

The research context for *The Global Management Challenge*

The Global Management Challenge research report is available from the ILM website; this paper contains more detail about the issues which led to the research and some of those raised by the findings.

If you are currently involved in developing leaders and managers, you may find the companion paper, **Using *The Global Management Challenge* on an ILM Programme** useful.

0. Introduction

There has been widespread concern about the quality of management in British organisations for a long time. 21 years ago the Constable and McCormickⁱ report identified the lack of development opportunities for managers as a contributory factor in the UK's relatively poor growth, yet 15 years later the same complaint was still being voiced:

...while business failures and low productivity are blamed on poor management, management and leadership education and development are not valued as a prime ingredient of business success.ⁱⁱ

...we find that the role of management cannot be separated from the overall competitiveness issues facing the country.ⁱⁱⁱ

However, this only goes halfway towards defining the problem; blaming poor economic performance on poor management, and the lack of adequate development opportunities, pre-supposes that we know what good management is, if we are to supply a solution. The establishment of National Occupational Standards^{iv} contributes towards this, but the standards are largely based on a UK-centric view of best practice; they do not attempt to benchmark UK management practice against international performance.

Yet we now live in McLuhan's *global village*^v. The electronic media have reduced the distances between far parts of the globe to nothing, making it possible for people and organisations to interact with each other as if living next door (as if in a village). A minority of managers, mainly at the more senior level, move between countries and continents, but there is little interchange between the majority of managers at operational and first line level.

Nevertheless, this global interaction has enabled the expansion of trade in goods and services and made it possible for relatively small organisations, as well as multinationals, to operate in markets they may never visit. We see this in the ubiquity of goods manufactured in China, Vietnam or Malaysia in our homes and our offices, and in the call centres in Bangalore servicing customers in Bangor. We also see it in the decline in manufacturing in most western, developed economies and the increasing emphasis on employment in the service sector, albeit seeing this coming under threat from outsourcing to India and other developing countries.

Managers at all levels will increasingly find themselves working in a global environment, even whilst operating within their home country. The standard they must meet must be a global standard; the challenge they face is a global challenge.

1. The economic context

Just to get some idea of the significance of globalisation, Table 1 outlines the current size of the Chinese economy relative to the UK, France and USA and Table 2 highlights the changes in international trade in goods for the UK, France, USA and China, between 1999 and last year. (The reasons for choosing these four countries are explained in the report).

Table 1: Economic indicators, 2007

	GDP		Labour force	
France	\$2,047 bn	3.1%	27.8 m	0.9%
UK	\$2,137 bn	3.3%	30.9 m	1.0%
USA	\$13,840 bn	21.1%	153.1 m	4.9%
(Sub-total)	\$18,024 bn	27.5%	211.8 m	6.8%
China	\$6,991 bn	10.7%	803.3 m	25.7%
World	\$65,610 bn	100.0%	3,131 m	100.0%

(Source: CIA Factbook 2008)

The sheer scale of the Chinese economy cannot be under-estimated, nor its sophistication. In the May issue of *Prospect* magazine, Parag Khanna argues (*Here comes the second world*) that the rapid growth of the developing countries (the 'second world' of the title, lying between the 'first world' of developed economies, and the 'third world' of the under-developed countries) is often overlooked. However, in his categorisation of second world countries he specifically excluded China. From his perspective, comparing it with India, Brazil or Malaysia, China is a developed, first world economy. This is not the perspective shared by most western managers, but is a reflection of its significant industrial and commercial strength.

The growth in world trade of nearly 150% in eight years (from US\$5,600 bn to US\$13,840 bn) is significant enough, but when we look at the contribution made by China we begin to see how the world economy has started to tilt on its axis. The three developed economies' international trade grew in total value, but shrunk in share, whereas China's share of both imports (especially of raw materials, components and semi-manufactured goods) and exports grew exponentially, overtaking the other three in share of exports and France and the UK in terms of imports.

Table 2: Changes in world trade in goods 1999-2007 (selected countries)

		1999 (US\$bn)		2007(US\$bn)		Growth 1999 - 2007
France	Imports	280.8	5.01%	601.4	4.35%	114.17%
	Exports	304.7	5.44%	558.9	4.03%	83.43%
UK	Imports	305.9	5.46%	595.6	4.31%	94.70%
	Exports	271	4.84%	415.6	3.00%	53.36%
USA	Imports	912	16.29%	1,987.00	14.39%	117.87%
	Exports	663	11.84%	1,140.00	8.22%	71.95%
China	Imports	165.8	2.96%	917.4	6.64%	453.32%
	Exports	194.9	3.48%	1,221.00	8.80%	526.48%
Total world trade		5,600.00	100.0%	13,840.00	100.0%	146.61%

Values are in billions of US dollars at current prices (ie not adjusted for inflation) and exchange rates. Exports are valued fob, imports at fob or cif (variable). Excludes trade in services. (Sources: CIA Factbook 2000 and 2008)

What is the significance of this for managers and the organisations they work for? It means that they can expect to find themselves dealing with managers in overseas organisations, as suppliers or customers, much more regularly, and they will need to understand how those organisations work and what expectations each will have of the other if they are to achieve effective working relationships. They will also find themselves competing with each other far more regularly, and having to assess the relative strengths and weaknesses that each presents when fighting for business with third parties.

This isn't new; it has happened before. 50 years ago Japan grew its international presence on the basis of price and a reputation for being able to copy what the west did. But gradually it established a different reputation for itself, a reputation for quality and reliability that meant that the student turned teacher, and western managers went to Japan to learn from them how they did it^{vi}. At the moment, managers in China and other rapidly developing countries are learning from the west, but increasingly they will be developing their own principles and practices, and managers in developed countries will have to be alert to the development of managerial advantages once China's price advantage starts to narrow.

At present the emphasis of many academics is on recruiting Chinese students to undergraduate and postgraduate management programmes, but increasingly they will need to beware of the emergence of Chinese models and Chinese Business Schools, threatening both the hegemony of western management theories and practices, and of the institutions which teach them:

...there is a patent need for a region-specific theory of management development and applications. Much of the existing body of business and management knowledge has been developed with Western and developed countries in mind. Its applicability to other environments must wait for further testing and verification^{vii}.

Useful links

<https://www.cia.gov/library/publications/the-world-factbook/> - This is the easiest place to find data on more or less every country in the world. (Previous editions, back to 2000 are available at <https://www.cia.gov/library/publications/download>)

http://www.oecd.org/statsportal/0,3352,en_2825_293564_1_1_1_1_1,00.html - More detailed data on OECD member countries (which excludes China) is available here.

2. Countries and culture

Why do different countries have different management principles and practices? The primary answer is culture – people differ in their attitudes, expectations and behaviours in different countries because they live in a different cultural context. Since management is ultimately about *getting things done through people*^{viii}, managers who do not understand the attitudes, expectations and behaviours of those they manage – who don't understand their culture – will struggle to manage them. Equally, they will struggle to relate to managers working in different cultures when those managers are in business relationships with them.

Research by the European Management Association^{ix} suggested that there were some similarities between managers from different European countries (Germany, Lithuania, Malta, Spain and the UK) in terms of their professional values and core management competences, but that there was greater divergence when it comes to their personal values. How do these (their professional values, their core management competences and their personal values) interact in shaping their behaviour, and to what extent do European Managers reflect the great many managers working in organisations around the world? These are significant questions and form part of the global management challenge that ILM is seeking to address.

There have, of course, been many studies of organisational behaviour, including management behaviour, in different cultural contexts. But what is culture? Anthropologists discuss culture as the *learned and shared behaviour patterns characteristic of a group of people*^x, although in leadership & management development, organisational culture is often just described as 'the way things are done around here'.

(NB: There is a useful comparative summary of the main commentators on international culture and the workplace by Stephan Dahl of Middlesex University Business School. His paper, *Intercultural Research: The Current State of Knowledge* is available free as a download from the Social Science Research network at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=658202)

The most common theorist of culture in an organisational setting is Geert Hofstede^{xi}; his research across IBM between 1967 and 1973 analysed responses to surveys on values from employees in 50 countries. From this he developed a model that used four dimensions (subsequently extended to five) which suggested some significant differences in the values and attitudes (and subsequent behaviours) associated with different countries.

These are:

- Power distance index (PDI) – how well people in organisations accept that power is distributed unequally (and therefore, how those in positions of power expect those over whom they have power to respond to them).
- Individualism versus collectivism (IDV) – how much people expect to have to look after their own interests or look to their social group for aid and support.
- Masculinity versus femininity (MAS) – the extent to which the values that are normally associated with men (assertiveness and competition) or with women (modest and caring) are dominant.
- Uncertainty avoidance index (UAI) – the need for structure and clear rules and procedures as opposed to uncertainty and ambiguity.
- Long-term versus short-term orientation (LTO) – the tendency to value thrift and perseverance over respect for tradition, fulfilling social obligations, and protecting one's 'face'. (NB: This fifth dimension was developed by Chinese researchers and integrated to the Hofstede model in the late 1990s).

Table 3 shows how the four different countries compare on these dimensions.

Table 3: Hofstede's five dimensions of culture

	UK	US	France	China
Power Distance Index	Low	Low	Med	High
Individualism versus collectivism	High	High	Med/High	Low
Masculinity versus femininity	Mas	Mas	M/F	Fem
Uncertainty avoidance index	Low	Low	High	Low
Long-term versus short-term orientation	Short	Short	Med	Very Long

(Source: Geert and Gert Jan Hofstede *Cultures and Organisations: Software of the Mind* 2nd ed. McGraw Hill 2005)

In concrete terms, the research suggest that people working in both the UK and the USA are very similar, culturally, being individualistic and tending towards assertive and competitive values (Masculine), but expect more equal distribution of power, fairly comfortable with uncertainty (low UAI – more so in the UK than the USA) and adopt a short term orientation (less emphasis on the future, more emphasis on the now). This is often referred to as the Anglo-Saxon culture because of the similarities between the two nationalities.

By contrast, our near neighbours, the French, exhibit significantly different characteristics, at least on three of the scales. They are far more willing to accept the unequal distribution of power in organisations, a less individualistic approach (although not a low score on this dimension), a more feminine approach to relationships, a significantly lower tolerance of uncertainty and a longer (but not long)-term time orientation. The French profile is similar to the European average, certainly more similar than the UK's profile is, and allows France to be used as a proxy for European managers generally, especially southern European.

The biggest difference, however, lies between the UK and China. Culturally, the Chinese readily accept unequal power distribution, look very strongly to their social group for

support (very low on the Individualism scale), are Feminine in the approach to relationships, are tolerant of uncertainty and value thrift and perseverance (very high LTO).

Hofstede's analysis is by no means accepted uncritically^{xii} although many subsequent research studies have replicated the findings. Many commentators have emphasised that generalising about nationalities is really only stereotyping, and that many individuals will vary from these norms. It has also been asserted that the instrument used to create these profiles is too limited in its scope and too situationally specific to be sufficient to be generalisable. An interesting study^{xiii} of UK and French workers operating in an identical organisational environment (Trans-Marche Link, digging the channel tunnel) found that the nationals of both countries appeared to exhibit almost the exact opposite in terms of their behavioural patterns to what would be expected from the Hofstede model. The British were found to be relatively bureaucratic in their attitude towards rules and procedures and more supportive of each other. The French, by contrast, were more organic and individualistic in their attitudes.

Some of the biggest criticism of Hofstede has come from Fons Trompenaars and Charles Hampden-Turner^{xiv}, who talk more about the need to understand individuals and the cultural influences on them, and less about national stereotypes. However, their analysis of different cultural influences has similarities to the Hofstede model, especially the emphasis on individualism versus a more communitarian set of values, the role of rules versus relationships, the level of emotional engagement with others, attitudes to power and our perspective on time.

Trompenaars and Hampden-Turner use seven dimensions in comparing cultures:

- Relationships and rules. To what the extent do people refer to social rules laws, etc) in making decisions, as opposed to their social obligations to their family or community? These two extremes are described as being either *universalistic* (rules dominate) or *particularistic* (relationships and social obligations dominate).
- The group and the individual. How far do people trade off their freedom of action as individuals (*individualistic*) over their obligations to their social group (*communitarian*)? This has strong similarities to Hofstede's IDV scale.
- Feelings and relationships. To what extent are our relationships with others are affected by reason and how much by emotion? The former are *neutral* in their emotional stance (ie they try to avoid allowing emotions to affect things one way or the other); the latter are *affective* (they expect an emotional response and so interpret behaviour as revealing emotions).
- How far we get involved. Where are the boundaries between our private and public lives? In *diffuse* cultures, it is important to build up a relationship before getting down to business, because the personal relationship and trust is critical to building a business relationship. In *specific* cultures, there are strong boundaries between the person and the business – businesses deal with businesses, represented by people; the specific person is of far less importance.
- How we accord status. In some cultures *ascribed* status is important – your position or role defines your behaviour; in others, how you behave defines your *achieved* status.
- How we manage time. Do we see events as a series of discrete events, largely independent of each other (*sequential*) or as *synchronic*, a continuum from the past through the present to the future? This is similar to Hofstede's Long Term

Orientation, but has a different perspective on our relationship with time; focussing more on the underpinning factors shaping how we approach the short and long term – a sequential approach will tend to see the long term as not linked closely to current behaviour, whereas synchronic cultures view the future as an extension of the past.

- How we relate to nature. Is nature something that we should work with to achieve our goals (*outer directed* – we seeing the organisation as part of its environment), or something that we can control (*inner directed* – seeing the organisation as a machine that can be used to make things happen)?

The application of Trompenaars and Hampden-Turner's seven dimensions is shown in Table 4.

Table 4: Trompenaars and Hampden-Turner's seven dimensions of culture

	UK	US	France	China
Relationships and rules	Universalistic	Universalistic	Midway	Particularistic
The group and the individual	Fairly individualistic	Very individualistic	Communitarian	Communitarian
Feelings and relationships	Midway	Midway	Quite affective	Neutral
How far we get involved?	Specific	Fairly specific	Specific	Diffuse
How we accord status	Achieved	Achieved	Midway	More ascribed
How we manage time	Fairly synchronic	Synchronic	Sequential	Sequential
How we relate to nature	Fairly inner-directed	Midway	Inner-directed	Outer-directed

(Source: Fons Trompenaars and Charles Hampden-Turner *Riding the Waves of Culture* 2nd ed Nicholas Brealey 1997)

Useful links

<http://www.geert-hofstede.com/> - Geert Hofstede's own site

<http://www.thtconsulting.com/main/index.php> - Trompenaars and Hampden-Turner's site (principally about their consulting offer)

<http://www.worldbusinessculture.com/> - outlines some of the behaviours likely to be found when dealing with people in different cultures

3. It's not what you do it's the way that you do it

So what are the implications for management behaviour and expectations? We can assume that culture will shape managers' behaviour and the way that they relate to others, both those they manage, their peers, and those they report to. They will also be affected by the political and economic environment in which they are working.

(As the ILM research was commissioned and as it was conducted, the combined effects of the US sub-prime mortgage crisis and rising oil and food prices all served to create a challenging environment for businesses to operate in and had a direct impact on the research itself, as many US managers refused to participate. They were concerned that, by taking part, they would appear not to be working hard, making them feel vulnerable.)

UK and US managers are used to operating in a relatively unregulated markets (including the labour market, although this has become less the case in the UK in recent years), whereas French managers are used to a market that is still, in 'Anglo-Saxon' terms, a more regulated one. Chinese managers are even more used to regulation and working in an environment which has:

...restrictions on financial and product markets. Excessive state control in particular inhibits competition in many states and sectors. There are also restraints on business entry and operation across the board, not to mention thickets of government red tape ... China is currently strengthening its labour market restrictions considerably.^{xv}

China remains an autocratic country ...with many prices artificially low or fixed. This causes problems in the supply chain, as with oil and gas, and encourages wastage, in water and energy, for instance...Loyalty in the junior ranks can also be a problem, but this is mostly not the case among staff over 30 years old...Surprisingly, the people are not always good team players, probably because competition is high, and individuals have to safeguard their turf. This might explain their lack of a communications culture. Interestingly, I find that women have a far better attitude when it comes to services than men, especially in northern China, where a rather Mandarin attitude reigns amongst men. (Joerg Wuttke, vice-president of the European Chamber of Commerce in China)^{xvi}

So, given these economic pressures and the cultural similarities and differences:

- Do managers in the four different countries approach their roles with similar expectations, or is management a culturally defined phenomenon?
- How do managers judge their peers, in their own organisations?
- How do managers in each country perceive their peers in the other countries?
- What are the stereotypical views that each country's managers have of the others'?

These were the questions we set out to find some answers to in the research. The Report, the Global Management Challenge, outlines some of the answers, but emphasises how much more we need to know. This was very much a scoping exercise, designed to help us clarify the questions in order that we might probe more deeply into them in further research activity.

References

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- iii Michael Porter & Christian Ketels *UK Competitiveness: moving to the next stage* DTI Economics Paper 3, 2003
- iv The Management Standards Centre *National Occupational Standards* http://www.management-standards.org/content_1.aspx?id=10:1917
- v Marshall McLuhan *The Gutenberg Galaxy: The Making of Typographic Man* (University of Toronto Press, 1962)
- vi Ironically, of course, the people who taught Japan in the first place were Americans who were spurned by their national economies. Both W Edwards Deming and Joseph Juran were US engineers who helped businesses in the post-war Japanese economy create the models of quality engineering that led them to dominate the automobile and consumer electronics industries in the latter years of the 20th century.
- vii Mingfang Li, Yim-Yu Wong and Qun Wang *Management Education in the Greater China Economy: Challenges and Tasks in Business and Management Education in China: Transition, Pedagogy and Training*, Ilan Alon & John R McIntyre, eds. World Scientific, 2005
- viii Lawrence Appley *Formula for Success: A core concept of management* AMACOM, 1974
- ix European Management Association *The European Manager* EMA, 2006
- x Oswalt, WH *Life Cycles and Lifeways: An Introduction to Cultural Anthropology* Mayfield Publishing Company, 1986
- xi Gert Hofstede *Cultures Consequences: International Differences in Work-Related Values* Sage Publications, 1980
- xii See, for example, B. McSweeney *Hofstede's 'Model of National Cultural Differences and Consequences: A Triumph of Faith - A Failure of Analysis* *Human Relations* 55.1, pp89-118 (2002).
- xiii Graham Winch, Carla Millar and Naomi Clifton *Culture and Organisation: The Case of the Transmanhe Link* *British Journal of Management* Vol 8, pp 237-249 (1997)
- xiv Charles Hampden-Turner and Fons Trompenaars *Riding the Waves of Culture: Understanding Diversity in Global Business* McGraw-Hill, 1997
- xv *OECD Observer* No. 264/265, December 2007-January 2008
- xvi *OECD Observer* No. 255, May 2006