to give up control of the powerful growth area represented by the stand-alone eBusiness. Also, customer service may suffer as customers encounter inconsistent messages and multiple contact points. Important eGovernance issues to be resolved here include the eBusiness’s relationship to the heritage organization, the transfer of new-economy capabilities to the heritage organization and the need for independence in the spin-off organization.

Establishing an eBusiness incubator is another popular organizational option. Here responsibility lies with a portfolio manager who manages a collection of eBusiness investments that may take the form of strategic alliances, partnerships or supplier relationships. Incubators enable companies to develop innovative eBusiness ideas while insulating them

from potentially disruptive conflict with the heritage organization. A number of industry leaders, including UPS and Monsanto, recently have announced the creation of incubators, partnerships or portfolios for developing such Internet businesses.

The liability of the incubator model is that like the pure spin-off, it does not build eBusiness capabilities in the heritage organization, and it may induce “startup envy” among those not involved. The eGovernance issues that must be addressed under this model include investment decisions and accountability, fostering innovation and management complexity.

A company wishing to integrate its heritage organization with the new eBusiness unit has several options. First, it can make each existing line of business responsible for eBusiness in its area; Wells Fargo’s eBusiness started this way and then evolved into a separate line-of-business model to secure greater focus and consistent customer experience.

A variation would be to maintain individual line-of-business responsibility but have one executive oversee all eBusiness activities. This eCommerce model has been adopted by a number of financial services, pharmaceuticals and insurance companies as they got their arms around opportunities in the new economy. The governance issues in this model include maintaining speed, focus and priority for the eBusiness; making sure the impact of eBusiness initiatives is strategically relevant; and being wary of consensus decisions that may dilute intended results.

A widely used integrated model is the so-called eCenter, in which the responsibility for developing and delivering eBusiness capabilities is

concentrated in one place. This model offers several significant advantages. By housing scarce eBusiness skills in one unit, those skills can be leveraged effectively across all of the company's lines of business, which can, in turn, be made individually responsible for exploiting market opportunities. Product launch, implementation and market placement can be sped up significantly when all important decisions about technical standards and brand management are made in the same place.

An eCenter also provides a mechanism for reengineering heritage processes to create eBusiness capabilities. It can also serve as a kind of in-house proving ground for learning about eBusiness and continuously refining strategy. Dow Chemical has used this model successfully.

The big risk with this approach is that the unit eventually will assume a utility function and have little power to set direction or policy or to effectively prioritize requests for support from the business units. Strong leadership within the unit that is respected by the lines of business—with a clear mandate and performance measures to match—goes far toward mitigating this risk.

Note that these organization structures are not mutually exclusive. Many companies adopt variations and combinations to pursue different strategies simultaneously. For example, at the same time that some companies create eCenters to support the development of Web-based capabilities across business units, they also create incubators, eBusiness portfolios and potential dot-com spin-offs. Bank One, for example, created a spin-off named WingspanBank.com, one of the first Internet banks, while continuing to foster Bankone.com,

the Internet business inside the traditional bank.

### Process alignment

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The alignment of key processes—including finance, technology and marketing—is a challenge for both heritage companies moving into eCommerce and dot-com pure plays. For the heritage company, process alignment concerns the critical links between the core processes of the organization and those of the eBusiness; for the dot-com pure play, it concerns the links between core processes outsourced and those handled in-house. In either case, lack of alignment spells trouble in product and/or service delivery.

For the heritage organization, eBusiness provides the means to offer the customer new and distinct value: faster access to company products and services, and real-time information and transactions. For all eBusiness organization structures except the spin-off, this value must be delivered by a combination of eBusiness processes and heritage processes.

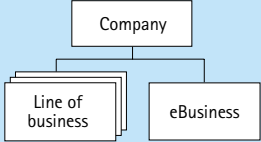
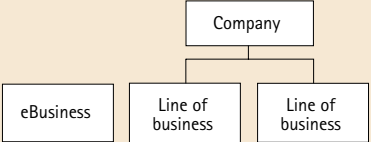
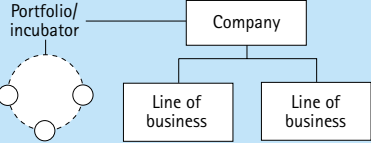
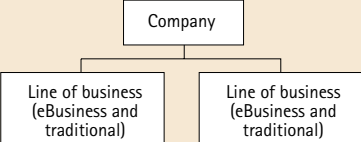
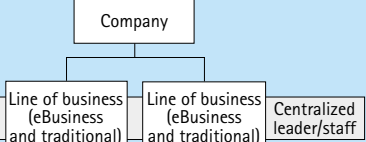
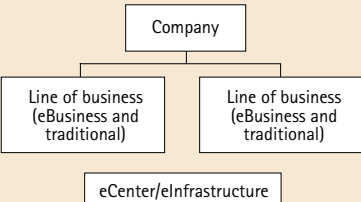
Take the case of a financial services company offering online application for credit cards, with real-time approval and enrollment. It takes, say, seven business days for the heritage organization to process such an application. To meet customer expectations for real-time service on the Internet, that same organization might need to process that application—including authentication, credit assessment, enrollment and card issuance—in, say, seven *seconds*.

The dramatic contraction of the time it takes to complete transactions creates “back pressure” on the heritage processes. If the eBusiness is to be allowed to ful-

Many companies adopt a number of organization structures to pursue different strategies simultaneously.

## Boxes and lines

An aligned organization is essential to effective eGovernance. Different organization models bring certain advantages . . .

Organization structure	Advantages
<p><b>Separate line of business model</b></p> 	<ul style="list-style-type: none"> <li>• Executives focus solely on needs of unique market</li> <li>• Permits quick decisions</li> <li>• Easier to attract top talent from outside</li> </ul>
<p><b>Spin-off</b></p> 	<ul style="list-style-type: none"> <li>• Highly focused on eBusiness</li> <li>• Frees eBusiness from heritage bureaucracy</li> <li>• Attracts top talent</li> <li>• Streamlined decision-making structures; small, flat organization</li> <li>• Market evaluates entity as independent organization</li> </ul>
<p><b>Portfolio/incubator</b></p> 	<ul style="list-style-type: none"> <li>• Enables multiple investments in eBusinesses that are synergistic with core business</li> <li>• Allows experimentation with innovative eBusiness ideas without disrupting heritage company</li> </ul>
<p><b>Integrated model</b></p> 	<ul style="list-style-type: none"> <li>• Simple, noncontroversial to implement</li> <li>• Does not disrupt existing leadership positions</li> <li>• Avoids channel conflict</li> <li>• Presents consistent face to customer</li> </ul>
<p><b>Integrated with centralized leader</b></p> 	<ul style="list-style-type: none"> <li>• Easy to implement</li> <li>• Does not disrupt existing leadership positions</li> <li>• Avoids channel conflict</li> <li>• Presents consistent face to customer</li> <li>• Can provide appropriate context for strategy development</li> </ul>
<p><b>Shared services/eCenter</b></p> 	<ul style="list-style-type: none"> <li>• Concentrates scarce eBusiness skills to be leveraged across all lines of business</li> <li>• Creates place to make important decisions about technical standards, brand-management policies that speed decision making at line-of-business level</li> <li>• Creates mechanism for reengineering heritage processes required to create eBusiness skills</li> <li>• Creates focus for learning about eBusiness</li> <li>• Provides focus for continuous strategy development</li> </ul>

... and corresponding liabilities.

#### Liabilities

- Channel conflict: Existing line-of-business executives may resist growth area that will cannibalize their business
  - Customer usually shared, creating threat of inconsistent messages, multiple contact points
  - Difficult to attract top talent from inside
- Does not build eBusiness capabilities in heritage organization
  - Heritage management may be unwilling to let eBusiness operate independently
  - Cannot leverage assets, customer relationships, goodwill of heritage company
- Does not build eBusiness capabilities in heritage organization
  - May create "startup envy" among heritage employees outside the eBusiness organization
  - Portfolio of investments and alliances can be complex to manage
- Relatively unfocused
  - Executives may concentrate too much on needs of existing business
  - Executives may not have required eBusiness skills or experience
  - Decision making tailored to existing business likely to be too slow for eEconomy
- Relatively unfocused
  - Executives may concentrate too much on needs of existing business
  - Provides company with false sense of progress in eBusiness
  - Centralized leader may have responsibility without authority
  - Decision making tailored to existing business likely to be too slow for eEconomy
- Unit can become powerless utility function
  - Difficult to effectively prioritize requests for support
  - Policy, standards, decisions may take too long to be relevant in eBusiness

fill its potential, these pressures must be identified and dealt with through selective and targeted process reengineering in the heritage organization.

The need for the wholesale reengineering of technology infrastructure has led many heritage companies initially to offer information-only or application-only services on their Web sites, with resulting transactions completed in the traditional manner. Even in these circumstances, executives must anticipate back pressure on the heritage processes and must come up with ways to handle it.

#### Interdependence

In the rush into eBusiness, the failure to recognize and manage this process interdependence risks the creation of a suboptimal business model that cannot execute well—or sometimes at all. The solution is to create two value chains—one for the eBusiness and one for the heritage business—and to identify the needs of the eBusiness along the value chain together with the points of interdependence with the heritage processes.

Executives must then anticipate and effect changes in those heritage processes that will make the eBusiness work. This exercise creates a potentially valuable opportunity to analyze the impact of eBusiness on existing processes, structures and relationships so that senior executives will understand not only *what* needs to change for the eBusiness to be successful but also *who* needs to be involved and *how* to make those changes happen.

This approach is being implemented successfully at a leading global healthcare organization. The executives responsible for all areas of the heritage company affected by the new eBusiness initiatives not only

## The ability to identify and manage alliances is considered a core competence for dot-coms.

are members of an eBusiness steering committee that reports directly to the CEO but also hold specific responsibilities for implementing critical aspects of the eBusiness strategy that fall within their areas of control.

Technology infrastructure and process are the most challenging to align. Many heritage companies have established separate Internet technology groups in an effort to jump-start their eBusiness initiatives. How should these new groups relate to the existing IT unit? Inevitably, egos clash and turf wars develop. Even when things run smoothly, the members of an eBusiness group may have a new application ready for the marketplace, only to find that when it comes to aligning the back end of that application with the rest of the organization, they have to take their place in the long queue at the IT department.

Dow Chemical has successfully addressed the technology-process challenges by integrating its eBusiness with the technology organization. While this may not work for every company, at Dow the eBusiness group is a revenue-producing center that is run by the CIO. As both CIO and vice president for electronic business and commerce at Dow, and with a direct reporting relationship to the company's CEO, David Kepler is in charge of the launching and integration of new eBusiness platforms and the development of new IT capabilities. One of the things that makes this strategy work is that the CIO has credibility not only from a technology standpoint but from a business one as well.

### **Unforeseen stress**

The critical point to remember about process alignment is that eBusiness decisions are going to create unforeseen stresses in your organization's

culture and current ways of operating. Many companies are not well equipped to handle these stresses at the appropriate level. The process-alignment discussion and work could (and in many instances do) take place at the operations level. Responsibility for process change trickles down to operations from the executive level, where strategic and directional decisions are made.

It is Accenture's experience in the eBusiness world that this trickle-down process is too slow and too uncertain. Changes in time-worn business processes do not happen in the absence of clear direction, incentives and decision making at the appropriate level.

Therefore, eGovernance must anticipate these stresses and be attentive (beyond the banal instruction, "And don't forget processes!") to what should be done to relieve them. Where there are stresses, eGovernance must also determine who needs to have the authority and incentive to understand them and make necessary changes within the heritage organization.

During our research, we encountered one industrial company that is exemplary in this regard, combining strong leadership with an effective organization structure. Its decentralized business units could have been a hindrance. Instead, this structure made communication and collaboration imperative to meeting the requirements of eCommerce across business units and delivering the benefits of shared eCommerce services and actions at the group level.

As a consequence, the company not only understands the process implications of various eBusiness decisions but also has been able to put in place the incentives and authority to make those process alignments happen.

## When two boards are better than one

Ideally, the board of directors of any company should be a source of competitive advantage. But to achieve this in the dot-com world, where the name of the game is change, the board's role must evolve continuously as the eBusiness moves through its life cycle, from launch to growth to maturity (see story).

In the new economy, a productive board, whether at a heritage company or a new eBusiness, will have two characteristics: It will be involved and active, and it will have skills that are synergistic with the needs of the business at any particular time.

This latter point calls for an entirely new way of looking at the role and function of a board. In an eBusiness, parties must plan for change at the board level. They must be very clear about which of the company's needs the board is intended to fill, based on the company's stage of development at that particular point in time.

By making clear to everyone the need for board transformation as the business grows, a company is freed from having to subscribe to rigid formulas to balance inside and outside directors as well as fees and stock options for compensation.

In the course of our research, we observed two particularly creative (though different) approaches to structuring alternative boards. In both cases, the companies looked beyond their existing boards of directors for input.

As they developed their eBusiness strategy, executives at Dow Chemical realized fairly early that they needed to do more than just use eCommerce capabilities to improve their existing flow of business. They wanted to launch new businesses as well.

To develop ideas for revenue growth, Dow's CIO and vice president for electronic business and commerce, David Kepler, works with the company's New Business Growth Board, a group of high-level executives charged with driving Dow's strategic growth efforts. Together they provide a mechanism to directly influence the development of the company's new eBusiness concepts.

Another global industrial company convenes regular meetings that bring together company executives, industry and technology gurus, and academics to discuss and debate possible scenarios for the future. Executive leadership of the company has for many years nurtured relationships with technology and business luminaries. Drawing on these and similar relationships, the company has established technology advisory panels made up of external experts and business leaders.

As these examples demonstrate, a company can, in effect, have it both ways when it comes to boards of directors. These leading companies are able to preserve the stability and influence provided by their traditional boards—which are content to walk the path of slightly slower evolution—while simultaneously using alternative board structures that give them the transformational capabilities they require.

The same issue of interdependence exists for dot-coms that use alliances to quickly acquire capabilities. Most pure plays use alliances to develop capabilities in finance, marketing, technology, customer service and fulfillment. Indeed, the ability to identify and manage alliances is considered a core competence for dot-coms speeding value to market. Changes in a dot-com's strategy or scale must be matched by appropriate responses in the alliance organizations. Dot-com leaders must anticipate the pressures that changes in their strategy or process will put on their partners and be sure that those partners have the time and wherewithal to respond.

When the first requirement for effective eGovernance—to create a robust model—is fulfilled, all three pillars of eGovernance are integrated. Strong leadership provides clear and consistent direction, and it establishes organization structure and reporting relationships that, in turn, ensure better-aligned processes that productively manage the back pressure of the eBusiness on the heritage organization or on alliance partners.



# Aligning strategy and governance

This alignment must be achieved quickly in eBusiness and adjusted often—because in the new economy, today's strategy may not be tomorrow's strategy.

**A**t all times and in all industries, strategy and governance must be aligned. However, because the eEconomy is evolving so rapidly, this alignment must be achieved much more quickly, and the issues of direction and implementation must be addressed concurrently, to achieve a competitive speed to market.

Most important, and most challenging to traditional modes of business thinking, eGovernance models are by necessity temporary. As a company learns more about eBusiness and adjusts its strategy accordingly, adjustments in its governance model must follow—quickly.

The ability to set a winning strategic direction for eBusiness is not going to spring suddenly from the capabilities of a heritage company that was unable to set strategic direction effectively in the pre-Internet world. Creating a strategic focus for eBusiness requires a clear strategic focus for the business as a whole. In addition,

the company must fully comprehend the potential of eCommerce and must be courageous and sufficiently open to entertain the idea of fundamentally new business models.

Rarely are all these conditions present. This can be paralyzing for large companies with established processes for strategic and financial planning that attempt to minimize uncertainty by gathering and analyzing empirical data. On the other hand, working with an eGovernance model that is robust yet flexible can energize a company and make the difficult transition to eBusiness successful.

Remember: In eBusiness, today's strategy may not be tomorrow's strategy—and that's fine. The eGovernance model needs to reflect this reality and enable the company to move forward. This is true both for heritage companies entering eBusiness and for dot-com pure plays. The advantage that a pure play has is that it is newer, small-

## The challenge to become and to remain flexible is far greater for the heritage company than for the dot-com.

er and thus inherently more flexible. The challenge to become and to remain flexible is far greater for the heritage company.

Although the following discussion of strategic intent is aimed primarily at heritage companies, the dot-com pure play should think about how to maintain flexibility as strategic intent evolves to meet changing business needs.

In general, eBusiness strategies in heritage companies have one of four focuses. The strategic focus of a company will, in turn, have important implications for its eGovernance model (see table, page 22).

### *Establish an eBusiness presence*

With this strategic focus the goal is to protect the current franchise by creating the Web-based capabilities required to remain competitive. This typically entails giving customers access to information about the existing menu of products and services through an Internet channel. One large insurance company Accenture has worked with, for example, is expanding customer access to its products and services by simultaneously developing a Web site and a call center.

This approach has the dual benefit of giving the company an immediate foothold in eCommerce by letting customers interact with it through the new Internet channel and at the same time building fundamental capabilities that will be required as the company moves forward to pursue a broader Internet strategy. Although this option involves little risk and requires little change, the potential for creating significant new value is also low.

### *Enable the value chain for eBusiness*

Here the strategic goal is to capture value by using the Internet to auto-

mate the current business model, primarily to reduce costs and increase revenue but also to extend and deepen customer relationships. Automation can be in-house or outsourced.

One healthcare organization established an alliance with an Internet-based intermediary to reduce the complexity and costs of serving small businesses. These cost reductions are passed on to its customers, creating a significant competitive advantage. Thus, the company leverages Internet-based efficiency gains into lower prices that expand its customer base and yield higher revenue.

In both of these strategic categories, companies are concerned primarily with performing traditional functions differently rather than with performing radically new functions. Nevertheless, both strategies have important implications for each pillar of the eGovernance model.

Because eBusiness will be dependent on the existing lines of business—and also may be perceived to be competitive with them—leadership and decision-making processes must firmly support eBusiness. In these cases, an integrated approach to organization structure makes sense. Existing lines of business—with established customers, products and services—benefit from new channels for access and delivery. Therefore, eBusiness is integrated into the existing lines of business.

How and to what extent eBusiness is integrated can vary depending on the heritage organization's culture, structure and capabilities. Customer-facing responsibilities often remains with the existing lines of business, while an eCenter or a shared services organization assumes responsibility for develop-

ing and delivering other capabilities, including back-office processes.

An eCenter has the advantage of providing clear focus on eBusiness and the efficient leveraging of scarce skills. To be successful, leadership of the heritage organization and its various lines of business must be committed to eBusiness, the head of the eCenter must be empowered to make hard decisions concerning standards and development priorities, and the eCenter must be structured so that it is taken seriously by the other parts of the organization.

For the eBusiness to be successful in these strategic categories, it is critical that leaders accurately anticipate the back pressure on existing processes and structures and understand the scope of change required throughout the organization.

For example, one insurance company planned for the eBusiness enablement of core operations such as policy application, enrollment and renewal, and claims information. This will require changing the core processes within the heritage organization. At a minimum, the Web channel will have to be linked to the appropriate underlying processes that provide the relevant operational information. If the eBusiness is intended to provide more than simply another channel and is expected to deliver additional value, these underlying processes will have to be accelerated considerably or new ones will need to be developed.

While the first two categories of strategic focus are about doing traditional things differently, the next two are concerned with doing entirely different things.

*Reinvent the business for the eEconomy*  
A strategy of reinventing the current business model and finding new

sources of value creation is made possible by using the Internet to develop and deliver new products to existing customers as well as to new ones. Current products and services may or may not be phased out, but the focus is on the bundling of products and services that is made possible by the Internet.

One manufacturing company recently identified 10 potential Web-enabled businesses that would leverage its competencies in ways not previously possible. These businesses could someday produce revenues greater than those of the company's traditional manufacturing base.

Although the potential upside for this strategy is huge, it is also the most threatening to the existing organization because it leverages existing customer relationships with new, alternative products.

#### *Create a new eBusiness*

With this strategic focus, a company can explore the potential of new products and services, tap into new customer groups and adopt totally different business models relatively unencumbered by the existing organization.

The issue here—at least for heritage companies—remains whether to spin off these new eBusinesses or roll them back in. For the time being, most companies simply are keeping their options open. One large entertainment company, for example, while not abandoning the integrated approach, is using new Web-based businesses, created through alliances, to explore the potential of eBusiness.

Reinventing a traditional business and creating a new eBusiness also have distinct implications for each pillar of eGovernance. The reinvention strategy requires strong leadership with experience in the eEconomy, a charac-

teristic that is hard to come by in this relatively new world. Performance measures must be crystal clear, with full agreement among the eBusiness leadership, the heritage organization's executive leadership and the board. Finally, an explicit process must be defined for identifying and addressing issues concerning the focus and execution of the eBusiness so that the eGovernance model can change as the company adjusts its strategy.

From an organization-structure perspective, companies that decide to create a new eBusiness have a number of options, including setting up a separate line of business or an actual spin-off, or taking the portfolio/incubator approach.

Setting up a separate line of business often is a transitional strategy. Provided it can manage conflict and get the resources it needs, the new line of business can act faster and focus exclusively on the new product and service bundles. But a separate line of business still is an integrated part of the heritage organization and therefore tends not to be able to move as quickly as a fully separate spin-off.

To be successful, a newly created eBusiness requires governance that assures it full independence, a situation that is often difficult to implement. Therefore, this approach is often executed through a new, fully separate entity.

The greatest liability of this stand-alone strategy is that it will not help create needed eBusiness skills in the broader organization, and cannot fully leverage the assets and capabilities of the traditional business. These are increasingly important considerations given Internet stocks' proclivity for periodic "correction."

The IPO possibilities of a separate eBusiness entity will remain attrac-

## Strategic flexibility

As a company learns more about eBusiness and adjusts its strategy accordingly, it must also change its governance model.

		eGovernance pillar		
		Leadership	Organization structure	Process alignment
eBusiness strategic focus	<p><i>Establish an eBusiness presence:</i> Focus on channel and market strategies</p>	<ul style="list-style-type: none"> <li>Led by functional executive, with strong decision-making body to drive eBusiness strategy and execution</li> <li>Performance metrics to give incentive to line-of-business heads to nurture Web channel along with traditional business</li> </ul>	<ul style="list-style-type: none"> <li>Integrated model with or without central leader</li> <li>Shared services/eCenters for support</li> </ul>	<ul style="list-style-type: none"> <li>Identify intersections between eChannel and heritage organization</li> <li>Reengineer target heritage processes to deliver new capabilities</li> <li>Develop value chain that integrates eChannel</li> </ul>
	<p><i>Enable the value chain for eBusiness:</i> Focus on efficiency and effectiveness of internal and external processes</p>	<ul style="list-style-type: none"> <li>Led by functional executive or CEO, with eBusiness decision-making body composed of all lines of business</li> <li>Performance metrics for efficiency, effectiveness of operations and customer relationships; cascade metrics into all lines of business</li> </ul>	<ul style="list-style-type: none"> <li>Integrated model, usually with strong eBusiness leader</li> <li>Shared services/eCenters for support</li> </ul>	<ul style="list-style-type: none"> <li>Identify heritage processes upon which new eBusiness initiatives are dependent</li> <li>Adjust incentives to reflect leverage points for reducing cost and improving relationships</li> <li>Define and implement new value chain for business</li> </ul>
	<p><i>Reinvent the business for the eEconomy:</i> Focus on new market, product/service and revenue strategies</p>	<ul style="list-style-type: none"> <li>Led by CEO, with eBusiness decision-making body composed of all lines of business and support functions</li> <li>Performance metrics for eBusiness value creation and shareholder return; cascade metrics into all lines of business</li> </ul>	<ul style="list-style-type: none"> <li>Separate line of business to get eBusiness traction; reintegration planned for future; agile organization can use integrated model to drive change</li> <li>Support structures take on role of change agents</li> </ul>	<ul style="list-style-type: none"> <li>Identify heritage processes upon which new eBusiness initiatives are dependent</li> <li>Develop processes to operate across eBusiness and heritage intersections</li> <li>Migrate to new value chain for reinvented business</li> </ul>
	<p><i>Create a new eBusiness:</i> Focus on speed to market of new products and services</p>	<ul style="list-style-type: none"> <li>Led by new entrepreneurial leadership, with board-level decision making regarding spin-off or roll-in of new ventures, funding and ownership structures</li> <li>Performance metrics for success of new eBusiness, changing from rapid growth to profitability over time</li> </ul>	<ul style="list-style-type: none"> <li>Separate entity/spin-off, portfolio or incubator</li> </ul>	<ul style="list-style-type: none"> <li>Identify portfolio-management, venture-launch, and program-management processes needed to incubate, manage or spin off new ventures</li> <li>Minimal process changes in heritage organization</li> </ul>

tive in some instances. But it will increasingly be the eBusiness-development capability of the new entity that shareholders will value, in whatever organizational form it takes.

Process alignment, the third component of eGovernance, is much easier to manage in the stand-alone option. When the eBusiness is fully separate from the heritage organization, process integration is not an issue. Instead, the issue becomes one of process building or acquisition.

Executives must also be aware that different parts of a company may have different governance needs. Indeed, a large organization with multiple divisions may require multiple, concurrent forms of eGovernance.

Dow Chemical, for example, currently has two primary strategic focuses for eCommerce. One is to increase the efficiency of its value chain through practices such as eProcurement. The other is to build new eBusinesses through an aggressive strategy that includes developing low-cost alternative channels for existing operations as well as creating new solutions-oriented ventures.

Dow CIO Kepler has played a key role. Although he initially was responsible for a number of eCommerce projects, it became clear that the early impact of eCommerce would be on Dow's channels to market. Kepler, along with Dow's business leadership, quickly realized that having multiple but separate eBusiness efforts was not going to be effective. Dow is currently in the process of building a core organization to help the businesses integrate eStrategies into their planning and present a common face to the customer.

Dow has been willing to try different organization structures and

reporting relationships in an effort to see what works best. This flexible approach to eGovernance—the willingness to adjust the model as the company's strategic focus evolves—keeps Dow moving forward successfully with eBusiness.

The governance aspects of the four strategic options cited above are not intended to constitute hard-and-fast requirements. Each company is unique, and hybrid strategies often must be developed. It is particularly important to consider the organization's ability to change. Good insight into these capabilities can be gleaned by looking back at any major transformation the company has undertaken and understanding what went well and not so well.

Senior executives can also learn from the examples of other companies that have been able to morph from one organization structure to another to support evolving eBusiness strategies. Both Compaq and Bank One, for example, began by focusing on separate lines of business but later shifted to spin-offs; Charles Schwab went the other way, starting with a separate line of business and reintegrating the eBusiness back into the heritage company. Procter & Gamble's eBusiness spin-off focus evolved from an integrated approach.

DHL Airways has reinvented itself as a network of separate firms with overlapping ownership. Teams manage numerous Internet initiatives, with an emphasis on flexibility, coming together for one initiative and then reconvening for the next. Company leadership ensures that there are as few layers as possible between the CEO and the employees using the Internet to deliver logistics services.

These and many other companies have followed the second eGovernance

imperative: They have been able to begin with one strategy and its corresponding governance model, gain experience in the market, and then change the strategy and corresponding governance model to align with new information and new requirements.



# Ensuring flexibility for an evolving eBusiness

The eGovernance model must meet the needs of the enterprise as it proceeds along its maturity curve—which is easier said than done.

**F**or an eBusiness, the ability to change is itself a best practice. In terms of eGovernance, this means that executives need to consider not only what model is appropriate for today but also how to build adaptability into that model so that it can evolve along with the company and meet new marketplace challenges.

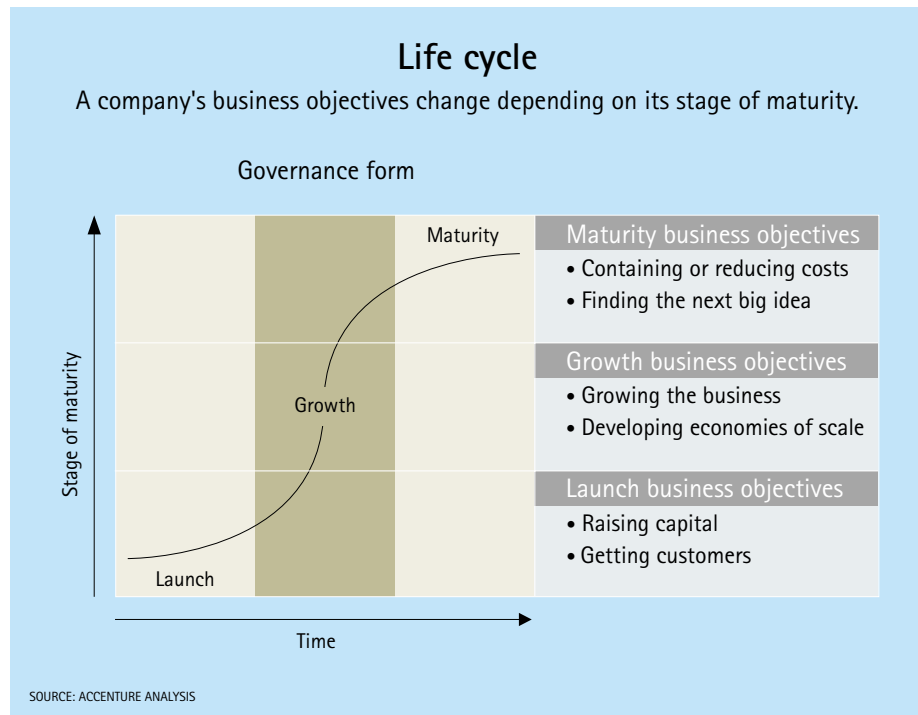
The change in a company's governance model typically tracks its life-cycle maturity curve (see figure, page 26). Each of the three primary phases of the curve—launch, growth and maturity—has a different business objective with a corresponding eGovernance form: emerging (launch phase), scaling up (growth phase) and structured (maturity phase).

The correct eGovernance model responds to the needs of the enterprise as it proceeds along the maturity curve. Sounds straightforward enough in theory; in practice it is far more complicated.

For example, a dot-com pure play evolves along its own maturity curve but interacts with alliance partners that may be at different stages of maturity. It may enter a phase when a merger or acquisition brings it under the wing of a traditional company, in which case its culture and structures will almost certainly collide with a completely different governance model.

Or a heritage company may have an eBusiness venture or spin-off that is evolving as a dot-com, while the company itself is continuing its evolution along the traditional life cycle. It must seek an eGovernance model appropriate to its online presence, while simultaneously maintaining a form of governance that works effectively for the organization as a whole.

In a more complicated variation, the heritage organization might need to govern itself, its own online presence and an eBusiness spin-off—which



would require three different governance models.

### Governance models for evolving dot-coms

Not every recent dot-com failure is traceable to governance failures. Nevertheless, it is vital for Internet startups to pay attention to the changing governance needs of their companies as they move through time.

#### *Launch phase*

Business needs here revolve around raising money and building a sustainable market presence and brand. Management talent is scarce, and senior executives must prioritize and balance critical tasks.

The decision-making and leadership challenges are significant. The board of directors must take a very active role, complementing and filling gaps in the executive management team. This board is likely to be heavy on venture capitalists who can keep the flow of cash going;

the executive team typically focuses on the market and on the product or service.

The company may well outsource important operational functions, such as human resources, accounting and payroll, procurement, even technology, to maximize speed to market. The organization is probably flat and functional; a small number of executives are responsible primarily for one important function each but in effect wear several hats.

The implications for process alignment relate to the number and kind of outsourced processes. Alliance partners may manage a number of critical functions—in essence, keeping the business running. These partners must be integrated into the management team to ensure they have the appropriate focus and commitment as well as the ability to make changes that the company will need as it matures. Alliance partners must scale with the business and adjust what they do as fast as the client organization.

### *Growth phase*

By now the business has established a market presence and is growing rapidly. In this phase, the concerns of the business are about “keeping the wheels on”—retaining satisfied customers by making sure that the underlying processes do not buckle under the weight of increased volume; recruiting and retaining appropriately skilled personnel; staying competitive in a maturing marketplace; and converting revenues to profits.

The composition of the board during this phase should include leaders with experience in efficient business management (for example, process excellence) and in reengineering. In addition, the focus on alliance evaluation, management and change require board expertise in these areas and a board committee focused on them.

Ideally, the board should change in composition rather than grow significantly in number; perhaps one venture capitalist will leave in favor of a new board member with process-management experience or one with alliance expertise. Maintaining the advantage of an active, engaged board of directors is an important focus in this stage.

Volume brings complexity as well as prosperity. This will stimulate the recruitment of senior executives with more specialized skills and a resultant growth in the executive management team.

A CEO who has also managed finance and HR will hire a CFO and head of human resources, especially in companies where recruiting and retaining skilled personnel is a major focus; as the company grows, it may become necessary to hire a COO. In addition, functions that have been

outsourced in the startup phase may be brought in-house to increase focus and flexibility.

As the market expands and the organization grows, its portfolio of products may expand as well. Single-product, single-segment companies may create new products to meet customer demand. This is an appropriate time for the organization to shift from a functional focus to a customer focus and to create a shared services organization to build and manage infrastructure processes.

Alliances will change as now-critical processes such as human resources and finance are formalized and brought in-house. Again, there will be an increased need for process efficiency and operational excellence to ensure that hard-won customers and investors are satisfied and want to stay with the business.

The process-alignment issues here revolve around alliance partners keeping pace with the business. To ensure this, management will need to integrate critical alliance partners into the management team, include alliance staff in team-building activities, and revisit incentives and service level agreements. Some alliance partners will not be capable of, or perhaps not interested in, scaling with the company; these partners should be divested and new relationships formed or the critical processes they have managed brought in-house.

### *Maturity phase*

As growth flattens and the company reaches maturity, major concerns shift from operational excellence to reinvention. The company must find new engines of growth to satisfy its broader investor base.

This implies changing the board composition to secure the capabilities to

It is vital for Internet startups to pay attention to the changing governance needs of their companies as they move through time.

## For the process-alignment pillar of eGovernance, the mature organization must guard against becoming too bureaucratic.

sense the market, current and future, and to generate appropriate new ideas. New board members might include a futurist and an executive with experience in restructuring and reinvention. Certainly, a greater number of external directors is appropriate at this stage to enable the company to think outside the box.

A board committee focused on strategy could be formed at this stage to support the executive management team, which typically expands to take on the formal strategic planning role played previously by the CEO or COO. This committee will also reinforce the company's focus on the future.

Incentives must also evolve. In the launch phase, they are based primarily on market goals. In the growth phase, performance measures expand to include financial and operational targets. In the maturity phase, measures stress new growth and innovation.

Organizational focus often needs a similar makeover. Companies that already are customer-focused can remain so. But those that adopted a product orientation in the growth phase must now become customer-focused, building a market-intelligence capability to better sense emerging needs. As the company works to define a new direction, a more formal strategic planning capability is required.

For the process-alignment pillar of eGovernance, the mature organization must guard against becoming too bureaucratic, which can stall or choke innovation.

### **Governance models for heritage companies moving into eBusiness**

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Heritage companies are by definition mature, established in their marketplaces, and looking to the eEconomy for reinvention opportu-

nities as well as protection from emerging eBusiness-enabled competitors. Here again, however, the matter is not so simple.

A heritage company that has launched an eBusiness faces the challenge of managing multiple eGovernance models along multiple maturity curves. The company as a whole is mature, so it needs a governance model appropriate to that stage. The eBusiness, however, is a startup, with very different governance needs as it proceeds along its own maturity curve.

We can group a number of similar governance challenges for heritage companies into the following categories:

#### *Extending the maturity phase*

A heritage company may decide to enter the Internet space through one of the first two strategic options discussed earlier: establishing an eBusiness presence or enabling its value chain for eBusiness. Both options extend the maturity phase and prevent the possible flattening of the life-cycle curve, and both offer some benefits, including getting the enterprise into eBusiness and giving customers new forms of access and information.

But these approaches may only buy a little extra time. Worse, they can cause complacency by giving the company a false sense of its involvement in eBusiness. Internal constraints to running an eBusiness (such as a heavy orientation toward traditional functions and organizational forms) can remain firmly in place.

In this situation, the company needs clear, CEO-led strategic eBusiness planning efforts to ensure swift action on important opportunities. The new eBusiness

initiative must enjoy a high profile, with heritage and eBusiness processes aligned to ensure that the fledgling initiative does not wither for lack of essential support.

#### *Reinventing the business*

An enterprise that follows the third eBusiness strategic option and fundamentally reinvents itself around an eBusiness value proposition may fare better, as it can jump from the heritage maturity curve to the new eBusiness curve. Reinvention presents significant eGovernance challenges, however. Leadership must straddle two life-cycle curves, and the organization structure must follow suit. Heritage and eBusiness processes must coexist, often with diverse cultures.

But the potential benefits are enormous, including more cross-selling and providing customers with better, more timely information about products or services. Companies that jump successfully can combine the best of both worlds: a new business that leverages the strengths of the heritage business, such as customer goodwill.

Companies that reinvent themselves will find that different people with complementary areas of expertise must be involved as the eBusiness effort evolves. Their initial Web efforts may be led by a marketing team; soon IT personnel become closely involved, followed by finance personnel.

#### *Spinning off*

Creating an eBusiness in the form of a spin-off, an alternative within the fourth strategic option, is connected to the heritage organization through initial funding and talent. This may be the best course for a company committed to being a real player in eBusiness but unable to change the old business quickly or radically.

Although a spin-off presents an opportunity to move beyond the existing portfolio of products and the constraints of the heritage business, it also brings potential dangers, including damaging the value of the existing brand, depleting customer goodwill, and cannibalizing heritage products and channels. The leadership challenge here is to launch the spin-off with an appropriate new governance model, while sustaining the heritage company under its structured governance model.

In all of the heritage company life-cycle models described, several key success factors are apparent. All relate to the pillars of eGovernance.

Committed and involved leadership is crucial. That leadership must think constantly in terms of focus, speed and flexibility. Sponsorship at the highest levels of the heritage organization is needed for the eBusiness; as part of that sponsorship, there must be a substantive understanding and acceptance of the financial implications inherent in these initiatives.

In terms of organization structure, reward systems must be consistent with the goals of the enterprise. Structure and eGovernance should also be conducive to building and maintaining the capabilities needed to be successful in the eEconomy. Effective eGovernance should eliminate obstacles and organizational contradictions at every stage of development.

The processes in an eBusiness must accommodate the many points of intersection of the heritage business and the eBusiness. Such things as speed of execution, customer intimacy, and alliance formation and management are

A heritage company that has launched an eBusiness faces the challenge of managing multiple eGovernance models along multiple maturity curves.

## Best-practice eGovernance at Wells Fargo

You might imagine that companies that dominate a market segment with their original eBusiness strategy might have difficulty evolving to meet new challenges. Not so at Wells Fargo.

One of the first electronic banks—it began offering Internet services to consumers in 1995—Wells today is clearly the market leader, having captured 14 percent of all US online banking customers. This success has bred a readiness to change as such challenges arise and to become even more successful.

The bank's ability to continuously improve is facilitated by its governance structure: strong and collaborative leadership of a flexible organization that can anticipate and manage change, evolve with the market, and attract and retain the best talent.

To build on its first-mover advantage and extend the success of its consumer line of business to other parts of the company, the bank set up the Internet Services Group, or ISG, as a separate line of business reporting directly to Wells President & CEO Dick Kovacevich. The group is organized into four divisions corresponding to the traditional bank's structure: consumer, business, investment and wholesale.

The heads of ISG's lines of business are professionals drawn from the offline bank. Although they report to Clyde Ostler, group executive vice president of ISG, they remain customer-focused and maintain close ties with their counterparts in the offline bank. The lines of business depend on group-level support

around strategy, technology and customer service, which is provided by a shared services organization.

The work of ISG is a testament to the close relationship between the bank's leadership style and its organization structure. Wells Fargo's goal is to satisfy all of its customers' financial needs and help them succeed financially.

With a total focus on the customer, management constantly emphasizes the importance of a sales and service culture along with efficiency and speed to market. However, the key to executing this customer focus is Wells Fargo's ability to partner both within the organization and with companies outside the bank.

ISG was carved out the existing Wells structure so that it would be unencumbered by the offline bank. A strategic priority was to create a compelling place to work, a kind of dot-com culture and working environment that would attract the talent needed to evolve further as an eBusiness.

There is a freedom and autonomy within ISG that imparts a sense of ownership. There is also less need to move in the cautious manner that often characterizes a heritage organization, where input from diverse stakeholders must often be taken into account. And there is an unusually high level of communication between key executives on ISG's management team, which means that decisions are made not only quickly but also with due consideration.

Kovacevich has been clear and consistent in his message that the

Internet is another channel for providing customers with "anytime, anywhere" banking. For his part, Ostler has been equally adamant about preserving the amoeba-like quality of ISG's strategy. "Our strategy is what it is now," he notes. "We have to be dynamic and responsive to the environment and morph as conditions change."

Leadership has also ensured that ISG's customer-facing activities are aligned with the offline bank. Customers see one face of Wells Fargo across all channels: branches, ATMs, telephone and Internet. The next challenge is to create the same alignment with the back-end processes around technology development and platform integration, which is a problem common to larger, incumbent companies entering the eBusiness space.

Wells Fargo's ability to continue meeting these challenges will rest squarely on what made it successful in the first place: smart decision makers at the top, technology savvy, and a culture of empowerment and ownership.

substantially different between the two worlds.

There is less margin for error in eBusiness, and process inefficiencies cannot be hidden as easily as they can in many heritage companies. The eCommerce environment, where alliance partners get a much closer look at the business and customers can abandon online loyalties at will, is far less forgiving than the old economy.

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**T**he exhilaration that comes with taking up an exciting new challenge is often quickly overwhelmed by the reality of how difficult it will be to succeed. Because the initial high was so high, the low seems very low.

Many companies that have just ventured into the new economy find themselves in this position today—somewhere between frustration and despair.

But there is no alternative to pressing on. Recent setbacks are no more likely to halt the inexorable march of eBusiness than early disappointments in other pioneering endeavors—from circumnavigating the globe to putting a man on the moon—were to halt them. Some companies will fail; many will survive.

As we have demonstrated, many companies are successfully meeting the eBusiness challenge by focusing on governance. The world of eCommerce may indeed be challenging, but there should be nothing daunting about the fundamentals of effective governance in the new economy, which are based on decades of management experience.

It is an expanded sense of governance, to be sure. It involves com-

mitted leadership for decision making at both the executive and board levels, buttressed by the organization structures and processes that ensure that decisions made become decisions executed. And eGovernance brings with it a number of hard questions that will need to be answered, involving, among other things, accountability, flexibility, strategy, incentives and culture.

But if your company is prepared to live the “eGovernance paradox”—that strong governance models must be accompanied by the willingness to shed and reinvent them with every new challenge—success in the new economy is there for the taking. And yes, your company *can* do that. ■

# Contributors

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