

Leading and Managing in a Continuum of Change

An Oregon Executive Forum presentation by
Ed Barlow

Less than 10 years ago, businesses were exhorted to quicken their response to what was seen as the fastest period of change in history. But in 2002, it's too late to respond after something happens. Businesses that don't develop the knack of continually reinventing themselves won't stay in business or maintain a market share. This requires a dramatic shift in our way of thinking.

But most of us have a strong tendency to hide from paradigm shifts, and this can be crippling. Paradigms built on past failures and successes can become terminal diseases of certainty rather than guides. To do well in the years ahead, companies must continually keep themselves in zones of discomfort. *If the core of your business becomes a commodity, you will fail. If your primary business can be replicated by others, you will fail.*

The new competencies are leading, managing and anticipating change. The noted futurist Gary Hamel says that "80% of what you need to know to make your business successful in the 21st century is outside your industry as you know it today." He is talking about a truly radical shift. We know, of course, that obsolescence times are getting shorter and shorter. But did you know that the half-life of Ph.D. knowledge is now less than five years? That 34 new retail products are introduced each day (12,410 each year)? This sends a strong message of constant change: of critical beginnings and endings.

So how do you position your business to take advantage of our hurried continuum of change? What can you do to survive and thrive? Barlow suggests that you regularly create your future, and then align and ally with it. And ignore conventional wisdom which says that this comes from within. Instead, look for alliances and partnerships outside your business. He notes that neither social issues nor business issues can be handled by themselves. Collaborations, partnerships, alliances, and mutually beneficial virtual ad hoc organizations are essential future tools. The task is to enhance our understanding of the future;

to understand the rapid and dramatic social, economic, political and technological changes, and their implications for workforce development; and to anticipate and prepare for them by finding approaches which can create a competitive workforce advantage.

"The future isn't bad, it's just different. Success comes to those who can align with the future, not fight it."

Ed Barlow's career includes stints as a classroom teacher, a school district superintendent, and a hospital administrator. He is the author of *Creating The Future*, upon which this presentation is based. Barlow is an avid reader of anything that connects him to the future.

When the forthcoming era of change can be described as "rebuilding a car from ground up while driving in top gear," then strategic imperatives must include maintaining a future view. Acute awareness of market opportunities, an abiding sense of purpose, adequate organizational capacity; and maximized human capital are essential. The new leadership obligation needs to include thinking and questioning beyond your experience, and planning beyond your tenure.

"When the rate of change on the outside exceeds the rate of change on the inside, the end is in sight."

-Jack Welch

This presents new leadership questions: What will be your organization's legacy 10 years from now by virtue of your leadership? Will the arrow point up or down? What business are you really in? Does your organization create and support people's lifestyle choices? Develop successful business practices for customers? Add community value? How are people's lifestyle choices, employers' business practices, and community value better or different because of what you do for them?

Leaders are now charged with creating a mental desktop that includes any

areas in which they need to remain current knowing that businesses and leaders require a 20% increase in information per year just to stay current. What will this look like in your own organization? How will you establish job expectations that change as reality changes? Who will lead the intra/inter-organizational discussions? What is the common source: where will you deposit the "ah-ha"s to educate the people who are not an active part of the process? How will you encourage professional development in anticipatory thinking, and provide "new idea" rewards?

Futures Research and Implementation

The average American's knowledge of the world is about seven years past, and yet we need to be seven years in the future. That's a 14-year gap!

Futures research is the effort to anticipate and prepare for the future before it unfolds. Often called environmental scanning, it is a systematic process used to gather information concerning the trends and issues which may impact the future condition and activities of an organization. Environmental scanning provides the necessary background within which challenges and opportunities can be determined; e.g., physical, customer, competitor, economic, technical, social, political and legal. It provides the avenues for locating or creating useful knowledge and transmitting it throughout the company.

In *The ROI of Human Capital*, Jac Fitz-enz encourages a culture that drives and rewards intelligence generation. Pierre Mourier, *Strategy and Leadership*, builds on what he calls 'organizational instinct:'

- where information is available at any moment so disruptive conditions can be identified and repaired.
- where stakeholders are empowered to, and held accountable for resolving problems as they occur.
- where intelligence is used habitually so that it is meaningful for the entire organization.

Aligning with a changing environment requires several levels of change, each of which is a lot easier to implement in an existing organization.

Gradual change (Tactical Planning) represents fairly stable and slightly linear variations in an environment with the anticipation of gradual improvement. The focus is on playing the game and improving routines. It incorporates the development of small scale actions which serve a larger more strategic purpose, and are carried out with a limited, immediate end in view, usually a one year timeframe.

Continuous change (Strategic Planning and Continuous Improvement) includes steady change and incremental shifts in an environment over time. Here, the game is improved and the style is innovative. The process includes scanning the external environment for emerging trends and issues, framing implications in terms of challenges and opportunities, and developing appropriate responses, usually covering a 2-3 year timeframe. This sets the stage for Tactical Planning activities.

Discontinuous change (Futuring) is about abrupt, non-linear, profound shifts in the environment; breakthrough change with totally new products, services, processes, systems, structures or business models. Typically driven by a grass-roots representative body of stakeholders, it includes developing a consensus of possible futures, establishing a desired future state, and setting strategic directions with a view of beyond four years. Futuring sets the stage for developing Strategic Plans.

"Without shared participation in public a citizen never thinks of any collective interest, of any objects to be pursued jointly with others rather than in competition with them, and in some measure, at their expense. A neighbor [or business associate] who is not an ally ... therefore is a rival."

Community Planning

Businesses can't be successful long term unless the community - the stakeholders inside and outside the organization - has its act together.

Create a sense of urgency about the issues in your community. Where are you headed? Do your present actions support this? Community change is driven by constituent needs and

John Stuart Mill

facilitated by a steering committee. It requires high stakeholder involvement and commitment.

Strategically Leading the Change

Change occurs because people want to decrease pain or increase pleasure, and yet all of us can cite organizational changes that have had the reverse effect. Key to successful change is the leadership and management styles under which it is executed.

Much has been written about the value of collaborative change and decision-making. Since the 1980's, command styles have steadily decreased, and consultative and consensus styles have increased, but often at the expense of what is appropriate for the situation.

In the future, a good leader needs to know and apply all three styles with regard to the situation, the people involved, the history and culture of the organization, and the native style of the leader. The framework needs to be clear to everyone because an effective change leader is charged with:

- instituting policies to make the future, not just respond to it; i.e., the capacity to continue to learn.
- systematically looking for and anticipating change in one, three, and five year increments.
- introducing change the right way -- both inside and outside - respecting all of the shareholders.
- balancing change with continuity
- diversifying: if two people in an organization think the same way, one of them is not necessary.

So an effective 21st century leader is:

- a pathfinder who keeps ahead by exploring uncharted territory, serving as an advance scout, through a disciplined monitoring of external conditions.
- an aligner, expert at quickly bringing together the people and resources necessary to address issues of critical importance, doing this through

alliances with diverse industries, organizations, community groups and professions.

- an empowerer who maintains an environment where customers and staff have access to information and assistance, communicating through effective technology as well as traditional methods of communication.

Trends, Challenges And Opportunities

1. Economic and Globalization Shifts

The paradox of the economic future can be seen by comparing several key factors:

Current	Future
Economic recession	Economic recovery
Domestic protectionism	Global expansion
Survive today	Invest in systemic change
Diversity suspicion	Diversity advantage
System redundancy	Cost reduction
Quality and security assurance	Just-In-Time delivery
Security of life and work	Quality of life and work
Vulnerability	Freedom

In 1997 local, globalizing and globalized trade was 4, 18 and 6 \$T, respectively. In 2027, they are estimated to be 5, 13, and 73 \$T. Overseas business as a percent of revenue is jumping as well. Alticor (formerly Amway) receives 80% of its revenues from overseas. And note these statistics from Asia Pulse News 11/02/01 about China, a growing global factory:

- Average economic growth rate of 8% per year over the last 20 years.
- Largest recipient of foreign direct invest for eight straight years; annually \$40B.
- Nearly 400 of the Fortune 500 enterprises have invested in more than

- 2,000 projects in China.
- Poised to be the telecommunications equipment manufacturing center of Asia, then the globe.
- Advantages of market scale, social safety and stability, talented people and infrastructure.

2. Manufacturing Shifts

Accompanying economic and globalization shifts are manufacturing shifts and supplier consolidation.

- Visteon recently condensed its supply base from 2,500 to 500 in a single year.
- Manufacturing share of GDP in high-income nations dropped from 30% in 1965 to 20% in 1995, exactly reversing the trend and percentages of East Asia and Pacific nations.
- International manufacturing centers have emerged for formerly U.S. dominated industries.
- ISO 9000 has been superceded by TS 16949 which was formed by the automotive industry in the U.S., Germany, France and Italy. Asian firms are now incorporating TS16949.
- The metric system - now used throughout the world and required in the EEC by 2009 - has yet to be integrated in U.S. (the only major holdout) despite the Metric Conversion Act, first passed by Congress in 1975. U.S. products are using a confusing 50/50 combination of metric and inch-pound measurements in an attempt to compete in a world marketplace.

A survival key for U.S. manufacturers is to think worldwide, but act locally. Those who can't don't have what it takes to be global leaders. Companies and suppliers are expected to adhere to SA 8000 (social accountability), a standard which integrates many standards. Their economic future rests on a new definition of economic capital: civility or good manners; collegiality or concern about public issues such as the quality of libraries, the condition of streets and so on; and their urbanity or willingness to experiment with ideas and feelings as

exemplified by art in the streets, new technologies for public consumption and other empowering innovations.

In the past, social accountability focused on safety, health and environmental issues. In the future, workforce and community accountability will be added. Corporations will be given a social leadership scorecard and audited socially just as they are now audited financially. Corporate social identity will be as important as brand identity, and most multinational firms will produce them by 2005.

And in large measure, the future is already here. Profits and ethics are increasingly being seen as non-divisible. According to public opinion polls, 67% of North Americans are willing to buy or boycott products on ethical grounds. 81% would switch brands to a company that supports causes if price and quality were equal. Thus, companies wanting to build lasting relationships with these customers must be willing to scrutinize their values and practices. A company's social performance also impacts employee attitudes and, ultimately, productivity.

3. The Energy Revolution

"Of all the changes of the new millennium, none will be greater than unleashing of new sources of energy (for) commercial power and every day life. The effects will be as revolutionary as those resulting from the discovery of fire and the invention of the wheel." Trends Journal, Winter 2000

Traditional Energy Utility	Future Electrical Utility
Has the right to serve every electric customer in a defined franchise service area	The prosumer - industrial, consumer, or domestic customer - has the right to choose its provider
Is obligated to reliably serve the electric loads of these customers now and in the future	Local utility provides power transmission through its infrastructure. Modular power generating systems are established

	at consumer premises.
Charges "equitable" rates to each class of customer, reflecting the full costs incurred by the utility	Variable pricing and tariffs relating to customer interest in quality and reliability Futures Report Quarterly

4. Technology Shifts

"Fewer than 25% of the companies believe their innovation performance is where it needs to be if they are to be successful in the competitive market."

Robert B. Tucker

Companies are revamping their R&D initiatives to create smaller, more versatile working groups. This is in response for a need to function at velocity level in all areas. "Velocity leadership requires the ability to make decisions quickly, handle confrontations with employees immediately, delegate responsibility, and provide accountability for results. Velocity management is decision-making at speeds consistent with today's competitive environment and technology.

The pressure points or bottlenecks to making good decisions faster are information quality, speed accessibility, and content." *Velocity Management*
Pierre Mourier

A key outcome is to increase business process assurance. In his book, *Business is Combat*, James D. Murphy identifies six crucial steps:

- 1) Identify the threat.
- 2) Define mission objective in a concise statement.
- 3) Identify support assets.
- 4) Emphasize your strengths and their weaknesses.
- 5) Set your timing.
- 6) Plan for contingencies.

5. Demographics and Diversity

An effective future leader finds creative ways to deal with these paradoxes. Part of the economic paradox is a rejection of diversity, especially post 9/11. And yet a community's future vitality is directly related to its ability to attract, retain and celebrate diversity.

Shifts in global demographics are equally profound. By the year 2030, the current world population of 6B will swell to 9B, with Asia being more populous than all of Africa, Europe, and North and South America combined. During this same period, Russia, Italy, Germany, Spain anticipate population decreases of 11-28%.

A clue to what the future holds can be seen in generational groupings in the U.S.

<p>Veterans: born 1922-1943: 52M (2000 census): conservative: savers: loyal: first-person familiar with the Great Depression and WWII: a Norman Rockwell view of America: solid, no-nonsense performers: respect for authority: a repository of lore and wisdom: immediate SS recipients.</p>	<p>Baby Boomers: born 1943-1960: 73M (2000 census): extreme optimism: rapid change: steady prosperity: tireless movers and shakers: devotees to corporate mission: passionately committed to politics and spirit of workplace: the next wave of SS recipients.</p>
<p>Gen X'ers: born 1960-1980: 70M (2000 census): technologically adept: clever: resourceful: independent: cynical: deeply fragmented: diminished expectations of post-Vietnam era: comfortable with change.</p>	<p>Gen Nexters: born 1980-2000: 70M (2000 census): high-tech: fast-paced: respectful of tradition: up-and-coming "good scouts": work and learn with fresh attitudes toward gender and traditional expectations.</p>

Our average population is aging rapidly. In Oregon, the 65+ population segment is expected to increase by 73% by 2030, and in Washington, by 103%.

Translated into social support terms, in 1995 it took 4.2 workers to support each retiree (16% of payroll taxes). By 2030, 2.3 workers will carry the burden for each retiree (32% of payroll taxes). Note that this is by no means a U.S.

phenomenon. Italy, Germany and France already commit over 30% of payroll taxes to support retirees, and are expected to increase this to 60-70% by 2030. So the financial burden of world-wide increased social support taxes is a given.

By the year 2040, 70% of employee income will be devoted to preserving a legacy of social security and health care services for an aging population. In 2002, health care expenses average \$4400 per employee per year: by 2008, this will increase to over \$12,000. And one in six U.S. citizens are covered by no health insurance at all; whatever health care they receive is picked up by the State.

Other 1990-2000 U.S. demographic changes of note: Whites increased 3.4% (OR 10.8%); Asians 52.4% (OR 60.0%); African Americans 16.2% (OR 20.5%); and Hispanics 57.9% (OR 144.3%). The purchasing power of U.S. Hispanics was \$380B in 1995; by 2008, it will triple to \$1T. Is your organization taking these dramatic demographic shifts into consideration?

6. Organizational Capacity

The traditional steady state of business cycles can probably be scratched out. Instead, a manage-it-done methodology will focus on outsourcing coupled with increased temporary workers to augment a small core staff. This trend is already firmly in place, perhaps in your own organization. The organizations that thrive are using the best resources and employment strategies project-by-project. By 2010, large organizations will employ only 15% of workers; medium and small will employ 35%; and self-employed or home based will be 50%.

We are moving to a nation of free agents who work for themselves, moving from project to project selling their services. Their impact? Over half of American corporations are now micro-businesses who employ less than 6 employees. That number is even higher in Oregon. And at the bottom of the economic ladder are free agents by default - disposable workers who would rather have "permanent" jobs, but whose education, skills and social alignment is not sufficient.

7. Alliances and Partnerships

"Alliances are formed by companies that desire to share resources and enter new markets. The alliances formed are more flexible than mergers, and easier to break than selling a company."

Barlow

More and more companies are teaming up for temporary business relationships. These well-constructed corporate alliances help partners pool expertise, enter new markets, share financial risks, and get products and services to market faster. The benefits are particularly useful in an age rocked by technological innovation, global competition and downsizing. (CIO Magazine) Consider your own organization. What are the alliances you have in place? What additional alliances would make good business sense?

These new partnerships are not just B2B. To survive the customer revolution, companies are including consumer connections to increase loyalty, develop strategy, monitor and improve customer expectations, and increase the overall perception of customer value.

8. Human Capital

"You've gotta be smarter if you're gonna make it."

Barlow

Apparent but worth repeating, is to look at employees as assets, not expenses. Invest in increasing all employee skills, yours and others. Those who don't have the skills or attitude to move into new functions already form the core of unemployment, and this trend is accelerating. The importance of ongoing education can't be overlooked. Two-thirds of unemployed people have only a high school degree or less. Gains in skilled jobs are coming in direct proportion to losses in unskilled jobs So invest time every day to increasing your skills.

"By the year 2015, more than half of us will be working at jobs that don't yet exist."
 Faith Popcorn. *"Ninety percent of white-collar jobs will be either destroyed or altered beyond recognition in 10-15 years"* Tom Peters.

Did you know that 650,000 U.S. prison inmates - few of whom have current employment skills - are being released to society each year? That 60% of new jobs will require skills possessed by only 20% of the young people entering the labor market? That the world our kids will live in is changing four times faster than our schools are changing? Organizations will inevitably pick up the bulk of the responsibility and expense for our under-schooled citizens. The new principles of human capital see a skilled workforce as a cash multiplier, and they see human capital management as a systematic process. Is your job and your work force old economy or new economy? Just as we need to continuously reinvent our organizations to attract a new economy, we need to continuously re-energize traditional career paths.

Item	Old Economy	New Economy
Competition	Physical assets	Intellectual assets
Profit	Control costs	Add value to products and services
Technology	Mechanical	Information
Workforce	Job-specific skills	Transferable skills and lifelong learning
Geography	Near resources	Near collaborators and competitors to boost innovation
Competition	Local and national	Global
Capital	Debt financing	Venture capital

Hence, leading and managing in a continuum of change requires adroit leaders who can function as:

Pathfinders: Keeping ahead by exploring uncharted territory and serving as an advance scout. Does this through a disciplined monitoring of external conditions.

Aligners: Expert at quickly and effectively bringing together people and

resources needed to address issues of critical importance. Does this though alliances with diverse industries, organizations, community groups and professions.

Empowerers: Maintaining an environment within which customers and staff have access to information and technical assistance necessary to advance their success. This is done through effective use of internet technology along with traditional methods of communication which have proven themselves to be effective.

"The dynamics of the 21st century success bear repeating: global and planetary connectedness; obsession with customer satisfaction; enhanced people and technology resources; alternative organizational frameworks; real-time responsiveness; and always in the 'process of becoming'"

Barlow