Governance in the Digital Economy

The Internet and related technologies are revolutionizing the way people live, communicate, and work. What impacts will these far-reaching changes have on the structures and functioning of our governments?

Don Tapscott and David Agnew

WHAT KIND of governments do citizens need in the twenty-first century? Indeed, what kind of governance do people want in the next millennium? These are perhaps among the most fundamental questions, and now is an appropriate time to pose them. But not just because we are on the cusp of a special date in the calendar, as memorable as this New Year's Eve is bound to be. No, the reason we ask them now is because we recognize that we are living through one of the most exciting periods of change in history. Virtually everything we do in our daily lives, in our work, and, yes, throughout our governance structures, is experiencing—or will soon experience—fundamental transformation.

This transformation is called the digital revolution. And although many people are more comfortable with a pace of change that is incremental rather than supersonic, the reality today is different. Internetworked technologies, of which the Internet is the most publicly visible form, are turning the world upside down as they achieve critical mass in societies around the world.

Increasingly, as networks take hold, they are reshaping the way people live, communicate, and work. Those same technological changes that are transforming the business world and civil society will also revolutionize the way government does its business and the very nature of public life.

In its wake, the digital revolution will remake the two distinct yet intertwined relationships between people and their governments: the one between the government and the citizen as customer or consumer of public services, and the other between the government and the citizen as owner or shareholder.

In the digital era, no less than a radical rethinking of the nature and functioning of the organization called government is required; no less than a dramatic transformation of the citizen-government and business-government relationships will result.

E-business: emerging models

To understand why and how the institutions of our system of governance will be so profoundly affected, it is useful first to examine the enormous impact of the digital economy on business.

Far from being simply another round of reorganization or the adoption of the latest wave of business theory, internet-

worked technologies are spawning new business models that are sounding the death knell for the industrial-age corporation—the basic operating structure that has served the marketplace for decades. Around the globe, commercial enterprises are scrambling to avoid not only being left in the dust of the upstarts but also being made irrelevant as suppliers and customers alike embrace new ways of doing business.

Many years ago, the economist Ronald Coase, in a famous article ("The Nature of the Firm," *Economica*, Vol. 4 (November 1937), pp. 386–405), asked a simple but penetrating question: why does the firm exist? In a rational world, based on classic economic theory, why don't workers, suppliers, and customers wake up every morning, shop the market, and make a deal? Why have these huge infrastructures and fixed plants when in a perfect world—or at least in a theoretical world—the laws of supply and demand would dictate pricing, and before breakfast was cold, we would see the world unfolding as it should?

Coase's answer was common sense. The economy was too complex, and, more important, the cost (in both time and money) of transacting all those arrangements was far too high to proceed with anything other than a highly organized, semipermanent structure called the firm.

But fast forward to today, and some of those same barriers to much more fluid arrangements among suppliers, infrastructure partners, and even labor (now brains, not brawn) are falling. The virtue of internetworked communications is that the transaction costs of such activity fall to nearly zero as the reach and speed of communications technologies increase exponentially and as the tools become more robust.

E-commerce is only the tip of the iceberg: the new economy is about a much deeper phenomenon that is remaking the rules of business. Several key trends are emerging, brief descriptions of which may be instructive as we think about the coming changes in governance.

Companies are being transformed on a massive scale. Established businesses are undergoing a massive overhaul in strategy, structure, and process to meet the imperatives of the digital economy.

The marketplace is learning how to exercise power. With the vast increase in information available to consumers and their improved ability to share knowledge, they are empowered as never before. The marketplace is becoming smarter and more demanding. Consumers expect—even demand—customization of goods and services to meet their individual needs, and they want it now.

Business is moving at warp speed. More than ever before, agility and flexibility drive competitive advantage in business. Stovepipe bureaucracies, command-and-control management structures, and stultifying decision-making processes—whether found in large or small businesses—are all guarantees of a shortened lifespan in the digital economy.

Knowledge is the key asset. Economic activity founded on the extraction and transformation of scarce resources is giving way to an economy of abundance—abundance of

The move to the digital age spawns transformation at all levels of governance		
	Industrial age	**Digital age**
Democracy	Representative	Participatory
Citizens	Passive consumers	Active partners
Politics	Broadcast, mass, polarized	One-to-one
States	National, monocultural	Global, local, virtual, multicultural

information and the means of communication. The leverage of knowledge through innovation becomes critical.

Transparency and openness are becoming key market enablers. Increasingly, customers and markets demand openness (as opposed to, for example, secrecy and a strong emphasis on turf protection in individual work units and firms) in company culture and transparency in company information. As corporations move into the digital era, they discover a competitive advantage in making information and knowledge available to their networked partners.

The emerging business models are founded on the notion of community: success will be achieved by those who involve their suppliers, their infrastructure providers, and—perhaps most important—their customers in a network where they can build value together. Networks that enable trading, sharing, and enhancing knowledge to build value for mutual benefit are essential.

The idea of partnership goes beyond rhetoric to meaning something very real in the new digital environment. And achieving true partnership is, as much as adapting to anything else in the new world of e-business, a struggle for the people and their organizations that have been founded on an ethos that is, at the same time, both hierarchical and insular.

From industrial to digital government

For governments—and for governance structures in general—at least four separate sources of pressure for change have converged. All are urgent; all are real. Any one by itself would demand significant reform of our governance structures. Together, moving at breakneck velocity, they are the reason we believe we are heading for a major overhaul of the institutions that make up our public life.

Today, governments and public institutions are facing several important challenges as they attempt to improve their delivery of services:

Fiscal and performance issues. Governments around the world face continued pressure to reduce their operating costs and control public debt and deficits. Citizens want improved public service: not simply better service but service delivered with increasing flexibility and efficiency, and without their having to pay a premium for it.

These issues intersect with technology because, increasingly, taxpayers and service users know that many governments lag private firms badly when it comes to providing convenience, accessibility, and efficiency.

The rising tide of digital citizens. Those performance issues are felt keenly by the growing number of digital citizens—those with the skills and access necessary to use digital technologies. It is not just the Net generation kids, who have grown up bathed in bits, who view the Internet—and networked communications and technology in general—as standard equipment. Computer access is now an everyday reality for millions of people worldwide, and the reach of digital technologies grows each day.

Even more challenging, new expectations of involvement are being created as digital consumers discover what it is possible to do online. This is not simply a matter of communication or information, as important as these are. The new technologies are collaborative, immediate, involving, and empowering . . . not words always associated with government consultations or policy development exercises.

New technologies creating new networks. As technologies converge, as bandwidth opens up, as "anything is possible" moves from hyperbole to reality, governments are stretched in their efforts to be considered nimble followers, let alone leaders, in new ways of doing business.
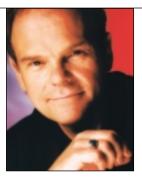
Even if they could overcome the structural, regulatory, and cultural difficulties involved in rapid adoption of new technologies, most governments would still face an even bigger hurdle: their lack of the resources required to acquire and implement complex and sturdy technologies.

Globalization has created new competition. The effects of globalization are sweeping through all governments, whether national, subnational, or local.

Global competition for investment and revenue has spawned a new point of comparison: jurisdictions are now measured for their compatibility with companies seeking success in the digital economy. Citizens are now awash in information that allows them to measure their government against any other in the world on virtually any score. At a more basic level, issues such as regulation and taxation have become enormously complex in a networked world.

Taken together, these four factors create irresistible imperatives for change. Governments' traditional monopolies are being challenged by shifts in both the physical and the virtual worlds. The power of taxation, the policy process, access to

Don Tapscott is Chairman of the Alliance for Converging Technologies (Toronto). He is the author of *Growing Up Digital* and *The Digital Economy*, coauthor of *Paradigm Shift*, coeditor of *Blueprint to the Digital Economy*, and editor of *Creating Value in the Digital Economy*.

David Agnew is the Executive Director of the Alliance for Converging Technologies' Governance in the Digital Economy program. He is a former Secretary of Cabinet in the Ontario government in Canada and also worked for several years as a senior executive in the financial services sector.

communication tools, and the control of information—areas in which government could once exert virtually unchallenged authority—are being whittled away by an internetworked world—by digital citizens and corporations that no longer have to check in with government first.

The changing public space

The digital age is a time of great shifts, unsettling and unprecedented. As the old structures break down, and the existing laws and norms erode, they are replaced. If e-business teaches us anything, it is that the digital age abhors a vacuum.

The industrial-age structure, in which the world of public life encompassed the three principal spheres of government, marketplace, and civil society, is undergoing a fundamental shift as networked technologies take hold (see table). And even in these early days of digital governance, the impacts are being felt as the new technologies knit government, the market, and civil society closer together, blurring the lines of what were once quite separate spheres.

Technology-driven global integration of markets accelerates the influence of market forces on national governments. The growth of mass media and the development of the Internet make governments more accountable to the public and give citizens greater voice. The Internet reduces the role of traditional intermediaries in market transactions and increases the number of citizen-to-citizen transactions.

While all these changes represent a significant challenge to the established order, forward-thinking politicians and public officials perceive that engaging the citizenry in a fundamentally different way would be a truly exciting breakthrough.

The Internet, in particular, creates an opening for new forms of interaction with the citizen that allow real-time participation in the governmental and democratic process. But as with e-business, once the opening is created and the tools are at hand, it is not so much a matter of choice as a matter of time. Customers and citizens expect governments to get with it; if they do not, they risk becoming irrelevant.

In the digital era, participatory models of government must offer more than a trip to the polling booth every four years. Citizens will insist on moving from being passive consumers of campaign literature and mass media–intermediated coverage to becoming active partners in the governance process.

These changes, in turn, will alter the face of politics. Representative democracy is moving from broadcast, mass politics to electronically enabled one-to-one relationships between citizens and politicians.

Even the form of the state will change. We are used to national and—in many countries—monocultural models. The digital era is accelerating the challenges of globalization, virtualization, and, interestingly, a revitalization of local communities.

Governments will need to find new ways of working, new ways of interacting with the public, new ways of organizing their responsibilities, and new forms of value that they can provide to the public.

Emerging e-governance models

In the coming years, early in the new millennium, we think there will be widespread adoption of a more community-based model of governance that, while appropriate to the culture of each government and society, will have several characteristics:

• The new networking technologies will eliminate the boundaries between branches of government, and among governments, as service delivery gets organized around the needs of end users (citizens), not of the historical, political, or public service structures.

• New networks of government, civil society, and the marketplace will redefine the nature of public services as boundaries collapse and the focus becomes who can best add and build value.

• Service delivery reforms will be followed by fundamental shifts in government—even in constitutional arrangements—as citizens look for more rational structures in government for service delivery.

• Citizen-centered government will create new roles for citizens and new prominence for citizen engagement as governance systems reengage the citizenry, moving beyond "broadcast" democracy to a more intimate and immediate model.

• In policy development and service delivery, citizens will be engaged directly and broadly in decision making and value creation, replacing the top-down process that characterizes too many governments.

For governments, partnership must become a customary mode of operation. That's tougher than it sounds: privatization, outsourcing, and downloading are straightforward by comparison. Genuinely sharing power, decision making, and responsibility are much scarier propositions because they are so innately countercultural to many government organizations. There is also clearly a need for a real shift in traditional notions of accountability and governance. If part of what the digital era offers are new ways of innovating and creating value, can we tolerate more risk taking and less certainty, and even celebrate failures, in the search for better governance? Governments today are given little room for maneuvering; they will require more in the future.

Alliance for Converging Technologies' "Governance in the Digital Economy" program

The Alliance for Converging Technologies, a consulting and research firm focused on business and organizational strategy in the digital era, has launched "Governance in the Digital Economy," a global, multiclient program investigating the impact of the Internet and new technologies on the transformation of government.

The interactive program is mapping the practical implications for digital-age governance, including delivery of government services, administrative processes, the nature of democratic institutions, the role of the private sector, the relationship between the citizen and the state, the future of the nation-state, and new requirements for governance in a global, networked economy.

The program provides a forum for dialogue between the public and private sectors as the interests of these sectors increasingly overlap and intertwine. Program deliverables include an analytic framework complemented by illustrative case studies from around the world. The results will be communicated through a series of online reports and white papers, workshops, and a World Congress on Governance to be held in the spring of 2000.

Promise and peril in the digital age

There is much to be optimistic about as we count down the days to the new millennium. New technologies and the changes that are resulting from their widespread application will provide twenty-first-century governments the opportunity not just to do better but also, and most important, to reengage the citizenry in the important work of governing. That would be a welcome development in a world where in many countries participation in the democratic process is in decline and people increasingly question the relevance of public institutions.

But we should not ignore the perils as well. Serious issues remain unresolved. Around the globe, people are rightfully wary of the power of the new technologies to erode their privacy.

Even in countries with the highest levels of technology penetration, unacceptable gaps between digital haves and have-nots are growing, challenging both governments and businesses to address the international and domestic digital divide with substantive and meaningful solutions.

These issues are not beyond our creativity to resolve, but they need to be addressed urgently.

A reinvigorated, digital-era government is at hand. When governments, citizens, and private sector partners redefine and reengage their roles, better government—better governance—will be the result. **F&D**