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Competing in a Global Economy

Andy Grove, CEO of Intel, recently pointed out the importance of companies knowing where they are in the life cycle of their business: "There is at least one point in the history of any company when you have to change dramatically to rise to the next level of performance. Miss that moment and you start to decline." Many companies around the world believe that they have reached the moment. They have restructured, reorganized, resized and rebuilt their companies to embrace the global marketplace. They have adapted work processes in an attempt to improve productivity and increase shareholder value. They have discovered the structural "fix" that meets their global needs and improves financial results, but now — to get to the next level of performance — they must deal with the toughest issue: their people.

These are the major findings of Watson Wyatt's new breakthrough study, Competing in a Global Economy. Over 2,000 top executives from 23 countries worldwide participated in the study, which focused on the business and people issues critical to competing successfully in a global economy.

One Business World
Perhaps one of the most interesting findings is the degree to which businesses around the world share the same issues and concerns. Participants' responses to the study's primary questions may have varied slightly from country to country, but they were remarkably consistent about the human part of the business equation. Across the globe, senior executives identified as critical to business success the need to align workers with business strategies and to deal with the factors that drive human performance.

For example, when asked to define the greatest barrier to making desired change happen in their companies, senior executives in the United States and Canada identified "organization culture" as the number one barrier. And so did the senior executives in Europe, Asia-Pacific and Latin America.

We are now witnessing a recognition among executives that although their organizational structure may have been rebuilt, the old organizational culture is still standing. Executives are saying that culture, values and human behavior—which have often been described as "soft" issues in business—are as important to success as the "hard" issues such as finance, structure and work processes. Indeed, the soft issues are in many ways the hardest issues—and, around the world, senior executives are struggling to deal with them.

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What Are the Most Important People Issues?

Senior executives were asked to identify the top three human resource issues facing their companies today and for the next several years. They all identified the same three issues:

- leadership development;
- motivational pay; and
- training and development of their workforce.

This article summarizes key points in the study, addressing executives’ ideas on each of these topics and the profound impact these issues can have on the management, culture and success of organizations.

Leading in a Different Business World

The study showed that the number one factor driving change within an organization is leadership. Fifty-four percent of all respondents identified CEO leadership as the agent of change within the organization. In turn, 71 percent of participants blamed leadership when a company failed to meet its objectives. These two findings reflect the importance and magnitude of the role that leaders play in determining the success, staying power and growth of their companies — and the extent to which the leaders themselves know that they must change how they lead.

Executives in the study identified four distinct obstacles to leadership development: (1) inadequate succession planning; (2) inadequate leadership training; (3) lack of commitment by senior managers to develop leaders; and (4) failure to delegate by senior management. Each of these barriers to leadership development is rooted in part in an organization’s culture — and in the fact that many leaders are still playing by rules that worked in the 1980s and early 1990s but are less effective today.

While most business leaders have succeeded with their companies’ finances and structure, many have failed to recognize how restructuring affects an organization’s culture, work environment and values. The study makes it apparent that today’s business leaders are increasingly aware that the widening trust gap between leaders and workers must be narrowed if productivity is to be improved and innovation is to be restored. Business leaders also recognize that the competition for a limited pool of highly talented knowledge workers has begun; and, if their companies are to be winners in the global economy, they must find new ways to attract and retain these people. Finally, they know that they must find within themselves — and within the other leaders in their organizations — the ability to leverage their greatest investment: the investment in human capital.

Pay — It’s More Than Money

Nearly one-third of responding executives identified motivational pay as the second most important human resource issue, and 76 percent believe motivational pay is key to attracting, developing and retaining an effective work-
force. As was the case with leadership development, however, senior executives see little progress on learning how to use pay to motivate behavior and support their organization's business strategies.

Watson Wyatt's ongoing study of worker attitudes, WorkUSA®, WorkCanada®, WorkUK®, etc., shows that only 30 percent of workers see a link between their performance and their pay. And they don't see much connection between pay philosophies and business strategies.

Considering the long-term emphasis on "pay for performance," it is obvious that something has gone wrong. Many blame the failure on communications — but the problem may be how pay is perceived by business today. In an increasingly complex world, with boundaries blurring between business and personal life, many executives continue to view pay as a separate element in the human resources equation. In the global economy, executives need to view pay programs as part of a much larger whole of motivators, satisfiers and incentives that help people balance work life and personal life.

**Beyond Training — The Cultural Connection**

The third human resources issue executives identified as most important was worker training and development. Forty-two percent of executives worldwide felt increasing worker skills and knowledge increases their company's productivity. Fifty-three percent also identified creating an environment of shared values as the second most important factor in increasing worker productivity. And 59 percent identified effective communication between management and workers as a key to increased productivity.

The connection between improved skills, an environment of shared values and improved communications speaks to the need to create learning cultures where innovation, motivation and progression are key values. Senior executives recognize that training and career development programs alone won't be enough to attract and retain the best people. They are simply the price of admission to be a player in a global economy. The companies that break away from the pack and lead their industries will be the ones that create cultures dedicated to learning and knowledge.

**Investing in Human Capital**

*Competing in a Global Economy* identifies several trends in business worldwide. Around the world, companies are:

- shifting from investing in an organizational "fix" to investing in the "human capital" of the organization;
- shifting from a structural focus to a cultural focus; and
- focusing less on work processes and more on developing people and programs that motivate both behavior and performance.

Senior executives overwhelmingly recognize that people are the key to breaking through to the next level of performance, maximizing shareholder value.
and increasing profits in today's global economy. They understand that growth hinges on creating a culture of shared values, where workers' behaviors are aligned to their company's business goals. All of this means investing in the people side of business:

- examining human resource programs from a "whole cloth" perspective;
- aligning these programs with business strategies;
- developing leaders who can manage the people side of business as well as the financial side; and
- creating work environments that are learning cultures with distinct values.

It's a tall order — but senior executives say that's what it will take to be a world-class organization in a world economy. The complete *Global Management Study* report is now available for $300. To order, please call 1-800-243-1349. 