



Reality bites

If a booming economy presented a myriad of challenges for Australia's managers, then the subsequent global economic turmoil is hardly going to be the time to look for a reprieve. Looking ahead to the top challenges that managers can expect to face in 2009 – whether it be the state of the economy, the importance of strong leadership or the ongoing skills shortage – the issues are intertwined, making it virtually impossible to consider one without the other. With that in mind and in no particular order, *Management Today* takes a look at the top 10 issues to watch out for next year, what you can expect and what you can do to be ready. By **Bina Brown**.

Economic downturn

The global credit crunch of recent years and the subsequent financial turmoil has sent the world's largest economies into largely uncharted territory. And yet, historically, economies have always bounced back from even the most challenging events.

John Meacock, Managing Partner NSW, of business services company Deloitte, says regardless of whether the economic uncertainty continues, business should engage in some housekeeping that quite often got left behind in the strong growth cycle.

"Companies should be looking at managing margins through controlling expenses and boosting revenue by stemming possible price leakage and targeting high-value customer segments," says Meacock.

"Tax is a big expense companies could pay more attention to better managing; also shoring up assets and the optimisation of cash."

Meacock says the same principles apply whether a company is 'advantaged' (in such good shape that it could be on the acquisition trail), 'keeping its house in order' (shoring up its strengths), or 'under stress' (needing to divest).

Greg Joffe, Head of Strategy and Public Policy with business consultants The Nous Group, says Australian companies should resist repeating history and



John Meacock

dramatically cutting costs including staff across the board.

"It has been hard to recruit and retain good staff. If now, you let them go, it could 'make or break' a company's reputation," Joffe

says. "Be more strategic by thinking through the future of the business. Use the recession as an opportunity to reconfigure the business. Cut back on things that should have gone years ago. Retailers, for example, can use this time to review their brands and locations."

Manufacturing considerations include the redesign of supply chains and changes to sourcing of materials. Professional and financial services firms should use this period to consider new target client segments. Or, for example, rather than cutting staff by 10 per cent, drive to be the best in client service by redesigning service delivery processes and support.

"Realistically many businesses will need to cut costs, but do it in a smart way, rather than across the board," says Joffe.

Skills shortage

The Australian Industry Group estimates there to be an ongoing shortage of about 250,000 full-time employees in Australia. In lowest supply are technicians and tradespersons, followed by managers, professionals, engineers, labourers and process workers.

As the population ages, baby boomers move on gradually from the workplace and there are insufficient numbers of Generation X and Y to replace them. Consequently, the skills crisis is expected to continue for decades to come. As

such, retaining and attracting talent will be an ongoing challenge for many organisations.

Nicky Wakefield, a partner with Deloitte Human Capital Consulting, says whereas the



Chris Shen

workforce has changed considerably in recent years, the workplace has not.

"When an organisation thinks of talent it must

have a strategy that changes with its needs," she says.

Solutions are: talent management including career customisation, work solutions such as changing the design of an organisation or moving into virtual workplaces, and having clear and powerful employee value propositions.

"The key to retaining and obtaining staff is satisfying their desire to be developed and deployed across the organisation as well as be connected to people in the organisation," says Wakefield.

Organisational psychologist, Christopher Shen, suggests managers embrace the concept of multi-skilling, and encourage and reward employees to develop additional knowledge and capabilities in areas above and beyond their core training and expertise.

Managers can encourage this practice by recommending that all staff undertake secondments and placements in other parts of their organisation. For example, a manager could encourage finance professionals to undertake a rotational secondment in the IT team. This multi-skilling development may be underpinned by education and training.

Innovation

Innovation has been widely recognised as a major driving force in economic growth and social development, making the outcomes of this year's Federal Government review of the National Innovation System a key focus for business.

The Australian Industry Group's (Ai Group) Chief Executive, Heather Ridout, says arrangements specifically directed towards lifting the skills and capabilities required to drive innovation in Australian businesses will continue to be extremely important.

Ridout says upskilling of employees was a specific strategy used by nearly two-thirds of Australian companies to increase innovation in their business.

Her current concern is that the current severe shortage in skilled staff threatens to undermine local efforts to boost innovation.

Ridout says that within organisations, the skill sets required for innovation and industry competitiveness incorporate: skills enabling all individuals to be adaptive and problem-solve; technical skills; and management skills.

A national survey of chief executives conducted by



Heather Ridout

the Ai Group in 2008 found that one-third rated problem solving as the most important soft skill, followed by communication, adapting to change, and teamwork.

"While problem-solving skills are

regarded as the most important for innovation, communication skills are considered to be the soft skills most lacking in more than 50 per cent of organisations," says Ridout. "Nearly half of the firms surveyed indicated they lacked skill in adapting to change.

"Further, there is an important role to be played by managing and leading the development of innovation skills, and promoting the build-up of capacity."

The survey also noted that while formal in-house training and mentoring are regarded as the most highly valuable method of upskilling, informal training was the most common method.

Climate change



Ian Porter

The impending reality of a carbon pollution reduction scheme from 2010 is the wake-up call for every business to be aware of their carbon footprint or energy output.

Arguably the most substantial economic policy change Australia has seen since trade liberalisation and financial market reforms in the 1980s, the emissions trading scheme will put a cost on carbon for the first time. Large producers of energy can expect to pay for the impact their carbon emissions are having on climate change. Users of energy can expect higher prices, the cost of which may need to be passed onto their consumers.

Ian Porter, head of the climate change practice at business consultants The Nous Group, says businesses should be aware of ways to reduce their carbon emissions as well as understand what a likely energy price rise will do to their own value chain.

"Managers should identify the impact higher prices will have on their cost structures and look at the potential to reduce their energy consumption and become more efficient," he says.

Porter says "clever companies" will look hard at the environmental market place for what they can do for their client base.

"The community will start looking for greener products and companies need to be able to demonstrate what they have done and then tell people about it."

The scheme's start date is also eagerly awaited for by one group in particular. "It will be a signal for a generation of innovators," says Porter. "Now is the time to engage staff and get ideas, both in terms of technology and process."

Partner at Deloitte Economics, Jon Stanford, says the shift to a carbon-constrained economy means that corporate boards will need to make some strategic decisions now.

"It is imperative that you know a number of new things about your organisation. You will require accurate and robust information about your business, your supply chains, your target markets and your key carbon exposures," says Stanford.

"The scheme ensures that climate change is no longer an issue for just your environmental or corporate social responsibility team. Learning how to do business in a carbon-constrained economy is about to become a source of substantial competitive advantage and should be occupying the attention of your organisation's most senior decision-makers, including your CEO, CFO, CRO and CIO."

Changing regulation and compliance



Greg Joffe

Major reviews of key policies are the hallmark of any new government and Prime Minister Kevin Rudd's team is no exception.

The tax system, superannuation,

financial services, health services, education, trade facilitation and innovation are just a few areas facing an overhaul following significant reviews since Rudd came to power.

Businesses really need to think through their strategy for a changed policy and regulatory environment, says Greg Joffe, of business consultancy The Nous Group.

"First recognise that the operating environment is a key component when developing strategy. Massive changes to government policy and the

regulatory environment requires significant adjustments for businesses. There will be challenges; it is important to recognise there are also likely to be major opportunities arising from these changes," says Joffe.

"Companies cannot afford to leave these sorts of changes to their legal departments as they are core strategy questions: What are the possible/likely outcomes from the review? What would our strategy be if the environment changed? How can we change what we do now to be ready for the changed environment?"

Joffe suggests businesses do some scenario planning to help prepare for a range of uncertain possible outcomes.

"Develop realistic, yet challenging scenarios and then work through what the company would do in each situation, and look for common strategic responses and initiatives. Also identify key flags to track to provide an early indication of which scenario appears to be coming to fruition."

Globalisation



Keith Suter

The process of globalisation might be taking us on a journey to an unknown destination, but governments and business who ignore the process to so at their own peril, says Dr Keith Suter, a consultant

on strategic planning and futurist.

Globalisation is seen as the reduced power of national governments and the transfer of power to transnational corporations which are the drivers of economic change. This includes international organisations such as the European Union and the United Nations, and non-governmental organisations such as Amnesty International and environmental groups.

"The world order created from the first diplomatic congress held in Europe in 1648, [the Peace of Westphalia] which resulted in the creation of individual national governments, is gradually changing. Business should be encouraging government to educate people on globalisation and to look for opportunities rather than threats, and to encourage people to live by their hopes and not by their fears," says Suter.

Living in a world with fewer borders means having to reinvent ourselves to remain competitive.

"If a US recession has a knock-on effect to the world powerhouse that is China – a major driver of the Australian economy – then the challenge for Australia will be to produce what the rest of the world wants, namely raw materials and services," says Suter.

"Australia has reinvented itself before and now might be the chance to really promote itself as clean, green and safe. The problem is the lack of spending on research and development, developing new industries and commercialising the inventions we have." >>



Mergers and acquisitions

The global trend towards consolidation was well underway before the financial turmoil of 2007–08 started to present an even greater number of opportunities.

In an environment where growth by merger and acquisition (M&A) is becoming increasingly attractive, a business must first decide whether it is an acquirer or wants to be acquired.

Depending on whether success is defined by shareholder value, customer satisfaction, or some other measure, most research places the merger failure rate somewhere between 50 and 80 per



Tony Garrett

cent. Tony Garrett, Corporate Finance Partner and leader of Deloitte's Mergers and Acquisitions practice, says there are several things management can do to avoid failure, starting with establishing clarity

and rigour around the merger process.

"If the disciplines are right then you probably won't do a deal you should not do," he says.

Garrett says companies that embark on M&A need to see it is a core discipline and establish clarity and rigour across all phases of a deal.

They should also be seen as good owners of other companies and by "knowing their prey" could start to build a useful relationship early rather than make an unwelcome attack.

Garrett suggests starting the process early including planning what changes you might make if the execution is successful. "If you start the integration planning in the pre-deal phase then by the time you get to own the company you know what you want to do with it," he says.

Technology



Ross Dawson

Technology and the trends it is driving is a force to be reckoned with, but managers who ignore its capabilities will miss out on the opportunities presented.

Technology and the newly, extraordinarily connected world has created information overload to the point where knowing what to do with the information is a problem for many people; perversely perhaps, technology can also form part of the solution.

Just think of the information managers have available to them today that they didn't even 10 years ago.

Ross Dawson, Chairman of Future Exploration Network, says the success of managers will be to deal with this exhausting amount of information – inside and outside their organisation – and to use it to make better decisions.

"Technologies allow organisations to build

stronger relationships with staff and suppliers and take new opportunities to build their strategy," says Dawson.

The connected world opens up organisations to suppliers anywhere in the world. Technology and the ability to work from home or at the beach is changing the dynamics of the workplace and the expectations of the workforce.

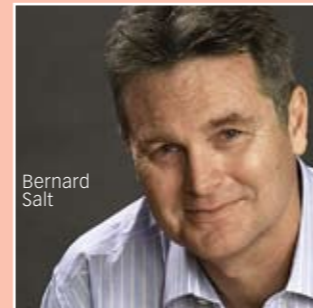
Transparency in business is another technology-driven trend that requires it to be used effectively.

The expectation across industries is that a range of information will be readily available to customers who will be able to compare offerings and prices from suppliers globally, increasing expectations and price pressures.

Dawson says that while every business uses technology in one way or another, some do it in very basic ways without fully realising what a difference it can make.

"The challenge is that with information overload there are many new technologies to grapple with. It is important for managers to be willing to experiment and try different approaches using different technologies, particularly where the pace of change is so rapid."

Changing demographics



Bernard Salt

Best known as the original 'me generation', for many businesses the familiar baby boomer is just starting to make its presence felt.

Accounting for almost 22 per cent of the Australian population, those people born between 1946 and 1961 are already starting to put lifestyle ahead of work, to travel extensively while they still have their health, revamp their family home in preparation for a new life phase, and happily spend their inheritance on luxury goods while dressed in denim.

Leading demographer and KPMG Consultant, Bernard Salt, says an important first step for any organisation addressing this significant generation is to drop the word (or inference) 'retirement'

or 'pensioner' from any promotional material or product range.

"For many people, reaching the age of 65 – the official pension age – marks a change of lifestyle. The reality is most people stop work at 58 and there are number of new markets that are going to blossom as the boomers continue to step back from the workforce," says Salt.

Salt lists opportunities in financial planning, travel, lifestyle and education as key areas that should be researched.

Ignoring the rate at which boomers will move on compared to the arrival of generation Y – and the impact this will have on already existing skill and labour shortages, as well as wage pressure – will be a mistake, says Salt.

There are advantages to be gained from dealing with succession planning early and looking at ways to retain, experienced staff. Introducing policies such as compassionate leave to look after aging parents make it conducive for older people to work.

Leadership



Tom Richardson

With ongoing international competition for the best chief executive officers – and second and third level officers – unlikely to subside, Australian companies will be forced to continue

to develop their own leaders rather than just bidding for more offshore talent.

That means the commitment to, and attendant risk of, ongoing investment in leadership programs which may or may not result in developing the best leader for your organisation.

The Nous Group's Greg Joffe says developing from within can create a valuable employee proposition for companies, as well as help keep costs down and create better leaders if approached the right way.

"A common mistake for organisations is building a leadership development program around a generic model of what is a good leader," he says.

"Leadership is context specific. So when you think about developing leaders you must understand the dynamics of the industry you operate in, the culture and history of the organisation and the type of leader you want.

"Demand action. Leadership development should not be a spectator sport. Focus on the results your leaders should deliver to their followers. And make

the program very personal; leaders develop when their core is touched." Tom Richardson. Managing Partner of the Deloitte Leadership Academy, says the best way for business to identify future leaders is to be very clear on where the business needs to be in three years, and the individual and team competencies required to lead the business in that direction

"Once a clear picture exists of the competencies required to succeed, a thorough diagnostic of individual leaders in the business is required, which may include behavioural, psychological, cognitive, emotional intelligence and capability assessments," he says.

Richardson also encourages a diagnosis of team effectiveness, particularly the leadership group, in the business.

He says that with business needing to respond to tougher economic conditions, the required capabilities in the next three years will be quite different to the past three years.

"The next generation of leaders will need to cope with both an economic downturn and then a rebuilding phase," says Richardson. "The way these capabilities are developed will change as leaders have less and less time to attend traditional classrooms and read lengthy textbooks.

"Organisations need to leverage technology and more innovative ways to help build quality leadership; this has resulted in leadership development now being on top of the agenda for most company boards." **MT**

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