How organisations shape up in the future will depend on how they manage a number of critical and immovable forces headed their way. Wendy Montague and Paul Meijer examine the options.
We all know there are a number of major forces that will effect how we work and how organisations operate in the future. Hay Group believes these broadly fall into three categories:

- **Globalisation** – the continued growth and strength of the global economy will effect our booming resources and financial marketplaces;

- **Innovation** – the speed and variety of technological inventions will increase and diversify particularly in health, energy, manufacturing and telecommunications;

- **People** – the ‘tsunami’ effect of the Baby Boomer generation retiring in Australia will have a profound impact in the next 10 years.

That all adds to organisations having to tackle a range of broader issues. Leaders have to prepare their organisations for:

- External shocks (greater inequality, changing demographics, religious fundamentalism, terrorism, climate change, changes to the global workforce);

- New market dynamics (skills shortage, resource scarcity, rising costs, socio-political tension, shifts in industrial relations and the impact of new technology);

- Internal tension within the organisation. This creates a greater need for human interconnection (the rise of spirituality, importance of community, the need for family time, creating a more stimulating workplace, and the growing importance of corporate and social responsibility).

It sounds like a scary set of issues to deal with while at the same time looking towards the future. This section of FOCUS looks at the waves of change that are already present but will grow in size and how to ride them rather than be swallowed by them. It also highlights that to cope with change, organisations need to have the right structure in terms of sustainability or risk not taking the whole organisation on the journey of transformation.
key messages

- The waves of change are growing bigger
- Organisations must adapt or be swallowed
- Traditional hierarchy is out
- Forget where organisational boundaries lie – everyone is on the inside
- Long-term thinking and planning are critical for survival
- Innovation comes from embracing new thinking

in this section

- The waves of change 10 - 15
- Case study: Roche Pharmaceuticals 16 - 17
- Sustainability: the key 18 - 19
- Embracing the future 20 - 21
The ability to negotiate and balance the changing nature of the workplace will have a significant impact on the ability of organisations to survive and succeed in this dynamic world we live in. Hay Group’s Paul Meijer and Wendy Montague look at both sides of the four waves of change that organisations are experiencing.

The waves of change

Organisations are like ocean-going vessels. They set a course towards a strategic destination. However, the path they travel is lined with forces, some of them not within their control. The direction of major wind squalls and other unpredictable weather conditions may necessitate a change of course. Similarly, organisations must navigate their journeys through a multitude of external forces. These forces can be demographically, sociologically as well as technologically driven. Hay Group believes there are currently four major forces effecting the way organisations operate and, therefore, on how work is organised. There are several ways to navigate through these waves and organisations will need to deal with each wave differently. The key is not to let them push you too far off course and to use the energy they produce.

The four waves that can impact on organisations are:

1. Input versus output
2. Hierarchy versus reciprocity
3. Inside versus outside
4. Short versus long-term.

1. Input versus output

Traditional functional organisations emphasised the importance of detailed job descriptions, defined career paths and described the required qualifications and experience for each role. The work was defined in a series of tasks. Job seniority was considered important and rewarded. In these organisations, there is a clear divide between 'management' and 'workers'. This type of structure has been effective in
delivering transactional work with a high level of consistency and discipline.

In the future, organisations that continue to use this approach to structuring work will find difficulty in adapting to changing market conditions. Their investments in creating ‘white collar factories’ will be threatened by organisations that use technology to replace the routine work.

Besides reducing the cost of market entry, innovations in technology have created a mobile workforce. No longer can a manager go into an office and expect to find it full of employees at their workstations producing results. Add to this the changing workforce psychology. People expect and demand flexibility to meet their individual lifestyle needs. Employees are demanding a different employment contract relishing their power in a shrinking labour market for skilled workers. The traditional ‘us’ and ‘them’ approach to employee relations doesn’t deliver the relationship of trust that employees desire.

In addition, the growth in knowledge and service work has placed immense pressure on traditional performance measures – measures like being in the office from 9 to 5, meeting daily or weekly performance tasks and attending meetings. Today, there are many ways of achieving the desired results, working with outside consultants, operating remotely and working collaboratively, no matter what the status of the participants in the decision-making process. There is more emphasis on working out how the desired results can be achieved in the most productive way possible, than breaking it down into bite-sized tasks.

For those organisations that have moved to valuing outputs over inputs, leaders provide employees with an explanation of the bigger picture, connect their work with that of their peers as well as the long-term goals of the business. These organisations worry less about detailed job descriptions and hours of work, but instead make the effort to describe individual and group contributions to the firm’s outcomes (both qualitatively and quantitatively).

Of course this process requires a major cultural evolution in working relationships. It requires more effort on the part of managers. They have to be better able to clearly articulate the outcomes they are seeking. They also need to navigate the more complex field of addressing performance without a simplistic focus on inputs. When it comes to a system of valuing output, results need to be more clearly defined with the manager and worker working together to achieve them. There is also a greater need of trust – especially when team members are logged in remotely or when long lead times are required to meet certain objectives. In short, employees are given the time and space to perform without constant supervision. The roles that the manager and employee play also shift – the manager needs to be less authoritarian and more focused on developing mutual understanding of the goal and what results will look like when they are achieved. The ‘how’ also needs to be clearly stated to ensure the process of work is aligned with the organisation’s values.

Successful organisations of the future will articulate their vision of results and the values that will define the achievement of these outcomes.
The balance between inputs and outputs is already occurring in organisations, in particular those taking advantage of using more flexible work options in exchange for greater engagement and resulting performance.

Successful organisations of the future will articulate their vision of results and the values that will define the achievement of these outcomes. The risks for these organisations are to clearly define the outcomes and the values to get the results they want. Organisations that maintain a task-focused, input-driven approach will be at risk of higher rates of turnover. Organisations that focus on extreme flexibility with no clarity may find they are achieving the wrong results in the wrong manner. Striking the right balance between defining inputs and focusing on outputs is critical to delivering organisational success.

2. Hierarchy versus reciprocity

The trends identified above will also have a significant impact on the relationship of managers with their employees. Already, there is a shift away from the historical hierarchical-based relationships where there was a clear authoritarian distinction between boss and worker, to a relationship that values and reciprocates roles in a more egalitarian way. In traditional hierarchies, work processes and rewards are well defined. Tasks are given and the method of achieving those tasks clearly stated. Rewards as well as prestige have been related to the individual's relationships in the hierarchy. Traditionally, the immediate manager had the primary influence on the employee and the manager's assessment of individual performance formed the entire basis for rewards and promotion. This stilted relationship between manager and employee created an environment where work was about work and the rest of life off-limits. This organisational dynamic was partially fuelled by the post-war management theories under which the current Baby Boomer generation was trained. This model has been rejected by much of Generation X, who see these hierarchical organisations as restrictive and old-fashioned. The search for meaning and challenge in their work has created tension between generations. At the same time, traditional hierarchical organisations complained that their workers were not innovative or committed to the work of the organisation. This tension generated the concept of ‘employee engagement’, which has been popular for the past 10 years or more.

Successful organisations believe that building great relationships with employees is as important as providing great levels of customer service. The relationship is evolving more into a meeting of equals with recognition of the ‘whole’ person – one who has parents, children, a social life and other commitments outside of the traditional workplace. A result of this new relationship is that the lines between work and private life become blurred. Managers who understand their employees better also improve their ability to motivate them. However, this greater insight may also have negative consequences, such as accommodating employee needs at the sacrifice of business performance, which is a risk. Organisations of the future also have the flexibility to offer different roles to the same employee to keep them engaged – for example, working part of their week in the not-for-profit sector with another organisation completely. This is an example of how an organisation is able to align itself with the core values of the employee and offer them a role that suits those values.

Taking equalitarianism to the extreme are organisations such as W.L. Gore and...
Associates and Semco, where all employees are equal and vote for the managers they want to lead them. In a workplace filled with knowledge workers, this democratic style of leadership may be successful where employees already have a deep understanding of the work. As most organisations are still designed in a hierarchical manner from board of directors to chair to CEO, boundaries need to be set for this level of democracy because accountability and clarity are still critical to achieving performance. What is clear is that, in the organisation of the future, employees will need to be more involved and provide input into decisions and company strategies. Failing to engage employees will be a course towards higher employee turnover and lower employee engagement.

3. Inside versus outside

During the 1990s, organisations were focused on improving operational efficiencies and concentrating on core business areas. These forces led organisations to outsource everything they thought were non-essential activities – such as IT. The creation of such supplier relationships was the first move towards the blurring of organisational boundaries.

Work relationships are changing. Contractors were seen as outsiders filling a gap for a short period. Now, increasingly, contractors and even suppliers can be both suppliers and competitors. They can be their own bosses selling their expertise to the highest bidder (one futurist predicts that outstanding employees will be selling their
services globally on eBay!). New sub-organisations and joint ventures are being created with external partners and employees without regard to the traditional hierarchy or boundaries. When outsourcing is considered, the relationship is about partnering and risk mitigation. In the future, it will be about finding the right combination of people with the skills to deliver the project or product. Sub-organisations or networks will come together to plan, define and deliver a specific objective. The challenge comes when deciding what the company defines as what is ‘in’ and ‘out’. What are the core purpose, strategic direction and values represented by this entity?

Clearly, the switch from an organisation that’s just insular to one that can be both inside and outside orientated requires clear leadership on the outcomes being sought to maintain control – but the results can be more impressive. Just look at the most innovative companies – happy to source expertise from wherever they can and build more dynamic teams across generational and cultural divides.

Career paths can still be in-house, but not necessarily so. Most people still want to join an organisation as an employee to add a sense of belonging and identity in their lives, but that doesn’t mean they wish to keep working in the old, more traditional ways. Increasingly, career paths may be structured to include short to medium-term transfers into partner organisations, client organisations or supplier organisations before returning with a new depth and breadth of experience.

4. Short versus long-term
Time horizons have changed. It used to be that the work day was defined by the hours of 9am to 5pm. The arrival of mobile phones and then Blackberries means our emails are chasing us 24/7. Thinking on the surface has become more short-term – managers and leaders are bombarded by an endless stream of tasks and meetings. The big picture gets lost and leaders spend significant time worrying about the short-term fix of financial markets. With all of the information available, managers are spending much of their time staring in the rear-view mirror rather than looking at the road ahead.

Through all the haze, what will the best-performing companies be doing? Hay Group’s annual ‘World’s Most Admired Companies’ survey consistently lists those companies with long-term planning near the top of the list. That’s no coincidence. The necessity to do this will grow amid any bout of economic uncertainty. After more than a decade of economic stability and growth, Australian companies are turning their thoughts to the next decade. They are genuinely asking: How long will this growth be sustainable? How long will the resources boom last? Medium to long-term planning is fashionable once again. Adding to this momentum on longer-term planning is the shrinking Australian workforce, increasing the development of succession and talent management programs.

In short, leaders are discovering again what that title means – it isn’t just to do the day-to-day job well, but also to look beyond the horizon. It’s about recognising the trends and balancing short and long-term.

Summary
Organisations cannot bury their heads in the sand and hope these waves disappear. They exist and they do effect all organisations. Merely accepting any of these trends at their extreme, however, may throw you on the rocks. The importance of
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challenging yourself and your organisation to understand these trends is critical for setting a course that allows you to leverage the energy these waves can offer.

Hay Group sees various organisations that have identified these waves and have decided to plot their course in order to ride them. Their reason for this is to make sure that these waves do not take them off course, but instead assist them to get to where they’d like to be. In our view, organisations face major decisions – how they structure their organisations, their work habits and how they engage with employees.
Roche Pharmaceuticals

Roche is a well-known global brand name in healthcare. In Australia, Roche has a prominent position in many major therapeutic areas including oncology, virology, transplantation, kidney disease and rheumatology. In 2006, Roche was seen as one of the top three ‘World’s Most Admired’ pharmaceutical companies (Fortune Magazine, March 2007), mainly because of its rich product development pipeline to treat conditions such as breast cancer, colorectal cancer and hepatitis C.

To maintain this success, and in response to changing local and global conditions impacting the pharmaceutical industry, the local Australian business decided to review its operations and develop a 2010 plan. The focus of this plan was to ‘change before you have to’. Roche wanted to maintain their innovative leadership in the marketplace, improve flexibility, increase their client focus and implement a high performance culture.

Input versus output
Roche has a democratic style of working. Departmental and cross-functional teams operate at many levels in the organisation. This style helped to create a culture with lots of meetings and slowed decision-making. To move towards a more accountable organisation, Roche redefined its marketing department’s roles to focus on individual accountability and created a transparent system of critical measures. This meant redefining management systems. The organisational model favoured by the organisation was a project matrix-style. This focuses resources when and where they are needed.

Hierarchy versus reciprocity
Roche created a marketing resource group that centralised marketing expertise and reassigned these individuals to brand teams for short-term assignments as required. This team is staffed by performers who act as professional marketers in the group. This flexibility offers a wide experience for these professionals and is sought-after by those who prefer a flexible work schedule.

Roche has been a leader in recognising that work-life balance is critical and the importance of providing opportunities
for flexible work arrangements. To ensure that its focus on people is working, Roche often checks the pulse of their employee attitudes.

**Inside versus outside**
Roche works closely with its suppliers to partner with them to reduce costs and increase productivity. For example, its printer supplier spends one day a week at its office to consult on current projects. Contractors – some of whom may have previously been employees – are supporting the new marketing resources group. The medical team has recently been reorganised into disease areas rather than product areas to reflect its customers’ organisations.

**Short versus long-term**
The nature of the pharmaceutical business is long-term due to the long R&D and drug approval processes. However, business conditions that impact a sales and marketing group can be volatile. Roche took a long-term view of the market where there is increasing competition particularly in those disease areas with unmet needs. This increasing competitiveness is abetted by the global trend towards generics and higher regulatory hurdles to launch new products. The challenge to create blockbuster drugs had been increased. These trends meant that Roche had to be able to respond quickly to challenges to ensure local performance was maintained.

In summary, Roche is a successful organisation determined to remain this way. The journey it has set out upon demonstrates its personal response to the trends Hay Group has identified. Some of these were already part of the Roche way of doing things, acting for the long-term and engaging with its employees. Others were more difficult, such as grappling with structural change and external market conditions. Taking the time to reflect and respond to these waves enhances Roche’s continued success!
As organisations head towards 2015, they face a unique set of challenges; challenges that go beyond adhering to industry policy, competing market forces, or tax and insurance risks. Undoubtedly, the single greatest challenge they face is sustainability. As the climate change debate continues to dominate the political landscape, the values of Generation Y continue to baffle traditionalists. And as community expectations change at a rapid pace, organisations are expected to do things differently.

Sustainability is more than reducing a footprint or applying last-minute ‘green-washing’ techniques to a marketing strategy. It requires an acknowledgement of the gap between an organisation’s current state and what will be expected of them in the future – both socially and environmentally. A strategic ‘whole of organisation’ approach is the only way to guarantee an organisation’s long-term prosperity.

The gap between the current pace of external and organisational change is part of this challenge. In the words of former GE CEO Jack Welch “when the rate of change outside exceeds the rate of change inside, the end is in sight.” If organisations fail to accept, embrace and embark on rapid change, they expose themselves to enormous risk. The old ‘rules of the game’ no longer apply, and the challenge for organisations is to have the courage to redress their strategy.

This is particularly pertinent to human capital. External community attitudes have a direct impact on the way employees view their organisations and their places within them. Negative community attitudes and media coverage will eventually lead to reductions in staff retention and recruitment levels. Organisations can no longer simply rely on salaries and bonuses to entice would-be employees or keep their current staff on-side. Generation Y, for example, is just as concerned about the social policies...
and environmental attitudes of their potential employers as they are about financial incentives. They will no longer work for an organisation with a dubious environmental track record or a history of secretive and irresponsible corporate governance.

Executives need to not only understand the technical aspects of the business they are operating, but also have a broader understanding of stakeholder expectations, non-government organisation concerns and general community and media responses to their activities. The wider community is demanding that executives display leadership that is engaging, responsible, transparent and accountable. Developing this leadership requires a more lateral way of thinking and a fundamental behavioural adjustment.

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This modern approach is necessary for avoiding potential crises, reducing risk and building reputation. Traditionally, organisations would maintain a ‘closed’ front and deal with the negative consequences of their actions in a reactive, ‘crisis management’ framework – relying on spin to dissipate outrage. As we head into the future, this framework is no longer viable, or even tolerated. The community is becoming increasingly savvy and critical of corporate behaviour particularly.

Organisations need to be aware of how their social licence to operate will ultimately effect their profitability by learning from the mistakes of others. There are companies in Australia who are acknowledging the ‘winds of change’ (if tentatively), but still more are ignoring the changing social context in which they are required to operate, and are reeling from the consequences. Tattersall’s, for example, failed to acknowledge a changing social context and their reputation, regardless of spin-doctoring, suffered considerably.

This leads to the challenge of risk assessment. The measurement of risk must now incorporate traditional, technical hazards (such as pollution levels) and community attitudes (or outrage potential). Angry protests, media coverage, long-winded judicial inquiries and the resulting commentary will add as much to the risk potential of an organisation’s activity as their standard social or environmental impact. A lack of transparency equates to reduced accountability, and leads to outrage. It can seriously damage an organisation’s reputation and, ultimately, its financial status – even after decades of apparent success and national recognition.

Overall, the challenges facing organisations over the next 10 years relate to changing expectations of them and their responsibilities to the wider community. If they fail to acknowledge and address these changes, pro-actively rather than reactively, they will erode their social licence to operate and, ultimately, their financial status. However, if they address these challenges within a modern framework, they will continue to find new and prosperous opportunities while building on and growing their core business.
Embracing the future

Delegates at Hay Group’s international client meeting in Budapest in 2007 were exhorted to “embrace the future: re-think, re-energise, re-engage” in order to thrive in today’s unpredictable business environment. Key international speakers included Professor Chan Kim (celebrated author on strategy and management), Professor Dave Ulrich (internationally recognised human resource consultant), musician and poverty campaigner Sir Bob Geldof and Professor Lynda Gratton (global authority on the implications on people of strategy).

The key observations of the conference included:

Diversity fosters innovation
Organisations that establish teams and projects staffed by people with a range of backgrounds, functions, expertise and experience are more likely to generate hot spots of energy, creativity, and ultimately, innovation. ‘Positive deviants’ – those employees with different perspectives – should be encouraged within the workforce.

Innovation cannot be mandated
Innovation cannot be requested or demanded by management, instead it has to be encouraged through the creation of a climate that encourages risk-taking and creativity. Innovation can be ‘seeded’ by providing tasks and roles that stretch and stimulate employees and by establishing multi-disciplinary, diverse teams.

Embrace change
Rather than proofing your organisation against change, become an agent for it through innovation – open up new market spaces, offer new solutions and services.
Think laterally
When seeking to innovate, talk to those who do not buy your products and services. Who are they? What does your offering lack? What do your ‘non customers’ require before they will invest in your product or service?

Leadership is critical
Innovation and technological advancement is not enough. It requires the commitment, imagination and belief of the entire team to deliver meaningful value to new markets – to hatch as well as lay the eggs.

Leadership = leaders
Increasingly, no single individual can tackle the challenges and responsibilities of the modern CEO. Optimise the performance of your top teams by creating the right conditions for their effective working and broaden the concept of leadership from a focus on one individual personality.

For further information about Hay Group’s upcoming international client meeting, please visit www.haygroup.com.au.