

Summary Report



An introduction to the work of the Governance in the Digital Economy program, highlighting the key findings from our research and white papers.

Is a relentless logic at work in the digital economy that projects a completely different form of governance to succeed the nation-state, just as the nation-state itself was built on foundations of previous governments?

Today, it's a radical notion. But perhaps it's only as fantastic as the current version of government must seem to a feudal prince from the Middle Ages visiting us today. Or perhaps how improbable a European Union would have sounded to an early 20th century European.

Consider the trends. Global economic interdependence and transborder issues require international responses. Connected digital citizens, awash in information and choices. Virtual communities linking cultural and ethnic Diasporas around the globe.

Imagine a world where a citizen can search the world to assemble "my government," the ultimate in customized, customer-centric services. Health care from the Netherlands, business incorporation in Malaysia, marriage license from a municipality in the United States. It's no longer a question of whether such a world is technically possible.

Imagine a world where new global institutions were created to match the scope of the new economic, environmental and security challenges. Local municipalities and regions were the "real" governments in people's daily lives. Virtual worldwide communities provided a sense of belonging - and perhaps services as well - to people sharing a heritage, but not a physical location. A mix of public and private suppliers competed for customers for their services. Where would the nation-state fit?

Democracies around the world are on perhaps their most interesting voyage of discovery: new models of governance shaped by the profound and inevitable impacts of the digital economy.

In the hyper-competitive global economy of the 21st century, a new set of expectations from citizens and the markets driven by powerful pervasive digital networks is driving deep, compelling and even unsettling transformations.

Just as the rise of a new function-rich infrastructure in the digital economy enables new private sector business models, so it enables new models of how societies can organize to deliver the functions of government. It is now possible to change the division of labor among governments, the private sector and civil society. The transformation is underway, and in our work we find:

- ***New models of governance emerge as the market and civil society flex their digital muscles.*** Shaped by different cultural, historical and political forces, new forms of governance in the digital economy will create new roles for citizens, narrow the authority of nation-states and redefine the nature of public services as the market and civil society broaden their responsibilities.

- ***Governance webs are the new organizational models best able to move governance into the digital era.*** Whether organized around policy or service delivery, technology-enabled g-webs stand in contrast to industrial age government by leveraging innovation, value and commitment from the market and civil society, distributing power more broadly, delivering higher value to governance's end- customers and bringing a new responsiveness and flexibility to government and the way we are governed.

New technologies — particularly the Internet — are reshaping the face of governance. The vast public infrastructure with its skin of networks surrounding the globe changes the rules of engagement in society. With powerful communications tools — which are getting more powerful every day — and a newfound capacity in the hands of citizens to discover, share and create knowledge, the old rules and the old hierarchies just don't make sense anymore.

The digital economy forces a re-examination of the core rationale for government — not to proclaim the end of government, but to discover its new roles and forms.

We have divided our work into three parts:

1. Governance: Roles and Powers in the Digital Economy
2. Interactive Democracy
3. E-government

1. Governance: Roles and Powers in the Digital Economy

Internetworked technologies — or more simply, the Internet — are changing society in ways unparalleled in centuries. Not since the widespread introduction of movable type has such a powerful communications tool been unleashed, transforming the economy, society and government. In the digital economy, new business models are wreaking havoc on the old; information is now abundant; power is shifting to end-customer.

For governments, the digital economy has sharply destabilized the status quo by increasing the influence and power of both the market and civil society. These non-state actors have new tools to transform information into new sources of value denominated both in the market (wealth) and the governance arena (knowledge). Global, highly interdependent markets and empowered citizens challenge existing institutions and processes — disrupting the old hierarchies and established order, and presaging new models of digital age governance.

THE CHALLENGE TO GOVERNMENT

In our work, we have identified five crucial transformations in the digital era, each with important impacts on governance.

- ***Globalization:*** Globalization is not only an expression of our increased economic interdependence, but also of the emerging global culture.
- ***Internationalization:*** Many of the world's challenges — whether security, economic or environmental — are more readily and effectively addressed by multilateral responses or organizations.
- ***Devolution:*** A combination of fiscal pressures and local demand has led to responsibilities and resources being devolved to governments closer to the citizens.
- ***Marketization:*** Governments around the world are increasingly seeking a variety of market solutions to manage fiscal issues, public assets and service delivery.
- ***Digital citizens:*** Armed with more information and with powerful communications tools, an ever-expanding group of connected citizens is demanding new accountability from and participation in

government.

Together, these forces are converging to confront government with an impending crisis of legitimacy, authority and role:

- *legitimacy* because as the digital citizenry moves into the majority, geographically defined jurisdictions will be seen as inadequate and increasingly irrelevant to the scale and shape of the issues
- *authority* because networked technologies make it easier for both the market and civil society to establish their own networks to represent their interests or resolve their issues outside of, and in spite of, government
- *role* because both civil society and the market will increasingly explore alternatives to traditional government services and service delivery that reflect digital age speed and convenience

GOVERNMENT'S RESPONSE

Basic questions about the role of government and the shape of governance are at hand. Yet our global study finds more evidence of *thinking* than true breakthrough *action*.

The gap between governments and their citizens, measured by trust factors and political participation, has grown steadily over the past few decades in many jurisdictions. The innovation gap between governments and the market is getting alarmingly wide.

In general, governments resist fundamental change, and the consequential shifts in their power relationships, unless a crisis is widely accepted as present or imminent. Far more penalties than incentives exist at political and public service levels for innovative behavior.

Inaction or inappropriate responses to these challenges raises significant risk for government. The failure to build new roles and relationships increases potential conflict as the market and civil society claims new authority. A disintermediated government loses legitimacy.

In our view, without fundamental change, the legitimacy, authority and role of governments will diminish precipitously — not by design, but by failure to adapt to emerging realities.

NEW MODELS OF GOVERNANCE

The digital economy forces a re-examination of the core rationale for government — not to proclaim the end of government, but to discover its new roles and forms. As information moves to bits and communications to light speed, citizens and markets are moving to fashion their own futures without government, or with a different role for government.

The transformative pressures of the digital economy are felt differently around the world. Much depends on the context in which societies and people live, with their unique legacies creating institutions that vary from place to place. Yet we see four principal types of overarching governance models emerging over time:

The E-Commons

In the E-Commons model of digital age governance, societies and government embrace the digital economy as a force to promote equality and community as core values. Government leverages digital tools to help citizens and communities adapt to the new economy.

Participation in services once dominated by government is opened up to both the market and civil society.

The Market government

Government recedes as market models take hold throughout society. Issues such as adjustments to changing trade patterns are left to market forces to sort out — prosperity is achieved by creating an

economy of opportunity and growth. Competition becomes a major theme, and wealth creation is the overriding value. The result is a government whose central focus is its own efficiency and ensuring the market is allowed to succeed. Civil society and the market take on roles served by government.

The Digital community

Civil society takes the lead role as government shifts its focus from social policy and market regulation to facilitating communities — empowering them to take over roles it once had. Participation is a key theme: in many ways the digital community “looks after its own” rather than looking to government. While communities take on responsibility for building digital infrastructures, government’s role is to broaden participation in the promotion of stronger participation in community affairs. The market is seen as a natural partner in service delivery.

The Individualist government

With individual freedom and self-interest paramount, the individualist government is small but powerful, unstinting in its protection of individual liberties. While private sector suppliers replace government in many spheres of service, they face tight regulation to ensure competition and prevent predatory behavior. Civil society is self-determining — people will be expected to sustain issues such as culture and heritage from their own communities. It’s a society that values self-reliance, with individuals and families expected to provide their own support rather than look to others.

While there are pronounced differences among the models, they also share fundamental characteristics:

- Government continues to be the only body that ultimately can enforce rules in both civil society and the market. But which government, and which rules, are the contestable issues.
- New international structures will emerge to govern transborder issues such as security, finance and the environment.
- More supranational alliances will form as nation-states seek “like-minded” continental/regional groupings to more effectively assert their interests with other global powers and markets.
- The role of subnational and local governments in organizing and coordinating service delivery will grow, even in those cases where functions are no longer delivered by government.
- The market will continue to be the primary wealth creating force in society. Increasingly, the private sector will also take on new roles as service providers as governments leverage the market strengths of innovation and competition to increase efficiency and lower costs in “public services.”
- As private sector companies move into service delivery and new areas of influence in public policy, they will be challenged to increase their responsiveness to public demands and open themselves to greater scrutiny.
- Civil society collectively expresses society’s preferences to government (and the market) and houses communities of interest, culture and geography. It too will engage in the creation and delivery of services, often in partnership with the market, as communities look for higher degrees of customization and localization.
- Virtual communities will organize people and communities based on shared interests, culture or heritage, in part to force issues on the agendas of governments.

Are these models simply transitory to even more radical picture of the future as outlined in the beginning of this report

The voyage is just starting. This is a time of great opportunity. It is also a time of great danger as it is not clear how many of the traditional roles of government in achieving social cohesion can be achieved by other means.

What is certain is that the digital era will redraw our notion of government, requiring new divisions of responsibilities and accountabilities that acknowledge a different distribution of power in the future.

EMERGING GOVERNANCE WEBS

Governance webs are emerging as the organizational form best able to move government into the digital era, breaking the old paradigm of centrally driven, hierarchically organized “stovepipes.”

Whether organized around policy or service delivery, digitally enabled g-webs stand in contrast to industrial age government by leveraging innovation, value and commitment from a broader group of participants, distributing power more broadly, delivering higher value to end-customers and bringing a new responsiveness and flexibility to the way societies are governed.

G-webs create new value in ways that were simply not possible before the advent of new technologies. By creating new, efficient networks of communications, engaging participants — including citizens — in active roles, offer opportunities to learn and build knowledge in unique ways, g-webs are true innovation in organization.

Our case studies cover a range of issues and initiatives along a number of axes, including territory (local to global), governance space (services to policy-making), g-web integration (collaboration to conflict), power shift (market to civil society), and government control (lead to bystander).

As networks grow in sophistication and reach, g-webs are found in increasingly complex contexts, and can be combinations of any and all of multiple governments, civil society and the market: delivering statutorily mandated services; intermediating diverse participants to common goals; negotiating transborder market transactions; policy deliberation and decision-making; creating network access and infrastructure; economic development; building and sustaining local communities and advocacy resulting in behavior change.

All governments carry a unique and thick set of historical, cultural and institutional legacies. But each must respond to new imperatives:

- design the frameworks through which the complementary strengths of the market and civil society can be leveraged to deliver value to citizens and customers
- seek out partners and participants in new g-webs across a range of other governments, the private sector, civil society and citizens to move to innovative and flexible governance
- create innovative structures and cultures that reward creativity and provide incentives for human capital to flourish
- shorten decision-making cycle times and increase response time to keep pace with the dynamism of the digital economy
- embrace customer-centric behaviors, integrating service delivery across governments and non-state providers
- identify the new roles and competencies that it must discard, maintain or acquire in the digital era

G-webs challenge government to profoundly transform, to let go of industrial age command-and-control hierarchies and to accept different, and in some cases diminished, roles in both service delivery and policy formation. It's a new form of governance that rewrites the rules, and the relationships, for society.

2. Interactive democracy

Citizen engagement is at the heart of digital age democracy. And with the rise of the “digital citizens,” citizen engagement becomes both inevitable and imperative.

To exercise their roles and powers, governments need both legitimacy and authority. Fundamentally, these are not found in law books or constitutions, but are determined by citizens both formally, through elections and referenda, and informally, through behaviors and attitudes. Declining voter participation, lack of faith in government decisions and questions about relevance are unhealthy signs for a system that largely depends on voluntary compliance and trust.

The digital age holds both promise and peril for governments in their relationship with citizens.

New and increasingly ubiquitous communications technologies offer new and rich opportunities for government to move beyond broadcasting and public education to engage people deeply in governance issues. But without a commitment by government to broaden out from industrial age cultures and processes, those same tools enable civil society and the market to build their own networks outside of, or even in spite of, government.

CITIZEN ENGAGEMENT

The new and expanding group of digital citizens will be very different from industrial age citizens. This is the future: a growing and increasingly powerful group of citizens (and voters) demanding a greater and genuine role in their own governance. These are citizens who will not wait to be asked, but will build their own networks of governance if government is unresponsive.

Interactive and genuine citizen engagement offers the opportunity to strengthen representative democracy by ensuring that citizens' views are heard, understood and acted upon by mandated representatives whose information and perspective is constantly refreshed by informed public deliberation.

Citizen engagement requires:

- a government strategy of inclusion and outreach to go beyond the loudest voices
- new public spaces that citizens trust as (virtual and physical) places of engagement
- appropriate timing and targets of engagement to ensure the process has a genuine impact on the right decision-makers
- application to governance bodies beyond government as civil society and the market take on new responsibilities in formerly public areas
- new tools of authentication to give assurance that the voices are genuine and representative

Networks create new roles for civil society and the market. Digitally enabled policy webs will address the emergence of a highly interconnected political and economic environment and the need for policies spanning jurisdictions.

Done well, policy webs can respond to the increasing rate of change in technology, the economy, the ‘public mood,’ with equally agile policies and policy-making structures.

As policy-making moves into the digital era, the culture, structure and process require retooling. The good news for government is that new digitally enabled tools of engaging a broader set of participants in policy making are at hand, ranging from digital brainstorming to learning networks to collaborative filtering.

3. Egovernment

Governance in the digital economy is also about government, and industrial-age government structures and processes are colliding with digital-era expectations of both citizens and the market.

As governments move into the digital age, transforming the structures of government is proving to be an intractable challenge. Deep and resilient legacies combine to frustrate progress, including conflicting time frames and motives, particularly between the public service and politicians, a lack of incentives in the system to innovate and the absence of a sense of urgency.

Yet strategies are available to not only transform the way government looks and works, but also to harness the human capital necessary to move into the digital economy. In our research we see the emergence of new g-webs starting to break out of the existing paradigms using five key strategies:

- **Innovate:** Through a variety of techniques, create environments and cultures that encourage innovation and creativity
- **Insulate:** Migrate service delivery functions in government to structures outside the political environment to lessen the political whipsaw that prevents innovation and progress
- **Integrate:** Meet the demand for true customer-centric service delivery by moving to new institutions that integrate services across horizontal (one government) and vertical (many governments) boundaries to deliver services in the way that customers want to access them
- **Internet time:** Take decision-making structures and response mechanisms to real-time speed where appropriate
- **Incent:** Break the bureaucratic culture with a focus on leveraging human capital both within government and with citizens

In our research, we focused on two areas of government activity, economic development policy and online government, to investigate the tensions created by government's response to the digital economy.

ECONOMIC DEVELOPMENT

The reasons economic development is important to societies haven't changed. But the room for maneuvering for governments in promoting growth and prosperity has diminished significantly, hemmed in by a number of new realities including international and multi-lateral agreements, the mobility of capital and people and the transition from economies built on goods to ones built on information and knowledge.

Strong physical, legislative and technology infrastructures remain important but are no longer sufficient or sustainable to achieve competitive advantage alone. The key to success in the digital economy is shifting the government role from creator (and funder) of economic development policy content to partner in setting context for innovation.

Our research into innovative economic development approaches around the world shows nascent g-webs forming to leverage the knowledge and innovation of the market and the support and understanding of civil society partners. And increasingly, the digital economy rewards jurisdictions whose move with agility and flexibility, and embrace collaborative approaches to strategy formulation

SERVICE WEBS

The Internet is blurring the lines between government and the private sector. Internetworking has changed the economics of traditional government services, creating new opportunities that the private sector is aggressively pursuing. And in the digital economy, content creation and context management underscore the policy issues faced by the resulting "public/private service webs."

While most governments concentrate on moving existing processes and information to the web, the private sector is faster to discover and implement ways of leveraging networks to add new value to old products and services. The result is emerging competition for attention between the public and private sectors.

Four emerging types of online service webs are emerging:

- A “Dot-Gov” is a government context that contains the government’s own content in the form of guides, instructions, fines, licenses, etc.
- A “Government-Led Initiative” is a government-controlled context that delivers private content (or a mixture of public and private content) in the form of articles, postings, reports, brochures, links, direct communications, and transactions.
- A “Dot-com” is a private sector context that incorporates private sector content but that operates in a “public domain” such as healthcare, education, or taxation.

A “Private Doorway” is a private sector context that provides citizens with added value in their interactions with government.

Across the range of service webs, we identify several major issues on government’s plate:

The dynamics of internetworked technologies raise important policy and operational issues for governments that they need to address now to avoid both unintended disintermediation and adverse policy outcomes. Despite the rapid evolution and fluidity of digitally enabled service delivery, an enduring inevitability is that the private sector will continue to seek new opportunities in areas where they can more quickly add value and be more competitive.

The new service web models are an opportunity to leverage new value to the end-user and a “smarter” use of government assets and strengths in achieving its policy goals and fiscal objectives.