



Managing Transformation in the New Economy



It has been said that success in the closing years of the twentieth century requires organizations to “do different things differently”. Virtually all of us in business today are facing major changes in our technologies, markets, employees, competitors, and customers. These changes are causing companies all over the world to re-think their operations and business models. As a result, many organizations need to re-create their operations from the ground up in order to compete.

At KPMG, we have the opportunity to work closely with a broad spectrum of businesses that are facing fundamental change. In this publication, we’ve analyzed the many forces that are re-shaping our business environment into a “new economy” of knowledge-based businesses. We have also analyzed the strategic issues that management must address to be competitive — from business structure, to product and service development, to human resources.

We are pleased to make *Managing Transformation in the New Economy* available to our clients. We hope you will find it useful as you plan your organization’s response to the new economy.

A handwritten signature in black ink, reading "J. Spencer Lanthier". The signature is written in a cursive style with a large initial "J" and "S".

J. Spencer Lanthier
Chairman and Chief Executive
KPMG

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Executive Summary

As the millenium draws to a close, we are witnessing the dawn of the knowledge-based economy—a development every bit as significant as the invention of the printing press and the industrial revolution. The knowledge-based economy is enabled primarily by microchip technologies and abetted by international trade deregulation.

Success in business will increasingly demand different notions of competing. The scale, intensity and even the nature of competition is changing. High-quality products and services are fast becoming the norm, and other competitive differentiators like speed, innovation and customization will take precedence. Rival companies will compete by changing the shape of an industry, choosing not to waste resources in head on competition.

The inescapable forces of competition will have profound effects on business management. “Lean and mean” has built-in limitations, and must be augmented with knowledge-based growth strategies. Many companies, for example, have succeeded dramatically with innovative service packages that support and promote their products.

Periodic flashes of brilliance will not be sufficient. The capability for continuous innovation must be built into the organization through development of core competencies—bundles of aligned knowledge, skills and technologies. Optimally, core competencies are guided by a profound understanding of how the market and the business are likely to evolve. The innovation process is described as “the continuous improvement and deployment of knowledge itself, encapsulated temporarily in better and better products and services”.

People’s ideas, skills, experience and motivation will drive the knowledge-based economy; therefore, human resources must become a proactive component of overall corporate strategy. “Command and control” leadership is out. Respect-building styles that project competence, example and encouragement are in.

Work teams will emerge as the practical working unit of the knowledge-based organization. The goal of new economy management, once strategy is set and communicated, will involve simplifying processes and reducing impediments to working together.

In the new economy, management will presume that employees want to do a good job and don’t need to be pushed. In fact, a key indicator of business health will be employee satisfaction—the intrinsic satisfaction that comes from doing a job well, being recognized, and being valued. Given the right conditions, employees will busily apply their ideas, skills and experience.

“Service is not an event, it is a series of moments of truth which provide information, assurance and comfort.”

Kenneth Labich

Background to the New Economy

We are in the midst of a transition from an old economy to a new one. Such economic transitions have occurred every few hundred years and are technologically enabled. Previous examples are the dramatic and rapid change in European society that followed the introduction of printed materials produced with moveable type, and the industrial revolution.

These previous economies were based on tangible, physical assets. In earlier days, the control of natural resources, and subsequently the ownership of property, plant and equipment, were the means to wealth creation. The new economy we are now entering, however, is based on an intangible asset — knowledge. We should think of knowledge assets as taking many forms, ranging from the capabilities of our human resources to provide services and solutions, to goods such as pharmaceuticals and computer software. These latter examples of knowledge-intensive products consist of only pennies worth of physical raw material, but their pricing and the huge revenues they earn reflect the value to end users of the knowledge required to create and produce them, which is derived from hundreds of millions of dollars of research and development.

The two strongest forces accounting for the transition are the proliferation of new technologies enabled by the micro chip, and the globalization of our economy. Some commentators add ecological constraints as a third force.

We should expect increasingly rapid technological change and diffusion of ideas and opportunities based on micro-chip technology, though specific areas of activity will vary by country and region. In Canada, major clusters of new economy activity can currently be found in information technology, materials technology and biotechnology. Soon, however, virtually all old economy industries will transform themselves with new economy skills and technologies (e.g., the re-vitalized auto and auto parts industry), or they will be replaced.

It is now well established that international trade is not a zero-sum game.

The second fundamental force — globalization — can be characterized by a reduction or elimination of barriers and borders. We now have a fairly open flow of ideas, money, goods and services among virtually all countries in the world. It is now well established that trade is not a zero-sum game, and that improved trade benefits all trading countries by increasing the size of the pie to be shared. We have only to look at countries that have tried to isolate themselves from the world economy to see the negative results on wealth creation.

Migration of growth rates and job creation are main characteristics of globalization. The East Asia Bloc (from China south to Indonesia) is rapidly industrializing with current technology, and is replacing North America as the global economic engine (although the creation of a North and South American free trade zone may slow this transition). Around the start of this century we saw a similar transfer of economic power from Europe to North America take place.

These somewhat abstract conditions are important to each of us because the impacts of increasing globalization are experienced in Canada as increasing competition from all corners of the world. Additionally, Canadian companies are being pressed harder and harder to increase the speed of innovation in their products and services by the rapidly growing and increasingly sophisticated demand coming from the new, larger global marketplace. It is important to understand that knowledge-based industries that comprise the new economy are the only remedy to maintain competitive advantages as companies and comparative advantage as a country. In other words, joining the new economy is the only way in which we can assure ourselves of jobs, growth and profits.

Drivers For Future Business

Quality has become a necessary first step or basis of entry in most industries. However, as new technologies and competitive pressures in the economy increase consistent high quality will become more a given and less a differentiator. Everyone will be expected to provide a high degree of quality and to get their products and services right early on. Those that don't won't survive.

Speed is replacing quality as a primary basis of new competition. Reducing development time to market for new products, introducing simultaneous vs. sequential production techniques, providing Just-In-Time distribution, increasing product turnover in retail outlets, and utilizing electronic transfer of funds are all examples of driving time (and therefore

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unnecessary cost and waste) out of the economic value chain. These knowledge-enabled cost savings can be used to fund further process and product improvements, and to reduce selling prices, both of which focus on increasing delivered value to the customer.

Studies have shown that delays in introducing new products are more costly than going over budget to meet deadlines. In large part this is because the life cycle of products is being drastically shortened as competitors strive to learn faster ways to make obsolete each others' (and their own) existing products and practices. Some new economy theorists claim, in fact, that innovation will be the only source of profit left.

These observers argue that products that aren't improved regularly and rapidly will quickly become commodity items, lacking enough contribution margin in their selling price to fund continued innovation and growth. The personal computer industry, with its furious pace of product improvements and price reductions, provides an excellent example of commodification, which has taken place in a remarkably short period of time.

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Current thinking about strategy, however, is moving competitive innovation beyond mere product improvement. Creating totally new product categories, which anticipate rather than respond to market demand, is seen as a way of breaking out of the commodification trap. Fax machines and mini-vans are examples of concepts not requested by customers, which have been wildly successful, growing to become entirely new product families.

A second form of strategic innovation is to change the assumptions about how the value chain must look and function. Returning to the personal computer industry, Dell's clean-slate, direct-to-consumer approach and Compaq's retail dealer network strategy enabled these companies to fundamentally re-write the rules for competition in what had previously been a "Big Blue" area.

As has always been true in times of significant and rapid change, new, innovative competitors such as Dell and Compaq will take advantage of shifting conditions to replace much larger, better financed and previously dominant players. In this regard, knowing how to spot and exploit new opportunities becomes more important than having large amounts of tangible resources. What is particularly true in the new economy is that competition will increasingly be based on conscious efforts of rivals to change the shape of an industry, thereby avoiding the corporate equivalent of head-on, trench warfare, which favours the strongest player and is incredibly costly and wasteful.

Often this intentional change to industries will be enabled via breakthrough applications of technology, and by seeking out synergies on a global scale. Wal-mart is a stellar example of an innovative company that changed the way in which its industry operated (initially by lowering costs by applying new technologies and strategies to the distribution parts of its value chain). It is now expanding internationally.

Striving for long-term, mutual advantage is an emerging hallmark of the new economy, which contrasts with the old laissez-faire, mercantilist reliance on invisible market forces. The dramatic increase in the number of international joint ventures and alliances, often between formerly cut-throat antagonists, is indicative of the changes in the very sources and nature of competition in the new economy.

Value chains in the future will more and more emphasize partnership: cooperative efforts to generate increased value while reducing time, cost and risk. What must be emphasized again is the value resident in many different kinds of knowledge, in this case the accumulated experience of some managers and companies in successfully handling the complexities of “cooperative competition”.

Another driver for successful future business is “mass customization”, the ability to offer personalized versions of otherwise standard products while still maintaining the cost/volume advantages of mass production. Car companies are attempting to integrate their dealerships’ ordering and their factories’ manufacturing processes sufficiently to enable customers to order any combination of options, and to deliver personalized selections within a few weeks. Professional service firms that learn how to offer more specific value for each client while at the same time reducing costs through standardized processes are examples of the same trend. Hardware outlets offering custom-mixed paints and photo-copy stores offering options on paper and bindings are simpler examples of such new economy mass-customization systems also already in place.

The value added in the latter example comes from a surprisingly sophisticated knowledge of customer buying and usage patterns best capitalized on by the large national and international photocopy chains, which are tending to dominate this seemingly mundane business. These chains are a good example of “focused mass”, yet another driver increasingly affecting all business in the new economy.

The big conglomerates built in the 1960s and ‘70s have for the most part been taken apart to allow senior managers to focus on core businesses. Focused companies have targeted their financial and human resources to achieve success, often internationally, in specialized areas such as collapsible furniture (IKEA), entertainment production and distribution (Disney/Capital Cities, ABC) and transportation equipment (Bombardier). While having mass is still important, having focus (another intangible) is even more valuable.

A dominant by-product of the transition to the new, knowledge-based economy is structural change. At the national, industry and corporate levels we are choosing or are being forced to restructure the way we operate to adapt to a rapidly evolving marketplace.

Some in Canada might hope that small to mid-sized businesses may be immune from such large-scale forces. This is not so.

For example, an international by-product of the transition to the new economy seems to be a higher permanent level of structural unemployment everywhere in the world, from Japan to Germany, except for some of the “little dragon” economies of the East.

We still do not understand all of the reasons behind this phenomenon, but it is important to recognize and will impact our domestic market through a number of mechanisms that can affect the competitiveness of Canadian companies internally and externally. These include diverse factors such as tax rates, consumer spending, the costs of capital and funding for workforce education and training.

As economies and industries restructure and new rules apply, the danger becomes greater for companies not keeping up with developments — the time available for recovery is shortening while the time required to develop a corporate culture that embodies current realities and effectively innovates is long.

Implications of the New Economy

Three further, major implications of the transition to a new economy can be derived from the above information:

- ▶ the new economy cannot be avoided;
- ▶ cost-cutting alone is not sufficient for survival — developing knowledge-based growth strategies are essential; and
- ▶ non-product or service attributes are becoming more important than product attributes themselves and thus are a key to future growth.

**You can't shrink
and save your way
to success.**

The new economy cannot be avoided

It is less and less possible to remain isolated from the effects of the transition to the new economy. Generally those people, companies and countries recognizing the new rules and organizing around intellectual assets, knowledge, skills and technologies will thrive while others will wither away. As old skills become commodified and much more complex, higher-level capabilities taking years to develop become requirements. The underskilled will find it harder and harder to catch up, and may be permanently left behind.

Some in Canada might hope that small to mid-sized businesses may be immune from such large-scale forces. This is not so. Knowledge-based products and services tend to displace old economy products at any level due to the greater value they provide. At best, a small portion of traditional products and services will continue to survive.

Similarly, Canada's traditionally strong resource industries can slow but not reverse our decline, since raw materials are making up a smaller and smaller percentage of the cost of goods sold. Even resource extraction is becoming a knowledge-intensive business. Knowledge is where the future lies.

By and large, as barriers to entry for new competition erode, success in business of any sort in Canada will increasingly require a different way of thinking about competing. New models, some of which have not been created or thoroughly tested yet will be required. What is clear, though, is that the past half-decade of retrenchment is not sufficient as a strategy to carry us into the future.

Cost-cutting is not sufficient for survival; developing knowledge-based growth strategies is essential

Some observers suggest that we may have gone too far in driving people out of our businesses in our cost-cutting exercises, and that some companies may now be too lean to operate effectively. The stress alone produced by continuous "right-sizing" reduces corporate productivity, and misguided cost-cutting can cause profitability to shrink by more than the incremental overhead saved.

Since you can't shrink and save your way to success, to continuously drive cost (e.g., waste, time, inventories) out of processes will only help in the long term if a company is growing. In other words, once costs are appropriately in line with the size of the company, it is no longer the denominator (cost) in the profit equation but the numerator (sales growth) that ultimately becomes important.

Given that improving both the skills and abilities of staff and the effectiveness with which they are applied is the only way for a company to generate greater value for its customers, is there some lesson we can take from this to guide us toward a generic growth strategy? There is, and it focuses on the distinction between the product itself and the service bundle that accompanies it.

Non-product attributes are becoming more important than the inherent attributes of the product themselves.

Non-product attributes are becoming more important

In the new economy, non-product attributes are becoming more important than the inherent attributes of the product themselves. To explain: recognize that more and more products have a significant service component attached to them. 1-800 help-lines, product information and instructions, designs that incorporate convenience in buying and usage or provide a desired “look and feel”, and marketing programs to illustrate potential benefits and generate brand confidence are all examples of value added beyond the essential utility of the product itself. Companies competing successfully in the new economy should pay increasing attention to improving the non-product components of their product-service offerings. This is where they can direct the efforts of staff members who might otherwise not be able to create extra value.

Microsoft provides an example of a new economy company that is very effective in using its people to provide all of these non-product attributes. Called the best marketing company in the world, Microsoft does much more than just spending millions on excellent advertising. They focus neither on the best cost nor on just the best service, but on delivering the best solution, which includes such intangibles as brand image and reputation, widespread distribution, and the establishment of new industry standards. Their competency in delivering this whole non-product package is now, arguably, the main reason why they continue to be the dominant global provider of software programs, some of which are clearly not the best in their class. Due to the profitability that results from this competency, Microsoft is the brand most highly valued on the planet, even though the company’s sales are much smaller than those of GM or IBM.

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Given that generally we must participate in the new economy, and must grow in it by investing in people who can contribute their knowledge, particularly in providing complete solutions, how should companies go about strengthening their competitiveness?

In Canada the higher knowledge component industries that represent faster-growing, potentially more profitable, niches are currently clustered around information technology, materials technology and biotechnology.

Given that it is difficult to predict which industries will next be transformed by breakthrough applications of technologies and skills, how does one prepare a specific winning strategy to be successful in this emerging new economy?

How to Stay Competitive in the New Economy

As stated earlier, the obvious answer to sustaining competitiveness in the midst of this constant change is to actually deliver greater value as perceived by the customer. The less obvious answer is how to go about that.

One response suggests companies focus on one of the following three goals:

Operational Excellence: producing ever faster and/or at ever lower cost compared to your competitor.

Customer Intimacy: developing a closer relationship to your customer than your competitor, in order to integrate the customer into a process to figure out together how to provide a better overall solution (which may be more expensive or time consuming but nevertheless holds more delivered customer value).

Product Leadership: better exploiting previously unseen opportunities as opposed to merely imitating or improving on existing products and services.

Core competencies may exist without companies realizing they possess them.

Note that all of these knowledge-based competitive approaches require flexibility to adapt to continually evolving situations, and all can be applied to almost any business, large or small.

The next question is how to develop the organizational capabilities required to operate in the emerging new economy. Prahalad and Hamel have produced a body of work over the

past half decade that addresses this question.

They accept the assumption that innovation drives profitability and growth, but have examined more closely how innovation is derived — not by chance or from occasional flashes of insight, but from particularly valuable capabilities that they call core competencies.

These core competencies are bundles of aligned knowledge, skills and technologies within an organization that are repeatedly utilized to provide new solutions valued by customers. Core competencies may exist without companies realizing that they possess them, and can also be carefully selected and systematically nurtured to ensure ongoing future competitiveness. Canon, for example, has grown into an international powerhouse by focusing all its energies around three core competencies: precision mechanics, fine optics, and microelectronics.

Foresight: a deep and profound understanding of how both the business and the market it serves operate and might evolve.

Once investment in these selected core competencies is made, core products (or services) should be the next objective of management. These core products are ones that can provide a steadily improving series of products and/or a base from which whole product families can be created. Using its three core competencies, Canon, which started out making basic cameras, broadened that core product base to include printers, copiers, fax machines, and technical imagers, analyzers and aligners. Similarly, Honda has used its core competency in small engines to go from being a motorcycle manufacturer to a supplier of cars and portable generators.

Commitment to this strategy involves competing with yourself, making your own products obsolete as quickly as possible.

However, to continue to consistently select, build and apply competencies in ways that rapidly changing markets value, requires a company to develop what Prahalad and Hamel call “foresight”, a deep and profound understanding of how both the business and the market it serves operate and might evolve. From this awareness, a business can create its own, unique “strategic intent”, a clear, unifying long-term vision of what it has to do in order to be successful in its chosen arena. Reinvesting in core competencies will be required to command and maintain dominance in that niche.

The winning strategy usually involves driving down the learning and experience curves as quickly as possible, becoming better at improving on chosen products and services than anyone else. As suggested above, this progress includes driving out cost and adding value faster than competitors, who will hopefully fall too far behind over time to catch up. Part of the commitment to this strategy involves competing with yourself, making your own products obsolete as quickly as possible by introducing new and better ones, so that there is no profit for your competitor to follow you. In its purest form, this carefully focused approach is the continuous improvement and deployment of knowledge itself, encapsulated temporarily in better and better products and services.

To consistently see and capitalize on these attractive, emerging market opportunities before its competitors, an organization must not rely purely on the fortune of having good leaders with vision, and knowing its own current competencies well. Truly competitive organizations, according to Prahalad and Hamel, must also develop an internal “strategic architecture” designed to generate ongoing foresight, refresh strategic intent as needed, and develop and protect its core competencies. This brings us to the next aspect of the new economy that we will look at, strategic HR practices.

HR Management and HR Development

New economy HR practices are still being discovered, created and tested. However, companies can no longer be highly effective if their HR processes are merely transactional, or purely reactive to individual employees or events. It is imperative for a company that wants to remain highly competitive in the knowledge economy that its HR function be an important and proactive component of overall corporate strategy formulation and the development of industry foresight. Knowledge and brain power, skills and experience, and the willingness to use them, are the energy source that drives the new economy, and that is all about building and getting the most from our Human Resources.

Two major issues are critical to the strategic goal and role of HR:

- ▶ how can leadership harness competencies?
- ▶ how can staff deliver value to the best of their abilities?

Leadership and competencies

The starting point of a strategic HR initiative is the leadership. While leadership should take place at all levels in a new economy company, it is senior management's role to:

- ▶ assess capabilities;
- ▶ set direction;
- ▶ build competencies; and
- ▶ lead change.

Leaders must assess the specific sets of knowledge, skills and attitudes currently existing in the organization, as well as financial and other resources available. They must also gauge the willingness and preferences of the key and influential players at all levels within the organization to changes that they are contemplating, and the urgency with which they must operate. They must also identify the capabilities, resources and preferences of competitors, and predict how the marketplace will look under various scenarios that include technological and other trends.

Knowledge and brain power, skills and experience, and the willingness to use them, are the energy source that drives the new economy.

Leaders must then develop a clear, unique, challenging yet attainable and ultimately successful vision (or strategic intent), which can take years in today's complex markets, that sets a direction for an organization and provides a winning fit between it and the external environment.

Leaders must then go about building competencies to close the gap between the current capabilities of the organization and those that are required by the strategy. In the new economy, building competencies is not a make-or-buy decision. It is both. Competitive companies in the knowledge economy must be very careful in their hiring, given the complexities of the work required and opportunities for error. However, they must also invest in continuous learning to refresh and develop the capabilities of the employees to maintain the desired strategic corporate competencies, which can age very quickly.

It is senior management's role to assess capabilities, set direction, build competencies and lead change

After all this, the hard part begins. It takes tremendous confidence as a leader to guide an organization into uncharted territory ahead of other competitors, and rare skill to be able to communicate and lead in a way that causes everyone in the organization to truly buy in and commit their best efforts to this uncertain common purpose. Yet this is what the leader must do, for without the focused intelligence and commitment of its workforce, organizations with even the most dynamic and insightful leaders will fail.

Leading knowledge workers is difficult. It requires different expertise and new skills not rewarded in the old economy. Leaders increasingly must lead by competence, example and encouragement, not by command and control. Effective leadership is personal and involved, not impersonal and bureaucratic. The best leadership is transformational, bringing people together to achieve, and in the process to make more of who they are individually and collectively. Good leadership is not merely transactional, which is about simply exchanging money for a minimum commitment of work.

“Trust in people and trust is returned” is the hallmark of well-led companies in the new economy, where processes are complex and so much of the value that is created is intangible. As Robert Greenleaf predicted, to effectively lead human resources in the new economy is to be a steward, a servant, and a teacher.

How to help employees deliver value

If leadership is the starting point of any strategic HR initiative, the starting assumption of new economy HR practices is that employees want to do a good job. Given the right conditions, employees will take pride in their company and in their work, and will seek out ways to improve products and services and to provide higher and higher levels of customer satisfaction. This is a very different view than the one that predominated in the old economy, which was that employees had to be pushed by management to perform.

The means to unleashing this attitude within a company is to generate increased employee satisfaction. No less a luminary than Jack Welch, CEO of General Electric and perhaps the most successful and admired corporate leader of the last decade, has said that in his global, knowledge-intensive business, employee satisfaction ranks with customer satisfaction and cash flow as a key indicator of the health and competitiveness of his business.

In the new economy building competencies is not a make-or-buy decision. It is both.

By employee satisfaction we mean the intrinsic satisfaction that comes from doing a job well and knowing that we are appropriately recognized and valued. For knowledge workers, particularly the more highly skilled ones whose valuable mental assets are totally portable and whose abilities are in demand around the globe, this internal connection with an organization is the new economy equivalent of the old corporate loyalty (which scarcely exists now). Rather than thinking they are automatically owed the loyalty of those whom they employ, successful new economy companies set about earning the commitment of the hearts and minds of their employees just as much as those of their customers.

We must be careful here to distinguish this very specific definition of employee satisfaction from the so-called “hygienic” factors, such as providing a pleasant work environment or competitive rates of pay. The absence of these hygienic factors can diminish employee satisfaction and reduce productivity, but their presence is not sufficient to make a workforce competitive, as many companies with lavish budgets found out.

Giving employees what are truly the right conditions in which to work involves balancing an interdependent set of variables that must fit together as an integrated whole in order to make an organization effective and worth committing to. There are many models depicting the requirements for corporate effectiveness. No matter which is used, three important concepts to remember are:

- ▶ new economy companies operate more like flexible, organic systems than rigid, artificial structures;
- ▶ change anywhere affects each and every other part of the system; and
- ▶ each organization (organism) must find and maintain its own unique and often changing balance between the parts of its system.

The consulting firm, McKinsey, produced their widely emulated 7S Model taking these principles into account:

- ▶ strategy;
- ▶ structure;
- ▶ systems;
- ▶ shared values;
- ▶ skills;
- ▶ staffing; and
- ▶ style [leadership].

Examinations of companies that remain highly successful despite considerable change in their external competitive environment will usually reveal an internal evolution that maintains a positive balance between these components. Companies restructuring or reengineering in efforts to adapt to the new economy environment are well advised to remember that all seven components must be addressed as a cohesive whole in order to get the best from their people. Often implementing what are perceived to be improvements in one area alone can increase the stresses and strains within the system, and wind up being counter productive. As the observer Jeanie Daniel Duck wrote, the new economy requires leaders to manage the dynamic, not the pieces.

This report has already looked at strategy, skills, staffing and leadership. To complete a systemic view of the new economy, HR practices' structure, systems and shared values will also be addressed.

Tall, bureaucratic corporate structures were the most effective means of controlling the massive, fairly static organizations that predominated in the early and middle part of this century, before the advent of the micro chip. Now this slow, relatively inflexible model has become uncompetitive and is being replaced with the kind of new, flatter, more fluid and cooperative organization described above. The computer and telecommunications revolution enabled whole layers of corporations to be removed, which had the benefits of bringing costs down and people within companies closer to their customers.

In the new economy this evolution in structure is evolving into what some call a clover-leaf structure, with three groups of employees. These are core or permanent staff, who embody the core competencies of the organization, temporary or occasional workers who provide additional hands as required, and contract knowledge workers, who can be located virtually anywhere and bring specific sets of knowledge, skills and experience that are not part of the organization's designated core competencies.

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New systems are required to enable, guide and support knowledge work under these conditions. Information systems software has replaced hardware innovations as the cutting edge of technology-enabled productivity enhancement. Software applications such as Groupware, Imaging and Document managing systems are finally allowing the white-collar performance improvements that had previously eluded companies investing heavily in computer and communications hardware.

These applications, and many more to follow, will serve the new organizational systems of new economy companies, which are primarily team-based, often multi-functional, and in many cases multi-locational. As one observer has noted, rather than being based on fixed sites and wires, the new economy will comprise a world full of “the occasionally connected.” This has major implications for human resource strategy.

Work teams are emerging as the dominant organizational component of the new economy. They are the approach most consistent with flatter, more flexible and more quickly responsive organizations and the concepts of delivering mass customization and focused mass where and as needed. The synergy and self-direction possible with cross-functional teams comes at a price, however, and they are not a universal solution.

Significant investments in time, energy, resources and management focus are needed to enable a team to develop approach, purpose and commitment based on consensus that allow it to produce work of higher quality and quantity than can more quickly and easily be produced by a group of individuals. This learning curve and its attendant decline in initial productivity is not warranted in very short-term tasks or ones that are more easily carried out by a series of individuals under supervision.

However, the more complex and multi-disciplinary the task, which is typical of knowledge work, the more teams become the favoured system. Basic guidelines for supporting effective team building as identified by Katzenbach and Smith are:

- ▶ small size (2-25 people);
- ▶ complementary skills or skill potential: technical, interpersonal, problem solving; and
- ▶ mutual accountability for purpose, approach, and specific performance goals.

Because of the highly participative nature of teams, they foster a culture characterized by high levels of involvement. So long as management guards against taking advantage of this willingness, such involvement is a precious intangible asset because it supports the combined top-down/bottom-up interaction that is so critical to effective planning and implementation in times of rapid change. Entrepreneurial initiative is a common by-product of high-performance teams, and successful organizations find ways to support and channel this activity in productive ways.

This internal connection with an organization is the new economy equivalent of the old corporate loyalty (which scarcely exists now).

As suggested above, the successful introduction of team-based work systems can significantly impact the shared values of an organization. For example, the open sharing of ideas with little fear of negative consequences, which is essential in building common approaches, goals, purpose and commitment, will be disruptive to organizations whose culture is territorial and more secretive. Knowing this, GE's Jack Welch has made "boundarylessness", the reduction of barriers to sharing information, power and benefits, a major corporate priority in order to fully enable his knowledge workers to contribute their best.

Similarly the Japanese, who propagated the early team-based work approaches, made mistakes acceptable for open discussion, and even valued them as learning opportunities so long as they were not willfully or carelessly committed. Best seen in their auto manufacturing plants, where many new economy HR practices have developed, the impact on quality and productivity of demonstrating positive shared values such as respect for the individual, involvement in implementation decisions affecting how workers do their own jobs, and working hard to build consensus cannot be overstated.

When valuing diversity is added, the new economy HR perspective is largely about building employee satisfaction, thereby earning their commitment to use their brains, knowledge, skills and abilities for continuous process improvement. The caveat, however, is that benefits must also be shared. This must take place in two forms.

First, recognition and rewards perceived as valuable and equitable by the employees based on their performance must be provided. These may be team and/or individually based. Always, however, the rewards and recognition that are given must be seen to be consistent with guidelines broadly understood and accepted in advance.

Second, continuous improvement must also benefit the employees in their daily work. Some companies, in their zeal to become more competitive, have inadvertently or misguidedly asked their employees to suggest ways to work harder and faster. In the case of one Canadian auto manufacturer this continuous improvement led to unionization. What the successful new economy company should be clear about is asking its knowledge workers to use their brains to find ways to work smarter and more effectively, and to share the benefits of such improvements with the company, the customer and the workforce.

New economy companies operate more like flexible, organic systems than rigid, artificial structures.

We must be careful here to distinguish this very specific definition of employee satisfaction from the so-called “hygienic” factors, such as providing a pleasant work environment or competitive rates of pay.

In fact, the goal of new economy management, once strategy is set and communicated, is to simplify processes and reduce impediments to working together, in order to create and deliver to customers greater value. Customers are not interested in the inner workings of an organization; customer satisfaction is derived from quality, speed and value.

In closing, then, the bad news is that poor performance in the new economy, more than ever before, is mainly the result of problems with management, not with the workforce. This same fact is also the good HR news, however, because the causes of employee satisfaction described earlier provide increased customer satisfaction as the speed, value and quality of product-service package increases, and this of course leads to greater profitability and shareholder satisfaction. Here we can see that the link between employees, customers and shareholders can also be self-reinforcing, given an effective corporation to support it.

The bad news is that poor performance in the new economy, more than ever before, is mainly the result of problems with management, not with the workforce.

The challenge in the new economy is to get everyone involved and coordinated in balancing the multiple requirements for success outlined above. In the new economy these requirements often seem conflicting, acting:

- ▶ big and small;
- ▶ local and global;
- ▶ mass and customized; and
- ▶ long range and short term at the same time.

The truth is that balancing is not about being good at “either/or”, it is about being good at “both”.

The winners in the future will be ...

“Those who can develop a culture which allows them to move faster, communicate more clearly, and involve everyone in a focused effort to serve ever more demanding customers We need to drive self confidence deep into the organization We have to convince our managers that their role is not to control people, but to guide, energize and excite.”

Jack Welch, CEO, General Electric

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