FEBRUARY 2002

WILLIAM F. ACHTMEYER
CENTER FOR
GLOBAL LEADERSHIP

GLOBAL CONNECTION
VIEWS ON GLOBALIZATION, THE DIGITAL REVOLUTION, AND LEADERSHIP

Speeding Violations

As the pieces are collected from the wreckage of the dotcom collapse, there is no shortage of acrimonious debate about who was to blame. But as the pain of failures gradually subsides, it has become easier to view the downfall from a more holistic, and less personal, perspective.

All players—entrepreneurs, investors, venture capitalists, investment banks, and the press—were seduced by the possibilities. But more than the excesses of any individual or group of professionals, the dotcom bust resulted from the imperfect functioning of the economy as a system —specifically, the imperfect flow of information and the consequent inability of the economy to time and sequence investments sensibly.

Consider, for example, managers of new ventures who play in markets created by the adoption of a new technology. They face a difficult timing challenge. If they invest too early, they can go broke trying to create a market for which customers aren't quite ready. Too late, and they risk losing the market to more aggressive competitors. Ideally, the acceleration in investment parallels the acceleration in technology adoption.

Getting the timing right is difficult enough for a single investor acting alone. What if the rate of investment is controlled by thousands of speculators, none fully aware of what the others are doing and none able to keep track of the total amount invested? Inevitably, there will be too much investment far too soon.

The construction of the new economy faces speed limits—several of them, in fact. For example, the rate at which broadband and wireless Internet infrastructure can be installed constrains the potential of many Internet business models, especially those dependent on consumers frustrated with agonizingly slow dialup connections. Even with the right infrastructure in place, it still takes time for consumers to adjust to new ways of receiving information and making purchases.

Limits in the business sector may be even more restrictive. Many failed Internet strategies depended heavily on advertising revenue that has yet to materialize. This isn't to say it never will, only that it will take time for the advertising industry to figure out how to use the Internet for the greatest impact. The process of learning through experimentation continues.

Another group of dotcoms, the business-to-business marketplaces, relied on large organizations in traditional industries reforming long-since standardized purchasing and order management processes—hardly an overnight task. Human and organizational challenges

COMING SOON:
On March 11, the center will hold the first meeting of its Board of Advisors. The board, which includes 15 CEOs and senior executives from global corporations, will spend part of the meeting in a general discussion, "Managing During Times of Political, Social, Cultural, and Economic Turbulence." The center will publish a general review of the discussion this spring.

aside, this transition requires modernization of complex IT infrastructures, many of which are still based on function-specific mainframe systems. Such projects take place over years.

A final and perhaps less recognized speed limit may be a scarcity of talented managers. At the height of the boom, many ambitious entrepreneurs in their 30s successfully attracted investors. But in retrospect, the list of qualifications for CEOs of Internet startups appears long indeed.

For instance, much of the transformational impact of the Internet relates to how business is accomplished within large corporations. But many of the young CEOs leading new ventures had too little experience to have developed an intuitive grasp on the operational realities of big business. As much as experience working with large corporations is a plus, a lack of startup experience can be just as great a hindrance. Startup management requires a higher tolerance for ambiguity, a greater acceptance of experimentation, and an ability to inspire creativity. To this unusual mix of startup and corporate familiarity, add an additional requirement: a fair amount of new economy technology savvy.

What this all means is that we could be approaching a time in which corporate venturing flourishes. As long as venture capital remains limited, there will be less competition from startups. And, conveniently, many of the scarce managers who have all of the above qualifications are now working within corporations. It's a good time for corporate leaders to remember that many of the ideas that "failed" weren't bad, just premature. ■

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