Since its founding in 1963, The Boston Consulting Group has focused on helping clients achieve competitive advantage. Our firm believes that best practices or benchmarks are rarely enough to create lasting value and that positive change requires new insight into economics, markets, and organisational dynamics. We consider every assignment a unique set of opportunities and constraints for which no standard solution will be adequate. BCG has 59 offices in 36 countries and serves companies in all industries and markets. For further information, please visit our Web site at www.bcg.com.

Innovation & Business Skills Australia (IBSA) is one of ten national Industry Skills Councils representing the skill needs of industry to government and the vocational education and training sector.

IBSA is the official voice on skills and training for a diverse range of industries driving the innovation economy:

- Education
- Financial Services
- Business Services
- Printing and Media
- Cultural and Creative Industries
- Information and Communication Technologies

Industry Skills Councils have two key roles:

- Providing accurate industry intelligence to the vocational education and training sector about current and future skill needs and training requirements; and
- Supporting the development, implementation and continuous improvement of nationally recognised training products and services, including Training Packages.
The Manager of the 21st Century

2020 VISION

JON NICHOLSON

AMANDA NAIRN

JANUARY 2006
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www.ibsa.org.au
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Why This Report is Important to Business, Government and Education

Innovation & Business Skills Australia (IBSA) commissioned The Boston Consulting Group (BCG) to undertake this study into how the role of Australia’s senior managers is likely to change between now and 2020, and to identify the skills and attributes that will be needed to respond to those changes. The impetus was IBSA’s strong commitment to advising and guiding industry, training providers and governments on the skill needs of Australia’s managers and leaders, so that Australia’s international competitiveness continues to grow into the 21st century.

This report builds on a previous study prepared by BCG in the early 1990’s for the Industry Taskforce on Leadership and Management Skills - often referred to as the Karpin Committee - of which I was a member. The earlier work provided a snapshot of the 2010 Senior Manager and strongly influenced the focus of the Karpin Report. Its findings were adopted by many organisations as a blueprint for the development of their future leaders and managers, and have retained their currency - the 2010 senior manager profiled in that initial research is widely accepted as reflecting contemporary best practice. Our goal in commissioning this current report was to ensure that organisations have a similarly useful model on which to base their leadership and management development strategies over the coming years, so that Australia’s leaders and managers and their organisations continue to compete effectively with the best in the world.

Key findings from the report will also be used to update the skills profile of the frontline manager and will, without doubt, influence planning for general workforce skills development during the next decade. This is a seminal piece of work that IBSA will use in its role of working with industry to identify skills needs and develop effective training solutions and services for the vocational education and training sector.

As the Industry Skills Council (ISC) for Australia’s business and innovation sectors, IBSA develops nationally recognised competency standards and qualifications. Strong links with industry and training providers means that IBSA contributes to Australia’s robust national training system, particularly with our special focus on the construction of new knowledge that innovates and leads change in the workplace and the economy. This report on the changing role of Australia’s senior managers and leaders, and the skills needed to respond effectively, provides an excellent framework for skills development in all industries over the next decade.

We would like to acknowledge the in-kind contribution by BCG, and are delighted that members of the original research team were also able to guide the research and analysis for this important piece of work.

John Vines OAM
Chair
Innovation & Business Skills Australia Ltd
Foreword

As the world changes, so does the workplace. Managers of the 21st Century operate in environments quite unlike those they first entered, and must regularly update their skills to meet the challenges of a dynamic global market and a more diverse workforce.

In 1995, the Commonwealth Government’s Industry Taskforce on Leadership and Management Skill commissioned The Boston Consulting Group to write The Manager of the 21st Century. The report stimulated a lively debate on executive education and led many local business schools to rethink the structure and focus of their offerings.

Ten years on, Innovation & Business Skills Australia has asked us to look at the issue again.

The result is an update on thinking, rather than a fully fledged review. We believe that to succeed in the years up to 2020, executives will need to master a range of hard and soft skills. Amongst other things, they will require the confidence to manage multi-generational teams, the creativity to measure staff performance on outputs rather than inputs, and a high degree of technical and functional expertise in addition to their general management credentials.

To equip managers with the requisite survival skills to 2020, educators must continuously refine the executive learning agenda to ensure it keeps pace with changes occurring in society, the market, and the workplace. In that context, we hope this report will generate discussion and assist those responsible for training the next generation of Australian management.

In developing this report we have been lucky to engage with the heads of Human Resources in a number of leading companies and with a range of other practitioners with special insights to offer. We are grateful for each of these discussions and for the generosity of all those interviewed in giving us their time.

Jon Nicholson
Senior Vice President

Amanda Nairn
Manager
Executive Summary

The last decade has brought significant change for most Australian managers. The economic rise of China and India and the consequent growth in offshoring has changed the executive landscape. The continuing shift to services in the economy and the greater focus on people performance rather than asset performance has changed the workplace. The ageing workforce has become a reality which executives must now address. The rise of shareholder value as the primary measure of company performance and the growing influence of the corporate governance movement have had a dramatic impact on the way executives think and act. The years to 2020 promise further change (Exhibit 1 and 2). With it will come a new agenda for executive education and training.

The Changing World

Over the next 15 years, we will begin to see three different generations in the workplace at the same time, each with very different needs and aspirations. Baby Boomers will no longer dominate and Generations X and Y will play a much larger role. Managers will be expected to manage a multi-generational workforce and acquire generation specific leadership and management skills including managing a generation of older workers who will not retire in the traditional manner.

Globally, executives will have to come to grips with a world economy increasingly shaped by the emergence of China and India as major powers and with an Asia fully recovered from the 1997 crash. They will face global labour markets and complex environments generated by offshoring and other multi-country strategies.

As a result, executives will need more sophisticated strategies to engage in the global market. They will travel frequently and spend a greater proportion of their careers outside Australia. A sound understanding of offshoring, supply chain management and diverse workforces will be vital. Managers will also need to give serious consideration to developing strong language and inter-cultural skills.

The Changing Workplace

The workplace will increasingly focus on the performance of people as a core company asset. Models of flexible working will continue to evolve in response to the changing needs of Baby Boomers and the preferences of Generation Y. Greater attention will be given to measuring the performance of people, not just physical and financial assets, and also to developing new techniques for improving performance. Problem solving and creativity skills will become increasingly important.

Executives will need to master a range of new management tools and will be expected to operate effectively in a highly dynamic environment. They will find themselves assessed on a new range of metrics and will rely much more on output measures to assess their staff. They will require new skills to create more flexible work environments that better accommodate the needs of their employees, including greater numbers of contractors and part-time workers.

The Changing Mindset

In the next decade or so, there will be a shift away from a dominant shareholder value perspective and towards a wider stakeholder view. This will create closer scrutiny of the way in which companies and executives behave.
Executives will need to move to a ‘community of stakeholders’ view of performance that enables them to understand and balance competing and conflicting interests.

The predominance of the generalist is likely to decline, and will be replaced by a greater emphasis on genuine subject expertise in senior roles. Executives will need to learn how to build and maintain personal expertise in their field, while building and leading teams of experts.

**Exhibit 1**

<table>
<thead>
<tr>
<th>A VISION FOR 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Changing World</strong></td>
</tr>
<tr>
<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td><strong>The Changing Workplace</strong></td>
</tr>
<tr>
<td></td>
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<td></td>
</tr>
<tr>
<td><strong>The Changing Mindset</strong></td>
</tr>
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<tr>
<td></td>
</tr>
</tbody>
</table>
The Agenda for Educators

The emerging challenges for executives will set a new agenda for educators and Human Resources Directors. Although requirements between companies, individuals and roles will vary widely, a number of new areas will arise for training and development (Exhibit 3).

Exhibit 3

<table>
<thead>
<tr>
<th>The Landscape</th>
<th>Business Impacts</th>
<th>Executive Development Needs</th>
</tr>
</thead>
</table>
| The Changing World | - Three generations in the workplace  
- Longer, later working life | - Generation-specific leadership and management skills  
- Career planning beyond 50 |
| The Changing Workplace | - Workplace flexibility  
- People businesses  
- Talent optimisation | - Managing flexible environments  
- Managing people businesses  
- Optimising people's performance individually and in teams |
| The Changing Mindset | - Serving all stakeholders  
- Top team focus  
- Personal expertise matters  
- Personal wealth | - Understanding, aligning and balancing stakeholder needs  
- Leading teams  
- Building and maintaining personal expertise  
- Wealth/work and life choices |
The years to 2020 will see a substantial new agenda unfold for managers and executives. They will need to respond to major changes in their external environment, globally and domestically, as well as changes in the workplace and changing expectations of their role and the way their performance is assessed.

The new executive agenda will place responsibility on educations and Human Resources specialists to develop the next generation of executives, and up-skill the current generation.
The Changing World: The New Labour Market

The coming decade or so will bring with it a significant generational shift in the labour market.

For the last few decades, the Baby Boomers have been the dominant group in the workforce. Over the next 15 years, although a large part of this group will reach or pass retirement age, many will choose not to retire in the traditional sense. Generation X will have moved forward into management roles, and Generation Y will be an increasingly important group in the workforce. Australia is likely to experience a period of prolonged skill shortage.

The challenge for managers is that the three generations working together in the next decades will exhibit marked differences from each other. In a skills-focused and skills-short economy, success will require – to a greater extent than ever before – the ability to manage across generations (Exhibit 4).

### Exhibit 4

<table>
<thead>
<tr>
<th>Generation</th>
<th>“I”</th>
<th>“X”</th>
<th>Baby Boomers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Defining Experience</td>
<td>The Dot Com boom and bust</td>
<td>The ‘greed is good’ 80s</td>
<td>Flower Power prolonged good times</td>
</tr>
<tr>
<td>Age Range: 2005</td>
<td>Under 24</td>
<td>24 - 44</td>
<td>44 - 60</td>
</tr>
<tr>
<td>Attributes and Concerns 2005</td>
<td>• Entrepreneurial aspirations</td>
<td>• Transactionally motivated</td>
<td>• Idealistic</td>
</tr>
<tr>
<td></td>
<td>• Expect success</td>
<td>• Expect to change jobs for career advancement</td>
<td>• Highly social</td>
</tr>
<tr>
<td></td>
<td>• Strong social conscience</td>
<td>• Naturally collegiate</td>
<td>• Largely traditional views of corporate loyalty</td>
</tr>
<tr>
<td></td>
<td>• IT fluent, native speakers</td>
<td>• Early adopters, IT literate</td>
<td>• IT a learned language, for some</td>
</tr>
</tbody>
</table>

- Entrepreneurial aspirations
- Expect success
- Strong social conscience
- IT fluent, native speakers
- Transactionally motivated
- Expect to change jobs for career advancement
- Naturally collegiate
- Early adopters, IT literate
- Idealistic
- Highly social
- Largely traditional views of corporate loyalty
- IT a learned language, for some

<table>
<thead>
<tr>
<th>Age Range: 2020</th>
<th>23 - 39</th>
<th>39 - 59</th>
<th>Over 60</th>
</tr>
</thead>
<tbody>
<tr>
<td>Possible Attributes and Concerns 2020</td>
<td>• Entrepreneurial focus</td>
<td>• Moving into senior management ranks</td>
<td>• Phasing down work commitment, but not retiring in the traditional sense</td>
</tr>
<tr>
<td></td>
<td>• Self managed careers and lifestyles</td>
<td>• Inclusive management styles</td>
<td>• Potentially continuing to dominate executive and board ranks</td>
</tr>
<tr>
<td></td>
<td>• Some ‘let down’ as working life fails to meet high expectations</td>
<td>• Challenged in managing multi generational workforce</td>
<td></td>
</tr>
</tbody>
</table>

The New Retirement

Over the last 30 to 40 years, the average Australian’s expectation of working life has shortened. A decade ago, many would have hoped for, or even assumed retirement at 55 or soon after. However, in practice older workers are now working longer than in the past. Many neither want, nor are financially prepared to retire at 55, 60 or even 65. Indeed, many will have longer careers than their parents, contrary to all expectations. As a result, we are witnessing a new ‘shape’ to the careers of older workers (Exhibit 5).
For businesses competing for skills, there is clear value in retaining capable and experienced staff for longer and in smoothing management transitions. As the Boomer bulge continues to represent a very large group of customers, companies may also benefit from ensuring the profile of their frontline staff broadly aligns with that of their customer base.

Already we are seeing some companies adapt to accommodate older employees, including those beyond the expected retiring age:

- Aerospace Corp in the US has a ‘retiree casual’ program, where employees at any level can take retirement at 55, then work for up to 1000 hours a year on a project basis at their retirement-level base salaries. About 80% of retirees sign up for the program;
- Monsanto in the US has a ‘resource re-entry centre’, where employees can register for part-time work six months after retirement. They typically job share, fill spikes in demand or cover temporary vacancies; and
- ANZ Banking Group has a ‘right to part-time work’ policy which gives people of retirement age the right to continue to work part-time at their existing/current level.

Higher numbers of older workers pose a number of executive challenges. How are roles to be redefined to suit older workers? How should they be paid relative to younger, more energetic employees? In what ways can age and experience be respected and rewarded? What obligation do older workers have to refresh their skills and to learn new products, approaches and techniques? How do younger executives learn to manage older workers, including potentially their own predecessors or ex-managers, who may remain with a company in less demanding roles?

Whatever arrangements are adopted, post-retirement-age Boomers are likely to be a sizeable element of the workforce by the end of the next decade or so.
Creating a Path for Generation ‘X’

Generation X is the first generation in modern times to manage their own careers. Its members tend to move frequently between employers and also markets in the interests of developing their careers.

This is the generation most often described as ‘materialistic and transactionally motivated’, a characteristic that has contributed to the steadily rising numbers of long term departures from Australia, as people move abroad to advance their careers (Exhibit 6).

Exhibit 6

<table>
<thead>
<tr>
<th>Year</th>
<th>Long Term Departures</th>
<th>Permanent Departures</th>
</tr>
</thead>
<tbody>
<tr>
<td>1982</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>1984</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td>1986</td>
<td>40</td>
<td>20</td>
</tr>
<tr>
<td>1988</td>
<td>60</td>
<td>30</td>
</tr>
<tr>
<td>1990</td>
<td>80</td>
<td>40</td>
</tr>
<tr>
<td>1992</td>
<td>100</td>
<td>50</td>
</tr>
<tr>
<td>1994</td>
<td>120</td>
<td>60</td>
</tr>
<tr>
<td>1996</td>
<td>140</td>
<td>70</td>
</tr>
<tr>
<td>1998</td>
<td>160</td>
<td>80</td>
</tr>
<tr>
<td>2000</td>
<td>180</td>
<td>90</td>
</tr>
<tr>
<td>2002</td>
<td>200</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: International Mobility of the Highly Skilled, An Australian Perspective: Graeme Hugo

Generation X workers present both opportunities and challenges to the executive. On the one hand, this cohort boasts a significant cadre of high calibre individuals with good international experience. Compared to previous generations, it is less sexist, more technically literate, and more inclined towards teamwork and a collegiate approach. On the other hand, this is a generation that has repeatedly demonstrated its willingness to vote with its feet.

In a period of prolonged labour shortage over the next 15 years, this group will become a key talent pool from which to draw senior staff. Executives wanting to retain this generation will need to work hard to do so by addressing some critical issues. How will they create the challenges to keep the most able employees engaged? How is succession to be managed from the older generation? How is the balance to be struck between youth and experience? What career paths should be provided?

Preparing for the Next Generation: The ‘Y’s

The children of the Boomers are Generation Y.

They are an increasingly distinct group from Generation X and share some attributes with their own parents. While Generation X directly witnessed the job losses and insecurity of structural
reform in the 1980’s and the substantial recession of the early 1990’s, Generation Y has grown up in a period of prolonged and relatively undisturbed economic growth.

Heavily influenced by the internet boom, members of Generation Y often have entrepreneurial ambitions, are passionate about social and environmental causes, and seek to strike a balance between their working and private lives. This group also tends to demand an ethical management approach and to promote a corporate agenda that looks beyond value creation for shareholders.

Within the workplace, Generation Y’s tend, at least to date, to be ‘high churn’ employees. They choose to leave jobs not to further their careers elsewhere but to take up voluntary work, ‘downshift’ their lifestyles, or continue their studies.

Whether these attitudes change over time remains to be seen. However, managers will need to consider the changes required in the workplace to hold and inspire these workers. How will executives reduce the rates of churn? Will there be greater numbers of self employed workers, operating on a contractual basis? How will Generation Y’s expectations of corporate behaviour and responsibility be met?

The next fifteen years will see three very different generations side by side in the workforce.

Each of these generations brings a different outlook on life and a different set of needs. None fits readily into traditional working arrangements. We are already seeing shifts in employment practices in response to changing needs.

This cross-generational management challenge will intensify during a period of structural labour shortage, as skilled people have an increasing say in the way their workplaces operate.

Going forward, executives will need to develop practices and arrangements that meet a much more complex and diverse set of needs and preferences than that faced by their predecessors.
Globalisation has been on the Australian executives’ agenda for more than 20 years, but in the next 15 years many will feel its effects more keenly and directly. Factors such as the rise of India and China as global economic powers, the recovery of South East Asian markets from the 1997 crash, and the increasing use of offshoring to move services as well as industrial activity to low cost economies, will define the path ahead for business.

The Emerging Global Environment

Over the past decade, China and India have become major world economic powers.

In 1995, China represented an untapped potential with vast resources. By 2005, it had taken its place as the world’s third largest industrial base behind the US and Japan. It achieved an annual industrial production growth rate of almost 13% between 1990 and 2004. In contrast, the US achieved just under 3% over the same period, and Japan and Germany declined slightly (Exhibit 7).

India was far from an economic powerhouse in 1995, but a decade later it appears to be on a similar path and trajectory to China. It now seems destined to become a major economy in the coming years.

Exhibit 7

The growth of both of these nations, together with the emergence of Eastern Europe from Communism, is driving a significant long term rebalancing of industrial activities towards lower cost economies.
While industrial activities were the first to migrate to lower cost economies, falling telecommunications costs and increased global connectedness have made it possible for other services to enter this market. This includes the establishment of a variety of international electronic processing industries in several of these economies. Call centres made the first inroads, but they are now being followed by back-office processing centres of all kinds (Exhibit 8).

Exhibit 8

The combined effect of the economic rise of India and China, the massive continuing shift of industrial activity to low cost economies, and the emergence of the offshoring of services activities will have a major impact on the organisation and structure of business globally. It will create more complex supply chains, more diverse workforces and new challenges for service delivery to both external and internal customers. The world in which executives will operate in future will be more complex and less familiar.

The Impact on Australian Executives

In our 1995 report we argued that as Australian companies became increasingly engaged in Asia, the skills and capabilities of executives would need to change. The 1997 economic collapse in Asia dramatically reduced the opportunities for local companies. For many Australian executives, Asia became a much lower priority.

The effects of the collapse are now clearly past and the resurgence of South East Asia is again driving the executive agenda. Looking forward, executives will face renewed pressure to operate effectively in other markets and cultures. Language skills will be important, and executives are likely to travel more and spend a greater proportion of their careers outside Australia.
In addition, we can expect to see the continued migration of ‘transportable’ classes of manufacturing towards low cost, high-growth economies, with concurrent growth in the Australian service industries. Services make up around half of the Australian GDP (Exhibit 9). Over the next 15 years, for the first time, this sector will feel the strong forces of globalisation at work. As a result, globalisation will move from being a manufacturing issue to one that carries impacts across much of the economy.

Exhibit 9

Globalisation will be a continuing feature of Australian executive life. Growth in the offshoring of services to low cost economies will continue and will extend beyond the manufacturing industry into services.

In addition, the emergence of China and India as economic powerhouses is likely to reshape Australian business priorities.

Executives will increase their focus on markets outside Australia. They will travel more and spend more of their careers outside Australia. They will need to take the building of language and inter-cultural skills more seriously. Furthermore, their understanding of offshoring, supply chain management and diverse workforces will need to improve significantly.
The primary focus of the last decade has been the financial performance of companies. The ability of companies to manage their financial and physical assets has increased dramatically. Whilst most executives would acknowledge the importance of their staff (‘our most important asset’), attention has traditionally focussed on measuring and improving the performance of hard assets, rather than people. For example, most Australian businesses report their financial performance on a quarterly basis, producing detailed analyses of the utilisation of, and returns on, their physical and financial assets.

In contrast, reporting on staff tends to be limited to the results of an annual cycle of staff feedback, which typically has less bearing on compensation and promotion. As a result, although Australian executives manage their businesses to extract the full value of their financial and physical resources this is less often true for their people. Over the next decade or so, we expect this to change and the focus on human resources to increase (Exhibit 10).

Exhibit 10

At present, executives recognise that the value of their business depends heavily on the performance of their people. Most would also agree that the external barriers to productivity gain such as union awards and restrictive labour legislation have now largely been addressed. We believe that improving the performance of people will be part of the core agenda for the next generation of executives.

The tools, methodologies and approaches used in the area are increasingly sophisticated and are rapidly evolving. Current best practice may be viewed in a decade as barely scratching the surface. In a period that may involve ongoing labour shortages, managing and improving the
performance of people in future is likely to demand the same levels of attention and rigour that financial processes do today.

**Coming to Grips with Flexibility**

Workplace flexibility will be a defining characteristic of the years to 2020.

In the last decade, the workplace has been transformed by an increasingly large proportion of part-time roles. Since 1995, part-time positions have grown at almost four times the rate of full-time positions, accounting for 40% of the labour market by 2003/04.

However, what began as a response to the deregulation of the economy is now a key lever to help attract and retain skilled staff who value the ability to tailor workplace arrangements to suit their needs. What was initially pushed onto workers is now being demanded by them. As a result, we are seeing more flexibility in the workplace in terms of career paths, starting and finishing times, length of the working week and the location of the workplace (Exhibit 11).

**Exhibit 11**

<table>
<thead>
<tr>
<th>COMPANIES OFFERING WORK LIFE FLEXIBILITY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Survey of 1,500 Organisations Operating in Australia (1997 and 2000)</td>
</tr>
<tr>
<td>0% 5% 10% 15% 20% 25%</td>
</tr>
<tr>
<td>Part-time Work</td>
</tr>
<tr>
<td>Study Leave</td>
</tr>
<tr>
<td>Flexible Start/Finish Times</td>
</tr>
<tr>
<td>Job Share</td>
</tr>
<tr>
<td>Ad Hoc Work From Home</td>
</tr>
<tr>
<td>Compressed Work Week</td>
</tr>
<tr>
<td>Career Break</td>
</tr>
<tr>
<td>48/52 Working Year</td>
</tr>
<tr>
<td>Telecommuting</td>
</tr>
<tr>
<td>Flex-time</td>
</tr>
<tr>
<td>Paid Parental Leave</td>
</tr>
<tr>
<td>Rostered Days Off</td>
</tr>
<tr>
<td>Compressed Work Week</td>
</tr>
<tr>
<td>48/52 Working Year</td>
</tr>
</tbody>
</table>

Increased participation by women in the workplace over the last ten years directly correlates with an increase in part-time positions and flexible working hours. In the coming decades, the ability to provide flexible job structures and workplace conditions will be critical to attracting and retaining a demographically diverse talent pool. Companies and executives able to accommodate the specific needs of different sectors of the labour force will enjoy a significant advantage in recruiting and retaining staff.

Managing a more flexible workplace will not be easy. Simple, traditional methods usually employed by executives, including ‘managing by walking around’ or gathering the team together round a table, may no longer be sufficient.
Accommodating flexible work practices will require:

- Different methods of communication as individuals and functions operate from an increasing number of different locations;
- More sophisticated work monitoring approaches to account for the diverse combinations of weeks, days and hours worked;
- New approaches to performance measurement and management to reflect multiple pay structures and career streams; and
- Greater attention to building and maintaining a coherent, shared set of corporate values and culture in a workplace with high numbers of contractors and project-specific part-time employees.

Meeting these challenges requires new ways of thinking about the nature of the workplace. In future, executives are likely to spend much more of their time negotiating and managing the employment conditions of direct reports.

Organisations will also need to amend their remuneration structures to reward performance based on outputs rather than inputs. Relying on input-based assessment will be increasingly difficult as working hours and other arrangements become less standardised.

In the years to 2020, executives will need to get better at matching job structures, management approaches, and reward and career advancement systems with different skills sets. For example, many companies have found that it can be difficult to retain and nurture creative talent in traditional corporate structures. The value of such talent is growing in an age where rapid technological development is opening extraordinary new opportunities year after year. Some of the world’s most successful companies are already good at building ‘cultures within cultures’ to provide satisfying and productive working environments for their creative people. In the years ahead, other companies will need to learn from that success and introduce similarly flexible practices to retain talented staff.

**Managing People Businesses**

Managing businesses where the performance of people, not just assets, is increasingly important, requires fundamentally different metrics, processes and thinking. As these are at the core of any business, changing them will call for a substantial rethink by many executives about the way in which they operate their business.

In a people business, traditional measures of performance such as the return on assets can be misleading and inaccurate. New measures will need to be found. Increasingly, people management will be treated as a core operational process, rather than a support function, as is typically the case in traditional businesses. With talent emerging as the core asset, remuneration and reward structures and pricing must be re-configured to optimise retention and utilisation. Performance and output-based remuneration and pricing by the hour or for units of output are the norm in people businesses.
On a strategic level, people businesses differ from industrial businesses that rely on traditional sources of competitive advantage such as pure scale. Executives will need to consider new sources of advantage and build as sound an understanding of their people as they currently have of their products (Exhibit 12)\(^1\).

**Exhibit 12**

<table>
<thead>
<tr>
<th>Traditional Industrial Thinking</th>
<th>’People Business’ Thinking</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Measuring performance</strong></td>
<td><strong>Measuring performance</strong></td>
</tr>
<tr>
<td>• ROA</td>
<td>• Economic Return = (EPR - APC)/P</td>
</tr>
<tr>
<td><strong>People Management</strong></td>
<td><strong>People Management</strong></td>
</tr>
<tr>
<td>• HR support function</td>
<td>• Core operational process</td>
</tr>
<tr>
<td><strong>Compensation</strong></td>
<td><strong>Compensation</strong></td>
</tr>
<tr>
<td>• Mostly standard fixed take home pay packages</td>
<td>• Performance based variable pay penetrate well down into the organisation</td>
</tr>
<tr>
<td><strong>Pricing</strong></td>
<td><strong>Pricing</strong></td>
</tr>
<tr>
<td>• Economies of scale drive pricing and margin</td>
<td>• Pricing by the hour</td>
</tr>
<tr>
<td><strong>Implications for Strategy</strong></td>
<td>• Fixed price for output</td>
</tr>
<tr>
<td>• Establish market positions based on advantages of structure and capability</td>
<td>• Create scale-sensitive sources of competitive advantage</td>
</tr>
<tr>
<td>• Exploit new opportunities as they appear</td>
<td>• Evolve to a less people-sensitive form</td>
</tr>
<tr>
<td></td>
<td>• Potentially move to outsource ‘people’ activities</td>
</tr>
</tbody>
</table>

**Managing Creativity**

Employees in the next 15 years will enter a workplace which is less rule driven than at present and where problem solving and creativity skills attract a premium. They will increasingly be expected to find solutions to unfamiliar issues, and to work in unfamiliar environments. Skill levels will be higher and increasing levels of expertise will be required.

The challenge for executives will be to demonstrate their ability to nurture and develop problem solving skills amongst staff and to create an environment which supports creativity and ‘going outside the rules’ to solve problems.

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\(^1\)For a broad view of this transition see ‘The Surprising Economics of a People Business’ by Felix Barber and Rainer Strack, published by the Harvard Business Review in June 2005.
If there is cause for disappointment in the last decade it has been the lack of progress of women into executive ranks.

Many believed that removing the most obvious institutional barriers to women’s success in the corporate world would result in their accession into management and, over time, a gender mix in the executive ranks to match the general population. This has not happened. Instead, it is clear that the roadblocks in women’s career paths are more diverse and subtle than previously understood.

The lack of progress for women can be attributed to two main factors:

- The lack of flexibility in management roles and job structures makes them unattractive or unavailable to women with children or other family responsibilities; and
- The failure to actively identify, mentor and bring through promising women candidates means they may miss out on opportunities to develop their talents further.

Executives remain concerned about Australian companies’ general failure to tap the female talent pool in an increasingly competitive market for skilled workers. Over the next decade or so, Australian executives will be called upon to accept significant personal responsibility for nurturing talented women into executive ranks, and for helping to identify and remove roadblocks that might stand in their way. This is likely to lead to more flexible working models and career paths that enable both women and men to fulfil family and other commitments (Exhibit 13).

**Exhibit 13**
The last decade has produced little progress in the status of women in the corporate workplace. Missing targets by so much should not be acceptable to executives.

Over the next decade or so, successful executives will take on the personal challenge of bringing talented women into management ranks and keeping them there.

This is likely to involve the acceptance of more flexible working arrangements and the development of the skills needed to mentor and develop talented women.

Executives and companies will be increasingly measured on their success in retaining and promoting women.
The Changing Executive Mindset

As the actions of senior executives come under closer scrutiny by the wider community, some hard questions are being asked about their role in today’s society.

How will executives see themselves in the years to 2020?

Our conclusion is that the mindset of executives will undergo a transformation in the way they think about their role, interact with colleagues, consider the basis of leadership, and also address their broader attitude to life.

**The Executive Steward**

Over the last decade, executives have been strongly encouraged to think of themselves as the owner’s agents, whose role is to maximise returns. This has resulted in a short-term focus as fund managers and, latterly, hedge fund managers have reduced their stock holding times.

Many executives (and others) have become uncomfortable with this pressure and argue that their role should be that of a steward who manages for long-term corporate health, cognisant of the competing interests of all stakeholders.

A debate has emerged about the rights of shareholders relative to other groups with legitimate interests in a company. Some commentators question whether a shareholder is really an owner of a company at all. Most shareholders have no involvement in a company’s operations, and many hold their shares for a relatively short time. Other commentators have argued that shareholders should be seen only as one group of security holders amongst others or even simply as speculators in the future profits of a company.

With this shifting perspective on shareholders, executives are likely to be more concerned with balancing and reconciling the interests of all stakeholders in a company, rather than the needs of a particular group. The concept of a single ‘owner’ whose interests are paramount is less likely to apply in the future.

In effect, this will mean an ongoing focus on corporate health with executives building the capacity for strong performance year on year, rather than directing their energies to boosting short-term results. This is not to say that shareholders will cease to demand good returns on their investments - far from it - but it will mean that executives will no longer be rewarded for achieving those returns at the consistent expense of staff, customers, the community or the environment.

**From the Cult of the CEO to the Cult of the Top Team**

The cult of the CEO has become a worldwide phenomenon over the last decade. Many CEOs are now household names or at least recognisable faces.

It is unclear whether this trend will continue. While a CEO will always be seen as the most important appointment in a company, in future greater attention may turn to the team supporting them.

There is a steady transition away from traditional ‘command and control’ forms of management and towards more team-based, consultative management styles. Accordingly, analysts and the market are increasingly focussed on the attributes of top teams rather than solely on the CEO.
The growing ranks of Generations X and Y will reinforce this shift. Members of these generations are demanding considerably greater control over their working environments, want open and honest feedback, both upward and downward, and are more willing to judge and reject their working environments than their Baby Boomer forebears.

The ‘Cult of the Top Team’ is likely to replace the ‘Cult of the CEO’. This will be a challenge for many of today’s executives, who have risen through the ranks of more rigidly hierarchical workplaces. In future, their success as executives will depend, in part, on their ability to create a work environment in which a top team can flourish.

In addition, executives will increasingly be judged by analysts and markets on the quality of the teams they develop and manage.

**A Return to Expert Leadership**

The decade leading up to 1995 saw the rise of the generalist manager. Regulatory reform had created an uncertain and much less franchised business environment. In this new environment, broad-based skills and the ability to analyse new problems proved more important than traditional experience. At the same time, the ‘job for life’ management generation that emerged after the Second World War began to retire. Cross-industry hires to fill senior positions became common, and talented young generalists were given opportunities to lead. Long experience in a firm, from the shopfloor up, became less important than the ‘smarts’ and general management skills judged necessary for success in a new competitive environment.

In recent times, the premium for generalist management skills has begun to decline. In education, demand for specialist management courses has grown much faster than demand for generalist courses, such as MBAs. As generalist management skills become more readily available in the workforce, depth of expertise has become a more defining requirement for senior executives.

Executive searches increasingly specify deep expertise in an industry or functional area. The 21st Century manager is expected to possess this expertise, along with advanced communication and team-building skills.

The shift towards experts also reflects changes in the workforce. A more skilled and highly educated workforce will need less direction, and will typically value it less. It will no longer be sufficient for executives to play co-ordination and goal setting roles. They must also be expert in the subject matter at hand or bring deep experience to the issues being addressed. These trends suggest the age of the generalist manager is coming to an end (Exhibit 14).
Individual executives will need to consciously build and maintain a coherent body of expertise in an industry or functional area as they move between employers and markets. In order to progress in the future workplace, they will need to establish a sustainable logic to their career paths.

**The Challenge of Increasing Wealth and Health**

Rising levels of executive remuneration in the last decade have captured the attention of many, including shareholders, the community and the media. The salaries of the executive teams of Australia’s top companies rose at about 16% per annum between 1994 and 2004 (Exhibit 15).
The demand for talent at the highest level is intensely competitive and global. The remuneration paid to Australian executives reflects this, with the best people attracting packages at rates comparable to their international counterparts. On the supply side, higher earnings act as a drawcard to pull ambitious talent into the business sector.

At the same time, the executive’s tenure has become more precarious. Furthermore, the generous company pensions that their predecessors enjoyed at the end of long careers are no longer guaranteed. Executive careers now bear some resemblance to the trajectory of professional sportspeople who receive very high rewards for the relatively short period of time they are able to perform at an elite level.

In this environment, Australian executives will need to manage their personal wealth to protect themselves and their families against an unexpected loss of income and possibly to manage fluctuating personal cash flows. They will also need to manage their wealth over longer working lives. Longer working lives may include less, or less continuous, time at the top.

Most executives today devote their energies overwhelmingly to their jobs. They spend little time managing their personal finances or securing their long-term financial futures. By and large, they represent the first generation of wealth in their families, and do not have clear role models for wealth management.

In future, executives will be under increasing pressure to find a better work/life balance. In this context, very high executive remuneration may function as a two-edged sword. On the one hand it will offer the possibility to ‘downshift’ into less demanding careers after some time at the top, but on the other hand it is likely that most executives will be reluctant to give up the financial security it offers.
These tensions and trade-offs will make the executive life more complicated. Executives will need to spend more time thinking about their personal choices than any previous generation. They will need to be more sophisticated in managing their personal wealth, and be able to develop career structures that allow them to participate meaningfully in life outside work.

Executives will need to rethink their role in the years to 2020. They will be asked to balance a wider range of interests, under greater external scrutiny.

Executives will still be expected to deliver good financial performance, but the results they achieve will also be assessed on the basis of how well they have met a wider range of stakeholder needs.

In this environment, executives will increasingly see themselves as ‘stewards’ who nurture the long-term health of the businesses they manage.

The age of the generalist manager is coming to an end. In the changing workplace, executives will need to demonstrate deep industry and/or functional expertise as well as advanced communication and team building skills.

Companies will increasingly seek senior executives who really ‘know their stuff’.

Executives will continue to receive higher levels of remuneration than their predecessors but they will also have to deal with greater levels of uncertainty regarding tenure and pensions.

They will need to spend more time on personal wealth management while at the same time striving to achieve a balance between their working and family life.
Lessons for Educators

The challenges facing executives in the years to 2020 will shape a new agenda for educators, coaches and trainers.

Managers will witness the emergence of three generations within the workplace, namely Baby Boomers, who may continue to participate in employment beyond traditional ages of retirement, and Generations X and Y. As work practices and career paths become more flexible, performance measures are likely to have a greater focus on outputs, and results achieved, rather than inputs, and hours worked. With management credentials increasingly common at the top, there will be renewed interest in managers as experts, rather than generalists.

To ensure the next generation of managers are well placed to operate in a dynamic, global environment. The new agenda for executives will need to reflect trends in three key areas (Exhibit 16 and 17)

In the years to 2020, successful executives will be those who can:

**Maximise Opportunities in a Changing World**
- Maintain an international perspective and be continual learners
- Be flexible and able to move confidently between different global markets and cultures
- Reflect the needs and preferences of the ageing Baby Boomers in organisational structures and customer services

**Manage Diversity in a Changing Workplace**
- Achieve a balance between the management styles required to work with three generations within a single workplace
- Master staff performance measures based on outputs rather than inputs
- Gain insight into the motivations of a diverse workforce, and be creative in designing the right incentives to attract and retain talented staff

**Respond to Changing Times with a Changing Mindset**
- Create work environments where talented teams, not just talented individuals, can flourish
- Maintain specialist skills in addition to general management skills. Value functional, industry and technical expertise
- Promote and practice a work/life balance
### Exhibit 16

**A VISION FOR 2020**

<table>
<thead>
<tr>
<th>The Changing World</th>
<th>The Changing Workplace</th>
<th>The Changing Mindset</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The New Labour Market</strong></td>
<td><strong>People, Flexibility, Creativity</strong></td>
<td><strong>The Expert Steward</strong></td>
</tr>
<tr>
<td>• Steadily shortening working life</td>
<td>&gt; Focus on asset utilisation and balance sheet management</td>
<td>&gt; Obsession with shareholder value</td>
</tr>
<tr>
<td>• Baby Boomers dominate workforce</td>
<td>&gt; Workplace flexibility driven by structural reform</td>
<td>&gt; 'Cult' of the CEO</td>
</tr>
<tr>
<td>&gt; Retirement disappears</td>
<td>&gt; Industrial, rule driven logic dominates</td>
<td>&gt; Generalists dominate</td>
</tr>
<tr>
<td>&gt; New generation of old workers</td>
<td>&gt; Removing the barriers for women</td>
<td>&gt; Dramatic remuneration increases</td>
</tr>
<tr>
<td>&gt; Three generations in the workforce</td>
<td>&gt; Focus on human optimisation</td>
<td>&gt; Serving all stakeholders</td>
</tr>
<tr>
<td><strong>The New Global Economic Order</strong></td>
<td>&gt; Workplace flexibility becomes key to attracting and retaining staff</td>
<td>&gt; 'Cult' of the top team</td>
</tr>
<tr>
<td>&gt; 1997 crash puts Asia on back burner</td>
<td>&gt; People and creativity logic emerges</td>
<td>&gt; Experts dominate</td>
</tr>
<tr>
<td>&gt; Emergence of low cost economies</td>
<td>&gt; Taking accountability for outcomes for women</td>
<td>&gt; Managing substantial personal wealth</td>
</tr>
</tbody>
</table>

### Exhibit 17

**EXECUTIVE DEVELOPMENT NEEDS**

<table>
<thead>
<tr>
<th>The Landscape</th>
<th>Business Impacts</th>
<th>Executive Development Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>The Changing World</td>
<td>• Three generations in the workplace</td>
<td>• Generation-specific leadership and management skills</td>
</tr>
<tr>
<td></td>
<td>• Longer, later working life</td>
<td>• Career planning beyond 50</td>
</tr>
<tr>
<td>The Changing Workplace</td>
<td>• Workplace flexibility</td>
<td>• Managing flexible environments</td>
</tr>
<tr>
<td></td>
<td>• People businesses</td>
<td>• Managing people businesses</td>
</tr>
<tr>
<td></td>
<td>• Talent optimisation</td>
<td>• Optimising people’s performance individually and in teams</td>
</tr>
<tr>
<td>The Changing Mindset</td>
<td>• Serving all stakeholders</td>
<td>• Understanding, aligning and balancing stakeholder needs</td>
</tr>
<tr>
<td></td>
<td>• Top team focus</td>
<td>• Leading teams</td>
</tr>
<tr>
<td></td>
<td>• Personal expertise matters</td>
<td>• Building and maintaining personal expertise</td>
</tr>
<tr>
<td></td>
<td>• Personal wealth</td>
<td>• Wealth/work and life choices</td>
</tr>
</tbody>
</table>
The years to 2020 promise significant change for managers and executives. Most will need to master new skills to address the emerging challenges. Successful executives will be those who can effectively manage three generations in the workplace, create more flexible working environments, optimise individual and team performance, balance stakeholder interests and build and maintain their personal expertise.

The bar for success in management continues to rise. Managers and executives will need to maintain their skills of the last decade and to master the additional tools and techniques of the next. To do this, they will require new types of executive education that provide strong general management skills, including interpersonal and intercultural skills, as well as industry and functional training to develop specialist expertise in their fields.
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- Ashley Stephenson
- Athalie Williams
- Mary Barlow
- Colin Carter
- Shane Freeman
- Jerry Saville
- Bill Scales
- Anne Sherry
- David Pumphrey