

Managing in Tough Times: Perspectives on Leadership and Change
A Forum for Executives in Human Resources and Leadership Development
November 19, 2001

Executive Summary

In a one-day forum, Wharton professors engaged with more than 65 human resource executives from across industries to examine leadership development challenges in today's market. The complimentary forum was designed to provide HR executives with an opportunity to network and strategize in an uncertain economy, as well as an opportunity to learn more about Wharton's capabilities in executive development. It drew leaders in HR and development from pharmaceuticals, financial institutions, insurance, high tech, consulting, consumer goods, utilities, manufacturing, and transportation, as well as representatives from non-profits, government and education.

Despite the wide range in industry and size of organizations, there was common ground on many issues related to talent and leadership development. Among the primary challenges identified by participants: adapting to a changing workforce, rapid advances in technology, and an uncertain economy.

In the day's summary session, the executives prioritized the two most important challenges facing them: identifying the right "people portfolio" and gaining the right metrics to assess individual and team skills.

Within this context, three primary needs emerged from the day's activities and conversations:

1. The need for a **wider perspective**—to move from an internal, company-focused view to one that encompasses an entire industry, emerging technologies and world political, environmental and sociological trends.
2. The need to **better understand today's workforce**—what motivates them, and how to spot, attract and retain the best employees, during down times as well as good times.
3. The need for **better leadership training at all levels**.

Looking ahead, these executives expressed interest in future programs that combine on-site and virtual conferencing capabilities with expertise in leadership, management and human resources.

The following report is a summary of the day's three main content sessions. The forum also included a tour of Wharton's executive conference center and a dialogue with Robert Mittelstaedt, vice dean and director of Wharton Executive Education.

The next Wharton HR Executive Forum will be held on Monday, January 28, 2002, and will take place at the new Wharton West education center in San Francisco.

For more information, or to apply for a reservation online, visit the Wharton Executive Education website at www.wharton.upenn.edu/execed or call 1.800.255.3932 or 215.898.1776.

Session I: Emerging HR Issues & the “War for Talent”

“... Understanding that the shift in values away from loyalty to one company began after World War II – and that this next generation of workers isn’t that different from the baby boomers, only that the economy is radically different for them – gives me a greater framework with which to view recruiting.” – Participant Thomas Murtha, OD Consultant, IRS.

The day’s first session was led by, **Peter Cappelli**, Professor of Management, Director of Wharton’s Center for Human Resources, and author of *The New Deal at Work: Managing the Market-Driven Workforce*.

- Is there something different about the next generation of workers?
- Is there something different about jobs now?
- Does good talent really matter?
- How will demographics impact the workforce – in the U.S. and globally?
- What can be done to attract and keep good talent?
- How can you make training investments pay in a changing workforce?

Not only is today’s job market unusual – 63 percent of companies recently surveyed by the AMA admitted to cutting jobs in one division while recruiting in other divisions – today’s workforce itself faces challenges different from past generations of workers.

Today’s entry-level workers no longer expect lifetime security with an employer, and they are constantly on the look out for career opportunities. In one survey of 1500 MBA students around the world, the ability to garner a good reference for their future career was rated as the most important characteristic of their first job. Second was that the company values a balance between personal life and career.

But that was before the economy slowed. “I’ve got two children in their twenties who had never seen a downturn until now,” said Murtha of the IRS. “Their view of the job market has been go-go. Now I think they’re more inclined to be looking for security again.”

Despite the current economic downturn, however, the underlying forces driving the change to a market-driven workforce remain. And for a more mobile and global workforce, the Internet has emerged as a powerful tool for both online job searching and recruiting – making it easier for your employees to look around, and for your competitors to find them.

How to Recruit the New Generation

One participant asked how to recruit first-time employees given that so many of them view their first job only as a stepping-stone. To make jobs more attractive to this generation of workers, Cappelli said companies need to:

- ***Institute effective performance management.*** In the past, first-level managers were promoted strictly on seniority and companies did not pay enough attention to how they actually worked with employees. As a consequence, many people reported being

unhappy with how they were managed at the last job. This is changing as companies realize that employees increasingly view their jobs as investments and will not tolerate a position in which they are not constantly learning and moving up. Modest investments in management training can help remedy this problem.

A good performance management program explicitly outlines what is expected of an employee, how it will be measured, and what the rewards are for meeting these expectations (as well as the consequences of not meeting them).

- ***Create an “employee value proposition.”*** Recruiting has become more like marketing, Cappelli said. “What if you had to sell your jobs in a competitive marketplace? What would you say about what it’s like to work at your company?” He pointed out how IBM’s ads don’t mention products but give an image of the company’s culture and values. It is estimated that one in five job applicants apply because of a company’s advertisements.
- ***Respect the work-life balance.*** This new generation of workers places a high value on the work-life balance. Policies that recognize the need for flexibility can be part of your “employee value proposition” – to help attract good talent and create a climate of commitment.

Managing Talent

Employers, on the other hand, need tools to be able to identify their best employees so that they can better deploy resources to attract and retain these employees. Some studies have shown that a company’s “best” computer programmer is considered 22 times better than its “average” programmer, based strictly on the number of code errors. While measuring and comparing employee performance in other job classifications is more complicated, “The fact is that the best people really do matter – a lot,” said Cappelli.

Performance management can be a crucial tool here, as well – not only providing employees with clear criteria for how they will be able to develop their skills, but providing the employer with the feedback needed to identify and grow top talent. The role of the supervisor is key, with performance reviews and appraisals one place to start.

The standard model of replacing older workers with younger, recent graduates is also changing, Cappelli said. “In the U.S. there isn’t so much a shortage of workers as a shift in the balance of workers. Increasingly, companies are finding that they need to keep more of their older workers, the ones who have the knowledge and experience.” In today’s IT market, the current glut of jobs should be balanced within a few years when colleges and universities begin graduating their IT students.

Create Closer Ties with Schools

By creating internships and co-op arrangements with local colleges and even high schools, Cappelli said, companies can gain a steady source of well trained and well informed workers. At GE, for example, half of the new hires come to them via their internship and coop

programs. “These programs benefit both the company and the employee, because each knows what they’re getting into,” said Cappelli.

Session II: Leading Up Within Your Organization

A working lunch session was led by **Michael Useem**, Professor of Management, Director of Wharton’s Center for Leadership and Change Management, and author of the recent book, *Leading Up*.

Using examples from the Civil War, Apollo 13 and the reactions by several top management teams on September 11, 2001, Useem dramatically illustrated five components of “upward leadership.”

1. Building the top management team
2. Steadying the ship
3. Conveying strategic intent
4. Seeing ahead for your supervisors
5. Taking charge when you’re not in charge

“With training and evaluation we are constantly fighting an uphill battle, even more so in tough times. When we need to sustain leadership we shy away from it.” – Angelo Ioffreola, IO Strategic Communications

The ability to assemble and maintain effective teams of people – from different cultures, geographical locations and business functions – is one of the priorities of human resource executives. Participants expressed that finding the time to get more than one or two people out of the office at the same time is a significant restraint in developing leadership training programs.

Session III: Gaining A Wider Perspective Through Scenario Planning

“It’s clear to me now that when I think back on some of our businesses that went bad, they went bad for reasons we could have easily anticipated if we had taken the time to do scenario planning.” – Allen Dance, World-Wide Trinagy Field Integration Manager, Hewlett-Packard Company.

What competencies will your company need to win in the future? By identifying and preparing for likely future scenarios, companies can emerge stronger from familiar downturns, such as recessions, and can develop the agility to face unexpected events.

Roch Parayre, Senior Fellow in Wharton’s Mack Center for Technological Innovation, directed the afternoon session on scenario planning. He drew distinctions between an event-based versus a process-based view of corporate strategy. While an event-based view of

strategy might base success on being faster and cheaper, Parayre said, “the real money might be on generating revenues by reinventing the business.”

Using a process view of strategy can also help you identify the capabilities you will need to achieve success in the future. Royal Dutch Shell, the pioneer of scenario planning, used this technique in the 1960s to correctly anticipate the shrinkage of the world oil supply. In anticipation of this eventuality, the company sold its fleet of tankers and leased them back. When the oil crisis hit in 1973, the company saved 35 basis points by simply not renewing all of its tanker leases. In contrast, Parayre cited GM, which became blinded by its past successes and took a huge hit in the early 1970s when oil prices quadrupled. “GM spent 20 years getting back on its feet; most of that time was just changing its assumptions.”

Parayre also used New York Life as an example of a company with a current strength that could become a ball and chain. New York Life uses its network of 6,000 agents as a major asset; but what about 10 years from now when everyone might be buying insurance on the web?

Scenario planning involves generating pictures of several prototypically different worlds that your company could find itself operating within in the future. “It’s not just what do we need to be a winner in this future—but what do we need to do to win with market segment A or B. At the end of the day you want robustness not just across futures but across futures and segments,” Parayre said.

Once you have identified the competencies required to succeed in each of your potential futures, you can begin to look at what competencies cut across scenarios. “For example, if you have identified data mining as a competency that will lead to success in all of your scenarios, from there you can focus on which budget items to commit to data mining.”

Parayre cautioned that all of these projections and scenarios are still “assumptions” based on uncertainties. The goal of the exercise is to expand the realm of possibilities that you consider and plan for.

Scenario Planning Group Report-Outs

After Parayre’s initial presentation, participants were divided into eight groups based on related industries. Working together, they identified future trends and uncertainties affecting their industries and then created a set of potential future scenarios. As a framework, executives first listed uncertainties and trends in four areas: social, environmental, economic and political. They selected the two most important uncertainties with which to create their scenario grid. Inside the grid they listed the winning competencies they would need for each particular “world view.”

Intended as an introduction to the process and potential of scenario planning, the workshop was short, but dynamic. At its conclusion, each group shared its findings with the forum. Following are brief summaries of these reports.

Group 1: Insurance

Faced with an explosion of new insurance products, changing trends in wealth distribution and uncertainties arising from September 11 and government regulations and advances in technology, this group identified increased expertise in medical and legal areas as key competencies, along with better marketing, distribution and pricing.

Group 2: Pharmaceuticals

With the advent of new technological leaps into areas such as genomics and proteomics, this industry may be able to make significant inroads against drug-resistant organisms. But it will face pressures from the continuing Green Movement, the ability (or inability) of populations to pay for new drugs, industry consolidation, managed healthcare and government regulations. Key competencies for any of these future scenarios will include pricing and distribution expertise.

Group 3: Technology/Computer Hardware

Taking a three-year view, this group listed the changing workforce composition, the rise of the knowledge economy, and telecommuting as the major trends in the hardware business. Among the major uncertainties affecting this industry they identified: the absence or presence of a digital divide; a significant energy crisis and a threatened loss of communications due to terrorism; and a possibility of less local computing (i.e., more use of servers).

They identified four separate future visions of the hardware industry based on the two uncertainties: whether or not a digital divide emerged, and whether the economy continued to shrink or started to expand. In each of these scenarios, members found four key competencies that would be necessary in any and all: cheap and speedy distribution, marketing, scale, and the development of alternative revenue models.

Group 4: Consulting

Among the significant trends this group listed were: the aging baby boomer population; consulting being seen as a less attractive career; increased use of technology (i.e., more online consulting); the rise of e-training, e-learning and e-conferencing; bundling of services; the globalization of implementing IT (offshore); the need to outsource for experienced and knowledgeable workers; a greater focus on LT ROI; the segmentation of skill sets (high and low tech); and the rise of China as a world power. Among the major uncertainties listed were: the regulatory environment; the possibility of either a biological or terrorist disaster; a protracted recession; isolationism; an energy crisis; or a rapid end to the war on terrorism.

In a boom or bust, aggregated or un-aggregated view, the key competencies for future winning strategies in the consulting world they listed were: increased attention to customer management and relationship selling; building teams of specialists; and developing expertise in service, products and brand management.

Group 5: Consumer Goods & Services/Utilities

Among the significant trends that will impact this sector are: increased life expectancy; continued dual-income families and diversity; increased focus on marketing to consumers; increased desire for immediate gratification; increased desire for convenience (i.e., take-out food); the need to know languages other than English; recycling; and the need for a more educated workforce.

The significant uncertainties that will affect this sector include: concerns over security (i.e., packaging); the economy; labor costs; import/export issues; productivity of food production; bioengineering vs. natural production methods; ordering food online; the EPA; genetically modified organisms; the safety of the food and water supplies (i.e., in face of terrorism or natural threats such as foot-and-mouth outbreaks); biological threats; stability of electricity and other power-generating facilities potentially threatened by acts of terrorism; gasoline prices; and the changing trends of supermarkets.

Key competencies needed for this sector in the future include: Good management; labor relations (avoidance of unions); and integration of automation and other technological advances.

Group 6: Manufacturing/Transport

This group identified significant trends pointing to a future world that will face a diminishing pool of skilled workers, increased diversity of global cultures and socio-economic groups, and a depletion of natural resources.

Key organizational competencies will be:

- Investing in research into alternative fuels
- Becoming a more responsible corporate citizen of the world regarding environmental safety
- The ability to build relationships in strategic areas of the world.

Group 7: Non-Profit/Government/Education

Driven by trends indicating an aging workforce and student body, an increase in e-learning and a decreasing number of teachers and administrators, this group organized its future scenarios around the uncertainties surrounding the economy and the devaluation of diplomas. In a future with a healthy economy and a high value given to a diploma, few problems are predicted, with an increased focus on links with business seen as the most important competency. In a boom economy with a concurring devaluation of diplomas, schools will need to offer more practical areas of study, be more adaptable and have a better handle on costs. In a sagging economy with a high value placed on a diploma, prestige (i.e., brand) will be paramount, as will be focusing on reducing costs and successful placements for graduates. In the worst case scenario, a sagging economy with a low value on diplomas, all of the following will need to be exercised: a more practical focus, successful placement of

graduates; creation of niche schools; adaptability; cost controls; and more internships and co-op arrangements.

Group 8: Finance & Banking

Increased attention to customer retention methods and product/service innovation were identified as the key competencies in this sector, which will feel the biggest impacts from the changing global political and economic landscape. In addition, organizational agility and robustness will be essential for anticipating unmet and emerging customer needs as the global situation changes.

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Forum Participant Comments

A few comments from participants at the conclusion of the day's events.

Enlightening, innovative, current and well organized.

Good blend of academic think-tank environment with corporate strategy structure.

Challenged and shaped my thought processes. Each session was valuable.

Scenario planning was invaluable – highly recommend this for any manager.

Very impressed with how much great info was packed into this one day! You gave me great things to take back and share with my team.

Excellent showcase of Wharton's programs.

Instructors were excellent, inspiring and thought-provoking.

It got the juices flowing and whets the appetite for more.

Would strongly recommend to others.