The Comparative Capability of UK Managers

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The Comparative Capability of UK Managers

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Lesley Giles

Head of Research at the SSDA

Glossary of Abbreviations

DfES	Department for Education and Skills
EC	European Community
FR	France
GB	Great Britain
GDP	Gross Domestic Product
GE	Germany
HR	Human Resources
HRD	Human Resource Development
JPN	Japan
MD	Management Development
M&L	Management and Leadership
M&LC	Management and leadership capability
MNCs	Multinational companies
NO	Norway
SMEs	Small-and-Medium-sized Enterprises
SSDA	Sector Skills Development Agency
SP	Spain
UK	United Kingdom
US (USA)	United States (of America)

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Executive Summary

Introduction

There has been much concern over the productivity of the UK economy which, despite being the fourth largest economy in the world, has productivity levels which have gradually fallen behind our competitor nations, in particular the US, France and Germany. Although this gap has closed somewhat in recent years, there is still concern and the desire to understand what lies behind this situation has resulted in considerable research and debate. In part this has focused on the degree to which UK management capability is lacking in some way. This view, which initially gained momentum in the 1980s, has been offered support by studies which have shown that UK managers tend to be less qualified and receive less training than others in Europe and elsewhere (*e.g.* Bosworth, 1999; Keep and Westwood, 2002; Mabey and Ramirez, 2004).

Alongside this focus on management capability, other research has also looked at how large organisations create competitive success — a key means is felt to be through product and market diversification and internal organisation into decentralised, multidivisional structures. The evidence is that UK firms adopted both practices earlier and more extensively than those of France and Germany, which suggests the UK has an effective ability to manage these key approaches. Other commentary has suggested that in addition to these structural responses, commercial success is also dependent on five critical tasks (Chandler and Hikino, 1997):

1. investing in physical and human capital
2. commercialisation of technological innovations
3. developing learned internal organisational capabilities
4. deploying retained earnings and learned capabilities in further investments in physical and human capital and related diversification, including further commercialisation of technological innovations
5. being an active member of an industry cluster.

There is an emerging view that UK companies under-invest in capital assets and innovation and position themselves on low input cost rather than high value (Porter and Ketels, 2003), so perhaps it is here that the UK problem lies.

Other literature has pointed to the distinct capability gap of UK SMEs (small and medium sized enterprises) and considered that the reasons behind low productivity lean more towards such organisations, whilst there has also been analysis at the sectoral level which demonstrates that the gap can be attributed to specific sectors rather than all parts of the UK economy.

A separate thread of literature (House *et al.*, 2004) explores cultural differences between nations and relates these to national prosperity. This finds that cultural practices are important for social well being and economic success and there are a number of practices where the UK scores less well than Confucian Asian, Germanic European and Nordic societies. These include performance orientation practice *i.e.* improving and rewarding performance, being innovative and setting challenging goals, practices associated with uncertainty avoidance *i.e.* orderliness and consistency, being highly structured, establishing detailed instructions, following rules and laws and future orientation practices of planning ahead, living in the future and planning meetings.

There is much in the literature which is intriguing. The analysis of creative and competitive discovery implied that large UK firms have adopted some of the practices to do with competitive success such as diversification and internal re-organisation as extensively as those from other nationalities and so perhaps the problem lies with SMEs. And yet, other research suggests that UK firms (of all sizes) invest less in management capital. Large firms will tend to be multinational companies (MNCs) and so perhaps there is something unique about multinational companies which set them apart from domestic firms. There would appear to be a gap in the literature here and a need for research that explores the relationships between size, sector, status (MNC vs. domestic owned) and management capability.

Aims and Approach

The study seeks to fill this gap by asking three key questions about management and leadership: What makes capable managers?; How do UK and non-UK organisations develop their managers and leaders?; and are UK managers and leaders believed to be as good as those from other countries?

These questions are answered in two ways: a survey of 484 domestic and multinational companies (MNCs) in Spain, Norway, Germany and the UK; plus in-depth case studies of four multinational companies from two sectors (retail and telecommunications) in the UK.

The **case studies** explored a range of issues with interviewees, including:

- Experience of working in different countries
- Business context
- Defining management and leadership capability
- Assessment of managerial capability
- Management development.

Two different questionnaires were developed for the **survey** reflecting different emphasis for Human Resource Development (HRD) managers and line managers. Topics explored with HRD respondents included:

- HR strategy — is Human Resources policy integrated into the wider business strategy?
- Management development (MD) ethos — the extent to which an internal cadre of managers is being created over time;
- MD systems — the sophistication of MD policies and practices;
- What makes a good manager?

Topics explored with line managers included:

- MD importance — the strategic priority given to MD by their organisation
- MD amount — the number of days devoted to MD per year

Both groups of respondents were also asked about business performance and MD methods.

Perspectives on Management Capability

The research found that differences in perspectives on management capability reflect a complex interplay between national and organisational culture rather than clear-cut differences by nationality.

What leads to a good manager?
Across all countries, innate ability and job experience are considered the most important factors in the creation of a good manager, with firms in the UK placing the least emphasis of all countries on vocational qualifications. The findings suggest that informal means of development are seen more positively than the formal, which is surprising given the evidence that more qualified managers tend to be more effective (e.g. Woods, 1992).

The characteristics of a good manager
A wide range of attributes are associated with good management: being inspirational, developing talent, managing performance by providing clarity. Responses appeared to be more influenced by the organisation's characteristics than by nationality. For example, HRD managers operating in mature firms commented on the need to shift management capability from a risk averse, hierarchical approach to one that was people orientated.

Perspectives on the management role
Organisations want managers who can manage change, and manage their organisations and people in an ethical, values-based manner. For line managers, organisational culture was found to have a significant impact on subjects such as: how managers motivated themselves; how they prioritised their work; and their capacity to manage. Effective management was found to be aided by cultures that support empowerment and encourage managers to make decisions. If the organisation is moving to such a culture then it can be seen as a difficult transition for managers as they adapt to doing things differently. The report found changes in expectations were generally difficult for managers.

Our survey explored those aspects of management which HRD managers felt were most lacking in their organisations. The results are telling, given what managers themselves feel are the most important aspects of their role. The most prevalent cluster was to do with people skills *e.g.* the ability to get the most from staff, the ability to influence upwards, and working effectively with teams. Next most important, were skills associated with strategic thinking and planning, and thirdly the ability to set a good personal example.

Management Development

The survey explored the prevalence of a range of key constructs relating to management development in firms from the four countries. These constructs were:

- HR strategy – degree of linkage between HR and business strategy
- MD ethos – the extent to which an internal cadre of managers is being created over time
- MD systems – the infrastructure supporting a firm's MD
- MD importance – the strategic priority given to management development, as perceived by line managers
- MD amount – the amount of development provided and reported by line managers.

There were a number of differences between the nations. For example, HR played the most strategic role in Norwegian firms and the least in the UK ones. Spain scored the lowest of all the countries for both MD systems and MD ethos. When it comes to MD amount, however, Spain does somewhat better than the other countries. It would seem that rather more development is taking place in Spanish firms but that it is less focused and less strategic than in other European countries. Spanish companies place more emphasis on external placements and e-learning than others.

Other differences emerge by size, sector and status. Service sector organisations tend to use a wider range of methods than manufacturing or distribution companies. Size differences suggest that small companies may provide frequent development opportunities but do not utilise such a range of methods as larger organisations. Interestingly, medium-sized organisations seemed to be particularly vulnerable in the UK, with low levels of development across a range of methods. Furthermore, MNCs consistently rate the success of MD higher than domestic companies.

Interestingly, HRD managers regularly rate job-related experience as the most important factor in management development and yet formal programmes are the most common form of MD activity provided by firms, as opposed to job rotation or external placements, for example. The UK, for example, is relatively low on most forms of learning with the exception of formal education where it scores higher than all other countries.

Impact of MD on Organisational Performance

Further analyses of the survey responses, when related to perceived business performance, shows that the *approach* to management development taken by an organisation is of significantly greater importance to competitive success than the *amount* of development activities which take place. The survey identifies three factors as contributing positively to organisational performance:

- The integration of MD into the business strategy;
- the importance accorded to MD as perceived by line managers;
- The degree to which organisations develop the skills of future managers (MD Ethos).

When UK companies are compared with their European partners on these dimensions, it seems that UK companies tend to lag behind German and Norwegian firms in developing a progressive ethos for development of managers but are ahead of Spanish firms. They do least well amongst the comparators in terms of linking HR and business strategies and the importance accorded to MD as perceived by line managers.

Perceptions of National Differences in Management Capability

We heard many strongly expressed views of national capability. In two of our case study companies, it was felt that UK managers tended to have a narrower range of competencies, compared to their non-UK counterparts. In one organisation UK managers were said to be more sensitive regarding what can be expected of people and to be less hierarchical in using power to make things happen. In another, an American commented that UK managers do not deal with difficult behaviour and do not give feedback. This view was echoed by a Belgian manager who also felt that managers from the UK were not straightforward enough, and a Spanish manager who found UK subordinates were not prepared for a more direct approach. Several UK managers commented that the French were more hierarchical and that this had repercussions for behaviour in meetings.

In two organisations there was a sense that the status quo prevailed too much and managers operated within functional chimneys. In contrast, in another organisation where the UK arm was a relatively new subsidiary, the UK managers were seen as entrepreneurial, flexible and broader in scope.

It would seem that in many ways, UK managers compare least well in those organisations where the UK arm is of longstanding, and is contrasted with European partners from smaller, younger and faster growing parts of the business. Where the UK arm is the newcomer, the comparisons are much more favourable. It may be the issue is much more one of culture and lifecycle than nationality.

Conclusion

What emerges from the study is that there are many differences by country, status, size and sector. The UK is shown to be less strategic and less forward focused than some of our comparator countries. Our case studies have shown that some of these differences are about culture and organisational lifecycle with more established companies seeking to inject some vibrancy into their cultures and to create more energetic, empowering, people focused managers. In these circumstances, UK managers may contrast less well with those from smaller, younger and faster moving foreign subsidiaries. But when situations are reversed UK managers are seen to be entrepreneurial and successful. What is valued is a strong organisational culture where people are treated with respect. A strong corporate development philosophy also makes an enormous difference, with managers of all nationalities having a common understanding of their role and the way in which they undertake it.

It may be that the problem does not rest with management capability *per se* in the UK, but rather there is a lack of vision and strategic direction in some organisations. The ways in which the UK does less well seem to be issues of leadership rather than direct management, issues of creating HR strategy, creating a MD ethos, creating a strong sense of culture and a direction and understanding which enables managers to thrive. What is clear is that maturity brings potential problems to organisations unless they can ensure they are appropriately aligned to the demands of current competitive environments. Appropriate organisational cultures appear to have far greater impact than individual nationalistic cultures.

However, there are suggestions that UK companies generally are less advanced at creating a progressive ethos for management development, less advanced in linking HR and business strategies and less advanced in convincing line managers that MD is taken seriously, all of which have been shown to relate to business performance. Where the UK does better is in the development of MD systems and the amount of development which is undertaken – unfortunately both areas which do not relate to performance. Our case studies would support this overall view, that UK companies do not always link MD strategically or have the confidence of managers that they do so. These findings are particularly pertinent to our exploration of UK relative performance.

We have suggested that one of the advantages for the UK in terms of early moves to product and market diversification and internal divisionalisation, may also be indicative of having many established and now mature organisations, which need to refresh their structures, processes and cultures.

Policy Implications

- The approach to management development emerges as of significantly greater importance than the amount of development which takes place. The clear message is that smarter working i.e. embedding development within an overarching strategy of the organisation reaps dividends.
- National level differences exist in preferred approaches to management development and the adoption of key factors related to organisation performance. UK firms are shown to be less strategic and forward focussed than those in some of the comparator countries, preferring instead an informal approach that is less likely to bring competitive success.
- UK firms would do better to have a single management development programme or a common philosophical thread of what constitutes good management which runs through all programmes. This would enable managers to talk with a common language and to better understand how to apply the learning in practice. Such an understanding also seems to create a positive and healthy culture which managers view as a benefit to effective management.
- UK managers have been seen to succeed in positive, empowering cultures which maximise the jobs they do and encourage devolved decision making. This is not the case in many UK MNCs whose cultures have become more entrenched and less flexible as the business has grown and become more established. Their task now is to recapture their earlier dynamism.

1. Introduction

1.1 Background

This study was commissioned following the issuing of the Skills Development Agency's (SSDA) 2003 research prospectus. Research ideas were sought from the research community and this study identified a gap in the literature on management capability, and an opportunity to build on existing research in this area to explore further the comparative capability of UK managers. There were three main parts to this research:

- Literature Review (Appendix 1)
- A survey of multi national corporations (MNCs) designed to complement an existing survey of domestic companies in a number of European countries, which had explored approaches to management development
- Case studies within organisations allowing us to carry out in-depth interviews with managers.

The study has sought to answer the key question of whether UK managers are less able than their non-UK counterparts, and in what ways they differ.

The UK economy is not as productive as the economy of the USA or other leading economies in Europe, in particular France and Germany (Jones, 1997; Nickell and Van Reenen, 2002; O'Mahony and Boer, 2002; Porter and Ketels, 2003). Not surprisingly, this fact has sparked considerable interest in understanding the reasons for the UK's performance gap with a view to taking action to increase the UK's competitive productivity and therefore contribute to the long-term standard of living of its citizens.

It has been said that the productivity of nations is determined by the productivity of their companies (Porter, 2003) and management choices to increase productivity are determined by management capabilities, company capabilities and the company's business environment (Porter and Ketels, 2003). Accordingly a potential source of the comparative performance gap between the UK and other economies could be shortfalls in management; or company capabilities; or constraints in the business environment particular to the UK; or some mix of these three. Over the years there has been a prevalent view that UK management is not as effective as that of our competitor nations and yet there is relatively little empirical testing that this is the case. Much of this perception comes from older work, or work that has indicated that management development activity in the UK does not compare well.

1.1.1 Management development in a global context

While a growing amount is known about management development (MD) in the UK (Thomson *et al.*, 2001; Burgoyne *et al.*, 2004), relatively little has been reported about the effectiveness of MD in the UK compared to competitor nations since the early damning studies of nearly two decades ago (*e.g.* Handy, 1987). The few studies that have made this comparison have consistently found organisations in the UK to be relatively weak in this area. For example an in-depth study of four UK companies matched against four Japanese companies, found management training to be more extensive in the UK but frequently blighted by inconsistency and a lack of strategic coherence (Storey *et al.* 1997). And a study of 700 European firms found a low representation of Human Resource (HR) at board level in the UK, a relatively poor average annual spend on MD and low usage of career planning, despite being one of the highest users of appraisals (Mabey and Ramirez, 2004). As part of a wider survey of HR practices in Europe, Bournois *et al.* (1994) examined how managers were trained in European firms. Questions relating to three practices were selected: the level at which management training decisions were made, the nature of training procedures and approaches to career management. Using these criteria, cluster analysis of responses identified that firms from the same country tended to cluster together and revealed five distinct typologies of MD: Germany, on its own; a hybrid group of France, Finland and Denmark; an English-speaking group of England, Netherlands and Ireland; a Latin group of Spain and Portugal and a fifth group consisting of Norway and its neighbour Sweden. Each of these country clusters appeared to have distinctly different ways of developing managers.

A subsequent study, funded by the EC's Leonardo da Vinci programme, analysed MD policies and practices in six countries selected to represent these five typologies: Germany (group 1), Denmark and France (group 2), Spain (group 3), United Kingdom (group 4) and Norway (group 5) (Mabey and Ramirez, 2004).

One outcome of the latter study was a partial confirmation of the Bournois typology. However, the key dimensions were the degree to which HR was typically linked to business strategy, and the priority companies gave to MD. UK companies were found to be generally low in both the strategic role of HR *and* the emphasis given to MD. Although the Mabey and Ramirez sample included a small number of MNC organisations headquartered in respective countries, the study made no attempt to compare and contrast their approach to MD with that of domestic organisations.

1.1.2 The effects of country, sector, size and status

There are many factors which might shape the design, delivery and impact of management development in different countries: the vocational and educational systems; the extent of government involvement in skill formation; the dominant patterns of employment relations and career systems; the demand and supply of key managerial staff in the labour market. Obviously the sector and size of an organisation also has an important bearing on these factors. Some sectors have a history and heritage of skill formation, which relies heavily upon internal development, others habitually rely on hiring in or poaching those with the requisite abilities and knowledge. With regard to size, a belief exists that larger firms place more emphasis on training and development, yet in a study of 229 Small-and-Medium-Sized Enterprises (SMEs) in Britain, Bacon *et al.* (1996) found that many were pursuing a new approach to managing staff, and that one of the four reasons for this was MD. In addition, and intertwined with these factors, is the important issue of culture. What do organisations expect of their managers? How is performance rewarded? How much emphasis is given to formal systems as against informal patronage? To what extent is hierarchy respected? and so on.

However, cutting across such industrial and socio-cultural differences is the international strategy of the company. In particular, it is likely that domestic organisations (those located in a single country with more limited international relations) will seek to create their management capability in distinctively different ways to MNCs based in the same country. There are many reasons for this. First, for MNCs management training and development provides a way of controlling their international operations and inculcating a common culture across far-flung operations. Second, there is a tendency for MNCs to adopt parent or 'best-practice' norms particularly in more macro-HRD practices like training needs analysis, MD delivery and evaluation procedures (Tregaskis, 2001). Third, the economies of scale associated with MNCs permit access to a richer vein of resources for MD than is possible for many domestic companies. Indeed there is empirical evidence that U.S. based MNCs diverge from their host country counterparts by attempting to apply their parent company HRM practices to their subsidiaries in western Europe (Gooderham et al, 2004). As yet however, most of the research in this area has focussed upon the diffusion of HR practices from parent to subsidiaries.

1.2 The Comparative Capability of UK management

1.2.1 Study aims

In this study we explore some of these complex issues by comparing UK management with other nationalities both within the UK sectoral context and across Europe. As stated above, we began with a review of the literature (presented in Appendix 1) and sought to fill some of the gaps in the literature in two main ways:

1. through in-depth case studies of multi-national companies in two sectors: retail and telecommunications
2. a survey of domestic and MNCs in four European countries.

These two key methods enable us to ask a range of questions pertinent to understanding if there are national differences in management capability, and if so, whether this is about the emphasis on management development, attitudes to role or organisational culture and support. We also explore variations by nationality, size, sector and status. More specifically we seek to address three key questions about management and leadership.

1. What makes capable managers? In discussions with line managers and organisational representatives we have tried to unpick how managers spend their time and what they attend to; what help and hindrance organisations give to good management and whether these views differ by sector, size or status? Does the UK define M&L capability in different ways from other countries in the same sectors?
2. How do UK and non-UK organisations develop their managers and leaders? The main source of information to explore approaches to management development is through the surveys. This enables us to explore both policy and practice of development and how it varies by a range of factors. What is the evidence for the effectiveness of different approaches to M&L? Do organisations find the types of provision for the development of managers and leaders that they feel they wish to use?
3. Are UK managers and leaders believed to be as good as those in other countries? We pursue this question through the case studies. Do they do some things differently? What are the perceived strengths and weaknesses?

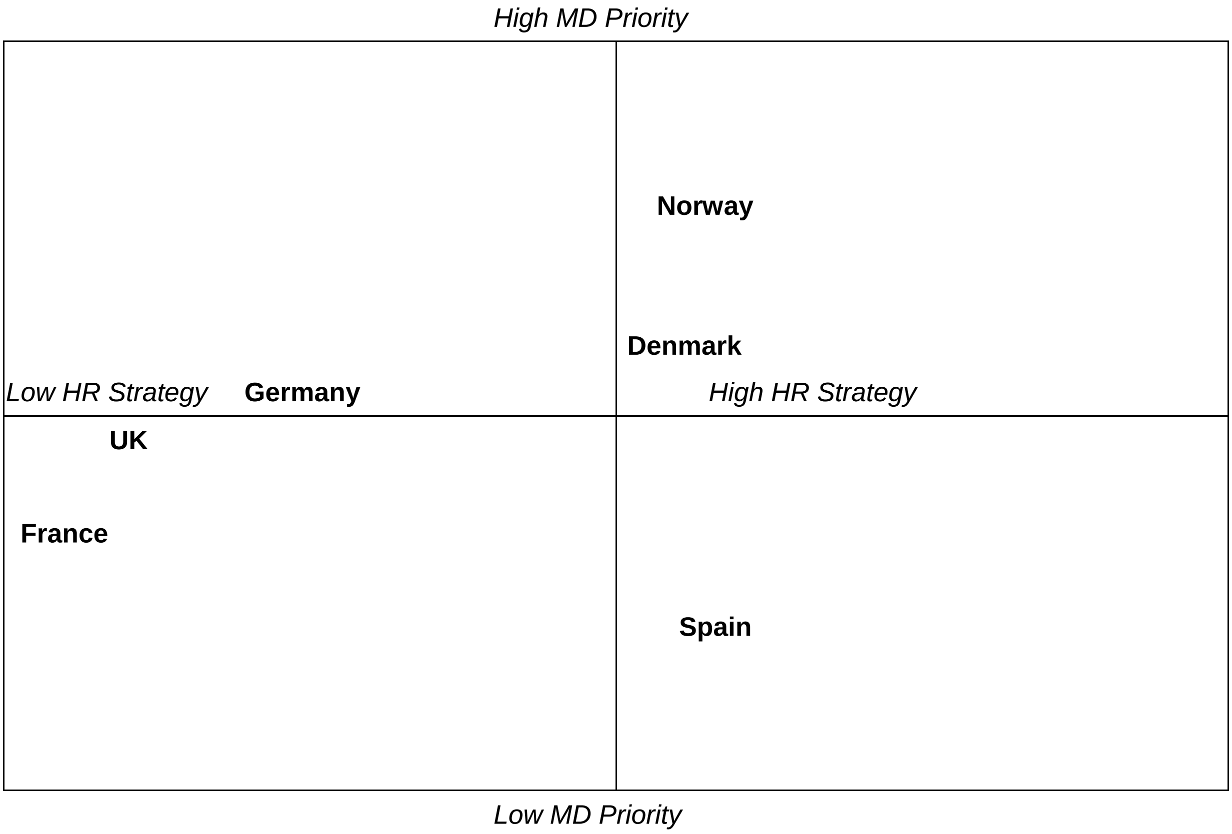
The complexity of these questions has led to a research design that enables us to explore some issues in depth and others more broadly through survey techniques. We have therefore undertaken case studies of MNCs operating in the UK and interviews with both UK and non-UK managers working in those organisations. We have complemented this with an international survey. This survey element deliberately builds on existing survey research (Mabey and Ramirez, 2004), to provide a much deeper understanding of the differences between UK MNCs and those of MNCs from other nationalities, to further enable us to contrast these findings with existing findings from domestic companies and also to explore management capability within specific sectors and by size.

1.2.3 The survey

The survey focused on MD in four countries and takes into account their sector and size. We have, by combining results from our survey of MNCs with a previous survey of domestic companies (Mabey and Ramirez, 2004), been able to explore the impact of being a domestic company or a MNC. For this purpose, three countries were chosen as comparators with the UK, each from a different quadrant in Figure 1.1 derived from work across 12 countries which identified five typologies for management development (Mabey and Ramirez, 2004) (see Appendix 3 for more details of this selection process). Norway is an exemplar of strategic HR / developmental MD, Spain is an exemplar of strategic HR / instrumental MD and Germany is an exemplar of tactical HR / developmental MD. By choosing these four countries we hoped to maximise the opportunity of observing sector, status and size differences.

Many studies have explored the influence of foreign owned MNCs in overseas settings. To our knowledge this is the first time a study has been undertaken to analyse the MD policies of MNC headquartered and domestic companies co-located in the same country and to compare these results across countries. This stringent design allows us to attribute differences to status, or sector and size, controlling for country, without the interfering factor of foreign ownership. See Appendix 4 for more details on the method, sample and statistical tests employed.

Figure 1.1: Management development: an emergent typology of country differences



Source: Mabey and Ramirez, 2004

The actual sample used for analysis was confined to the 484 cases where complete data across all variables was available. This resulted in country level sub-samples as shown in Table 1.1.

Table 1.1: Sample breakdown by country and status

	Domestic	MNC	Total
Germany	59	57	116
Norway	85	36	121
Spain	70	56	126
UK	89	32	121

Source: IES/Birkbeck, 2005

In terms of determining the comparative capability of UK managers, this analysis is designed to amplify the case study findings by providing quantitative answers to the second research question:

How do UK and non-UK organisations develop their managers and leaders? What is the evidence for the effectiveness of different approaches to M&L? Do organisations find the types of provision for the development of managers and leaders that they feel they wish to use?

The design of the study also enables us to explore if MNC headquartered businesses generally perform differently to domestic organisations, regardless of country? If they differ, how and what can be learnt from this about capability development? We have also used the survey to analyse the extent to which the sector and size of an organisation determines its approach to, and the outcomes of, MD.

The key measures
In order to address the above questions, responses to the telephone survey were grouped in the following manner (see Appendix 5 for a detailed description on how these measures were derived).

Management development constructs, reported by HRD managers:

- HR strategy: degree of linkage between HR and business strategy
- MD ethos: extent to which an internal cadre of managers is being created over time
- MD systems: the sophistication of MD policies and practices

Management development constructs, reported by line managers

- MD importance: the strategic priority given to MD by their organisation
- MD amount: the number of days devoted to MD per year

Management development delivery methods, reported by line managers

- Internal programmes to develop skills
- External public courses, seminars and conferences
- In-company job rotation (moving jobs to develop specific skills)
- External placements / secondments
- Mentoring / coaching
- E-learning
- Formal qualifications

What makes a good manager, reported by HRD managers

- Inherent ability / personality
- Formal qualifications / training related to the job (*e.g.* vocational degree)
- Formal qualifications / training not specifically related to the job (*e.g.* general degree)
- In-company training
- Job experience in the workplace
- External management education gained after joining the organisation

Organisational Performance, reported by HRD managers and line managers

- Quality of products / services / programmes
- Development of new products / services / programmes
- Ability to attract essential employees
- Ability to retain essential employees
- Satisfaction of customers / clients
- Relations between management and other employees
- Relations between employees generally

1.2.3 The case studies

The case studies were designed to substantiate the survey evidence and to do so effectively, were concentrated in two key sectors. The sectors were chosen after careful examination of a wide range of relevant issues:

- occupational profile
- future demand for managers
- qualifications
- skill needs
  - hard to fill vacancies
  - skill shortages
  - skill gaps
- sector trends
- sector productivity
- concentration (proportion of large firms)
- product strategy scores (degree of specialisation)
- demand for management and leadership skills.

The selection process was designed to provide contrasting sectors, which differed on a range of variables such as proportions of managers, likelihood to experience an increased demand for managers, qualification levels of managers, higher levels of skill shortage vacancies amongst managers from sectors experiencing growth and of interest because of their current productivity. As a result of this detailed consideration, telecoms and retail were chosen as case study sectors.

The case study format was to undertake in-depth interviews in each of four case study organisations; two were companies operating in the telecommunications sector and two were retail organisations. To provide some contrast on ownership it was proposed that in each sector, the case studies included both UK owned and non-UK owned multinationals. In each organisation a senior HR person was interviewed to provide background information about the company and its approach to management and management development. These managers tended to have relatively senior positions in their organisation and be based within head office environments.

This is more limited than the original design due to difficulties in accessing participants in the research (we had hoped to conduct more interviews in the sectors with a wider range of employers) and it has had the effect of reducing the overall impact of the evidence from the qualitative research. Nevertheless, useful data from the qualitative research on key issues such as characteristics of a good manager and nation differences, were obtained which add to the evidence base in this key area.

Interviewees were asked a range of questions regarding their approach to management, and their experiences of management development.

The key areas covered are as follows:

Experience of working in different countries

- Background in terms of nationality and childhood/education
- Significant educational experiences in other countries
- Working abroad
- Experience of working in multi-national project teams.

Current job role

- Current job role

Business context

- Main challenges for the business
- Competition primarily on price, quality or innovation
- Core capability of the organisation.

Defining management and leadership capability

- What makes a good manager?
- What motivates people as managers?
- What are the most important things that managers do?
- Where do they spend most of their time?
- How do they determine priorities?
- What do they find most difficult?
- What most constrains managers in their role?
- What helps and hinders?
- What is the organisation looking for in its managers?
- Do different countries have a different view of what makes good managers?

Assessment of managerial capability

- How does the capability of managers compare with that of managers in business competitors?
- How does the capability of managers in the UK compare with managers in/from other countries?

Management development

- What has had most influence on developing managers?

As well as the case studies, we also carried out interviews with HR directors from two additional organisations, one telecommunications and one retail. Their views are included in our analysis.

We now turn to the findings from the research. We explore our findings in terms of our three key questions. We begin with the defining of management capability (Chapter 2), then move on to our findings on how different organisations and different countries develop their managers (Chapter 3) before, looking at perceptions of UK management capability (Chapter 4). Chapter 5 presents conclusions from the study as a whole.

2. Perspectives on Management Capability

In this chapter we explore what makes capable managers. What types of factors make a good manager? Does this differ by nation, sector, status or organisational size? What are the characteristics of a good manager? What is the role of a manager? What are the skills required to meet this role? What motivates managers and what helps or hinders their performance? All these factors are explored in consideration of management capability and its meaning the UK.

2.1 What leads to a good manager?

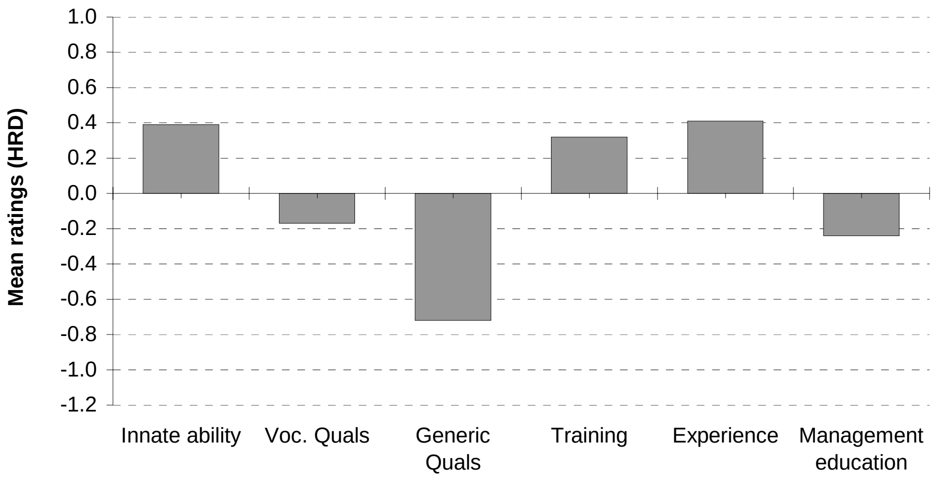
Just what is it that makes a good manager? We asked this question of survey respondents and of case study interviewees, although the emphasis of the question was a little different in each case. In the survey, respondents were asked to determine what it is that leads to a good manager — is it innate ability? Is it the qualifications and education someone has, or the training they receive? In the case studies we explored in much more depth what the characteristics of a good manager are to see if there were key differences by country or organisation.

In exploring the question of what it is which leads to a good manager, we found significant differences in survey respondents' views by country, sector and status.

2.1.1 Country differences

There may well be different cultural assumptions regarding what makes a good manager. This was ascertained by asking HRD managers to rate six factors (each on a five point scale) that contribute towards creating an effective manager. Some countries had a tendency to rate all factors higher than others, so to remove this bias and create a '*level playing field*' we established a base line of zero which represents the average score across all six items for each country. Figure 2.1 clearly shows that, irrespective of country, innate ability and job experience in the workplace carry most weight.

Figure 2.1: What makes an effective manager? Beliefs expressed by HRD Managers across four countries (n=484)



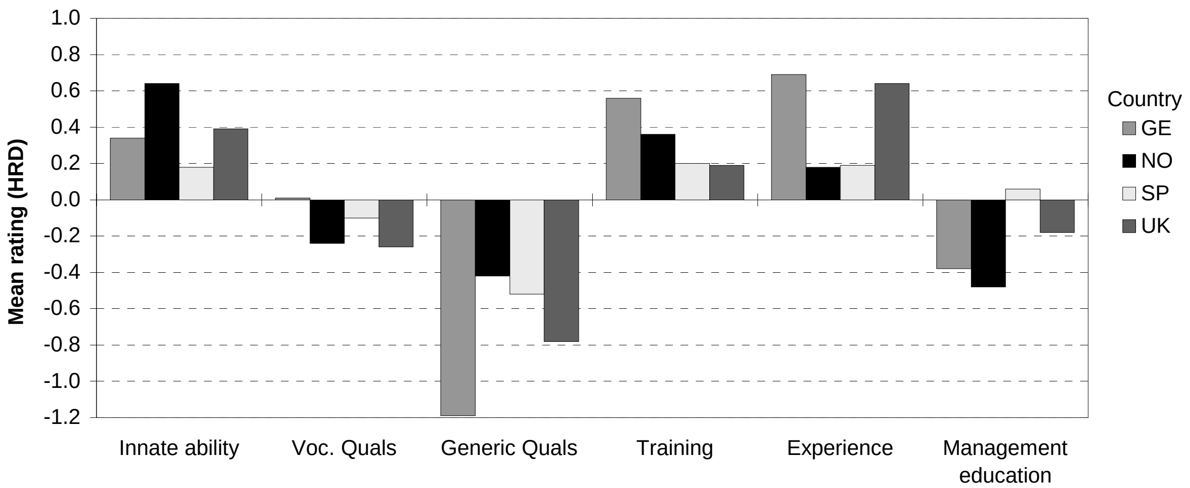
Source: IES, 2005

This was followed by in-company training. More formal qualifications based factors, particularly non-related or generic education and training are regarded as least influential.

This suggests that more informal means of development are seen more positively than the more formal. This might be surprising given the evidence that more qualified managers tend to be more effective (e.g. Woods, 1992). It could be that the contribution of generic qualifications is hidden i.e. the acquisition of generic qualifications may pre-date job acquisition and therefore be less visible compared to development activity which takes place during a working lifetime.

However, probing beneath this generalised picture, we find some stark contrasts (Figure 2.2). Norwegian managers believe innate ability is significantly more important whereas Spanish managers place significantly more emphasis upon external management education after joining the organisation. Other statistically significant differences concern formal qualifications related to the job and in-company training (both reported as of low importance for the UK where experience is seen as the most important development), and formal qualifications not specifically related to the job (reported as least salient for German managers).

Figure 2.2: What makes an effective manager? Beliefs expressed by HRD Managers by country (n=484)

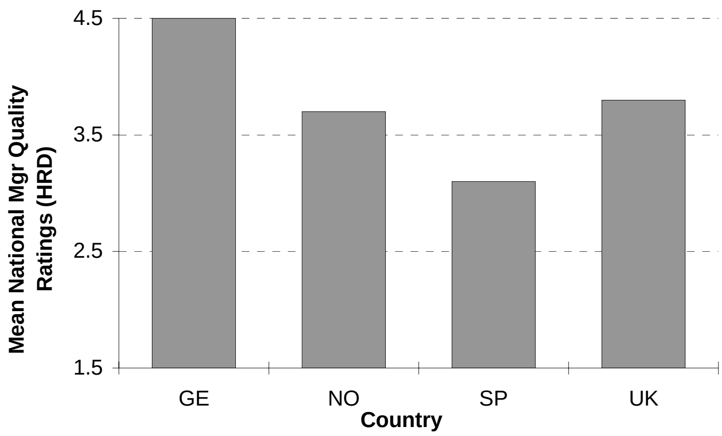


Source: IES, 2005

We also asked HRD respondents to our survey of MNCs to rate the quality of UK managers in their organisation, German HRD managers are significantly more likely to rate their nationals more favourably than HRD managers from the UK, and Spanish HRD managers rate host country nationals lowest in quality (Figure 2.3). Many factors may account for this, but it is possible that these assessments, at least in part, are due to the effects of MD in the respective countries. In other words, German HRD managers may be reflecting the way their organisations develop the management capabilities of their host country nationals, and demonstrating that this is instrumental in producing higher calibre managers to those from other countries. In contrast, Spanish HRD managers in MNCs, in spite of the fact that more training is reported (to which we return in Chapter 3), have less confidence in the competence of their home-grown managers than the foreign country nationals that they work alongside.

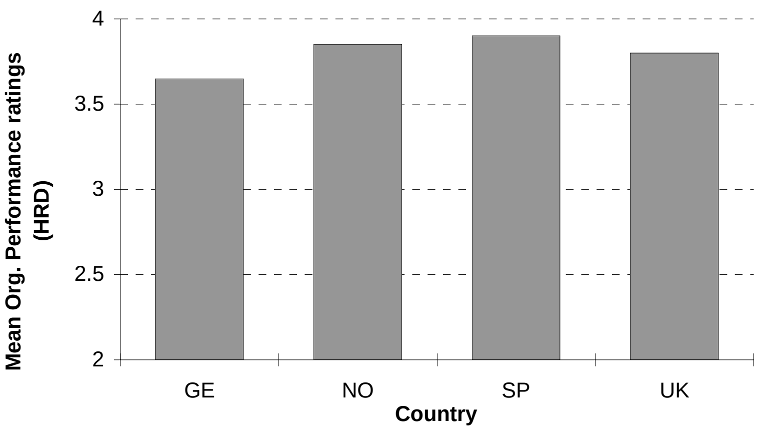
Having said this, German HRD managers rate the overall performance of their companies, when benchmarked against others in their sector over the previous three years, significantly lower than their counterparts (Figure 2.4). This raises the question of whether there is a connection between the amount and quality of MD undertaken and firm performance, an issue that will be explored in section 3.4.

Figure 2.3: Rating of host country nationals reported by HRD Managers (by country) (n= 181)



Source: IES, 2005

Figure 2.4: Organisational performance reported by HRD managers (by country) n=484

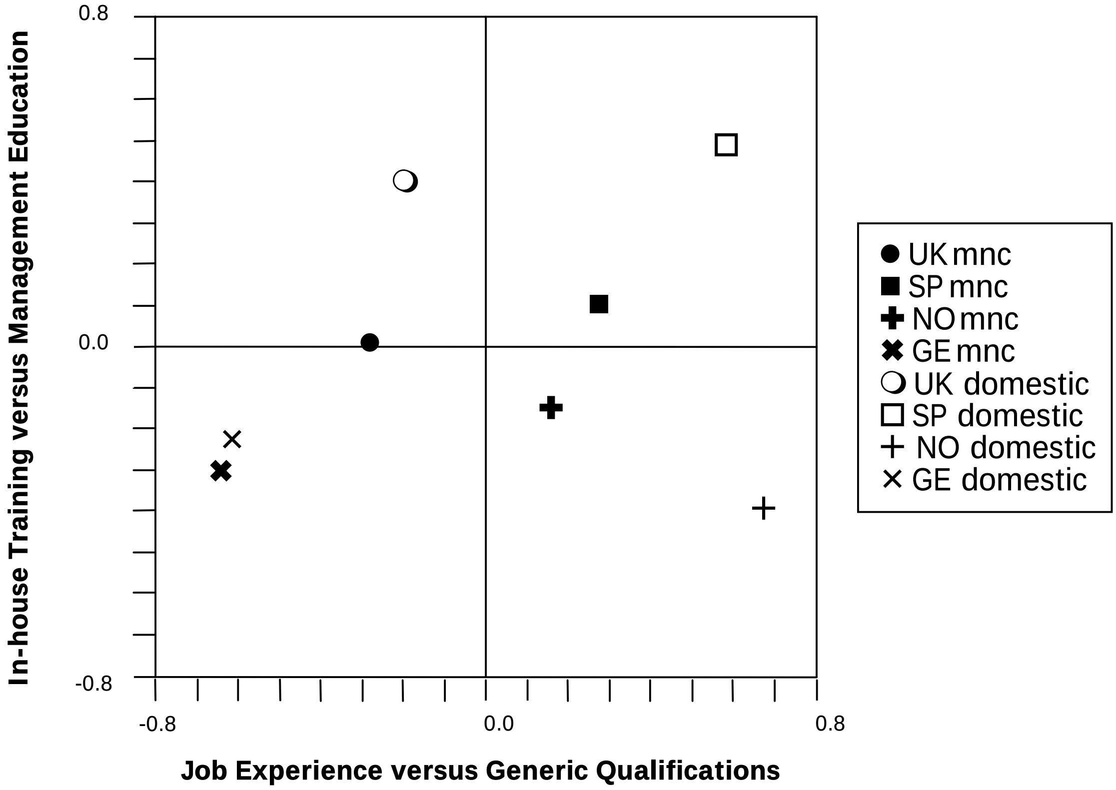


Source: IES, 2005

Discriminant function analyses of responses to the question of what makes a good manager yields two dimensions: a preference for management education contrasted with a reliance on in-house training as one dimension, and job experience as against generic qualifications as the other. This question taps into core beliefs about the preferred and most effective ways of creating management capability. In Figure 2.5 we map the respective preferences on these dimensions by both the country and status. This figure also utilises the technique of establishing a base-line of zero across all items for each country. The figure shows how country scores for the four approaches (broken down by MNC and domestic companies) deviate from this base line either positively or negatively. This therefore provides a map of relative preferences and shows that organisations from each country tend to cluster into different quadrants regardless of status. The dominant pattern is that of country.

Spanish companies favour qualifications-based management education, possibly because they feel they have *'ground to catch up*' in terms of equipping their managers, and the internal resources and opportunities for doing this are, as yet, limited. Norwegian companies look for generic qualifications, perhaps as an entry requirement into management, and then rely heavily on internal skills training to hone the expertise of their managers. As previously discussed, German companies put a good deal of emphasis on work experience: highly specific, technical capabilities gained from loyal service in a given industry, aided and abetted by skills development provided by the firm. UK companies appear to value management education highly and certainly esteem this higher than internal training; however, alongside this is a belief that job experience — a track record of on-the-job, hard-won success — also counts highly. Indeed it might be surmised that UK employers regard management education as a filter when recruiting (rather than giving the content of the qualification intrinsic worth), and then place more emphasis on job experience.

Figure 2.5: What makes a good manager? How HRD managers favour different approaches



2.1.2 Differences by sector

There are some sectoral differences in perceptions of what makes a good manager which hold regardless of country.

Utilising the same technique of establishing a baseline of zero for each sector as above, it can be seen from Table 2.1 that all sectors place less emphasis upon vocational and generic qualifications than other forms of development but that those operating in the manufacturing sector across the four countries, are significantly *less* negative than those in other sectors. They also place more reliance (although these differences are not statistically significant) on general character dimensions like inherent personality and work experience.

This table implies that organisations in the manufacturing sector are less likely to neglect qualifications-based training for their managers, whether this be pre-entry or management education after joining the organisation. However, given the growing importance of management qualifications and continuing professional development, relying upon inherent ability and a track record of work experience could constitute a serious weakness in the approach of all sectors.

2.1.3 Differences by status

Finally we examine the question of 'what leads to a good manager?' from the perspective of status.

There are two status trends. With the exception of Norway, domestic companies favour management education more than their MNC counterparts and in all cases MNCs prefer job experience to generic qualifications. However, as Figure 2.5 shows, the over-riding influence is that of country, with each country pair located in a different quadrant of the figure. This should come as no surprise. Different nationalities, because of their distinctive educational, occupational and cultural heritage, will tend to place greater or lesser emphasis on different approaches to developing management capability.

It should be emphasised that we are comparing MNCs and domestic companies co-located in the same countries. Culturally, economically, politically and institutionally these firms are therefore embedded in common settings; the one key difference is that the domestic companies are focused upon the local labour market and may have more limited international employment strategies, whereas the MNCs patently do (there were no statistical differences by size). It is likely too that the degree of international focus on trade will be less for domestic companies. Therefore the significant differences we have highlighted in this section are relatively few, but where they occur such approaches to what develops capability can be explained by the existence of an international approach to people and trade (and not by that of a foreign parent).

2.2 The characteristics of a good manager

As we have mentioned, not only did we ask our survey respondents what leads to a good manager (to try and understand if great managers are born or made) in our case studies we tried to unpick what good management looks like. In this section therefore we move onto the capabilities of managers as defined by the organisations we spoke to. In total we interviewed six senior HR professionals from three retail and three telecommunication companies and also interviewed 24 line managers from four organisations (two retail, two telecommunication). We asked our case study manager interviewees what being a good manager meant to them.

2.2.1 Telecoms

In considering responses to the question '*what is a good manager*', the differing circumstances in each of our companies need to be borne in mind. Our three telecommunication companies were in quite different positions, one was well established and offered relatively secure employment opportunities, another, however had been through a major financial crisis and was trying to re-establish itself in terms of its investment in its people. Our third company was a major player in the relatively new mobile telecommunications market and was adjusting to a maturing market where competitive edge was becoming less easy to identify. We refer to these three organisations as 'Established', 'Survivor' and 'Settling' respectively***.*** What is interesting is that each organisation was experiencing a period of change that created new demands for managers and leaders.

Established had experienced some difficulty in its management capability because employees did not move around as much as the organisation hoped and hence did not get the broad range of experience needed in an era of globalisation. This was exacerbated by the behaviour of senior managers who are very reluctant to let go of high achieving people. One of the challenges for the organisation is to seek to fast track high performers and move them around. As a result of these pressures the company was trying to give greater clarity to what management capability meant in practice and attempting to give increasing emphasis on the development of human capital. Consequently, a new approach had been adopted, and there were now two gateways for identifying talent. First, in order to be considered a high performer, people still had to deliver and consistently achieve their objectives. But they also have to meet new performance criteria, defined by nine leadership capabilities. The underlying philosophy is that: '*It is not good enough to just deliver results. You have to do it in a way which is consistent with our values, in the way* [Established] *wants to do business and in the way that we want our customers to view us*'. To help embed this, all employees are reviewed once a year against objectives, including for managers, the nine leadership capabilities. For senior leaders there is a further assessment against '*indicators of potential*'; grouped as: thought

Table 2.1: 'What makes a good manager?' HRD manager views by sector for all countries

	Sector			
	Manufacturing	**Distribution**	**Services**	**Overall**
Inherent Ability	0.45	0.35	0.34	0.39
Vocational Qualifications	–0.03**	–0.22	–0.23	–0.16
Generic Qualifications	–0.62**	–0.77	–0.79	–0.71
In-house Training	0.33	0.19	0.38	0.32
Work Experience	0.52	0.32	0.34	0.41
Management Education	–0.11	–0.36	-0.31	–0.24

Significant differences **p> 0.01

Source: IES, 2005

agility, personal approach and relating to others. Each of these indicators is made up of a number of behaviours and competencies — capability type behaviours and preference (or orientation) type behaviours. The HR leads, together with senior managers, use these to give more challenge to the debate on leadership capability.

Managers in *Established* were very varied in their views of what makes a good manager. Both UK and non-UK managers mentioned personal or human qualities. For the UK manager this meant being inspirational, possessing energy, being consistent. Another mentioned understanding the business and providing clear direction for staff. For non-UK managers this meant embracing values, looking beyond managing performance and punishing failure to develop talent. A good manager needed to focus team attention on performance, articulate the goals and objectives of the team, keep them informed and grow talent. Another non-UK manager spoke about nurturing trust and allowing people to take risks.

Survivor had emerged from a period of major cutbacks where the focus on people development had declined, the majority of development activity had been ceased, the focus on personal development decreased and the number of HR specialists reduced. As the organisation emerged from this state, various internal audits had identified that capability of managers needed to be improved and there was growing concern that the organisation needed a consistent and coherent approach to management capability to facilitate its recovery. The organisation was in the process of introducing a clear definition of the manager's role and a management development programme. The intention is to encourage a shift from an emphasis on technical to personal qualities whilst at the same time developing a technical career path to recognise the key technical strengths the organisation requires for success. Like all telecommunication companies there is high value placed on engineering capability.

In response, *Survivor* had established four key management aspects:

- managing performance — personal customer business
- managing people — coaching
- managing processes — process flows
- managing communication.

These are measured through performance of role, 360 degree feedback and development centres. There was a view in this organisation that not all members of the senior management team were very people focused and many were more technically orientated. In fact the capability of the senior management team was seen to emphasise task, process and fire-fighting rather than relationship management. The attitudes towards the importance of people management capability varied by country, but this was felt to be more of an issue of personality than nationality.

Settling had experienced a period of rapid growth which had left it with the realisation that some of its managers had been left behind in terms of capability. As the organisation entered a maturing phase, the skills now needed to manage much larger groups in a more established market place are not necessarily the skills that were needed to manage small teams within a rapidly changing environment. The organisation has begun to realise that they are not good enough as leaders and there is a lack of international experience. Now people are encouraged to move into international posts, CEOs for example must have worked in two other countries. This organisation was also experiencing a distinct cultural clash between the UK operation and the increasing influence of the foreign owned parent company.

In terms of defining what is expected of managers, *Settling* has three brand values about the way the customer should be treated and this is illustrative of the strong and very transparent cultural aspects of the organisation. There is a clear view of leadership principles and behaviours based on company culture and values including a new value on disciplined execution as it was felt to be a gap in the company culture (as the company grew people were having fun but not fun with a purpose). These behaviours are driven through systems and processes; for example the bonus is paid partly on company performance, partly on behaviours and partly on personal contribution.

When we asked managers for their views of what good management was, there were some commonalties and some different perspectives. All UK managers focused on the role of managers as needing to deliver through people *e.g.* they need to help people by providing direction and clarity of how their roles fit with wider aspects of the business. However one also spoke of managing process, costs and objectives and of resourcing effectively, another spoke of equity *i.e.* rewarding people appropriately, trusting people and managing with a 360 degree perspective *i.e.* to senior managers, to the needs of the customer and to the needs of staff. One non-UK manager spoke of being technically credible, being good coaches *i.e.* trading on this expert knowledge and also demonstrating effective attitude through being positive and energetic. Another non-UK manager spoke of the importance of developing a warm and caring relationship with staff. Another felt that technical skills were secondary and that really good managers allow their people to grow. This was echoed by another non-UK manager who stressed that good managers do not use their technical abilities to micro manage, but rather allow individuals to develop themselves to their full potential, they also have to empathise with people, and to understand them.

2.2.2 Retail

Similarly our retail companies also had different experiences and cultures. One was a new foreign venture by an American parent company, had been through a period of significant growth and was seen to be exciting and dynamic in culture and activity. We refer to this organisation as *Newcomer*. Another was a UK-owned company that occupied a very competitive market in both the UK and across Europe, through several brands in similar product areas. This organisation was seeking to have a significant European influence and we refer to it as *Going Global*. Finally our third organisation was a market leader and was acknowledged as very successful in its field. An organisation of longstanding, its current success was as a result of consistently outperforming its competitors over several years. We refer to this organisation as *Market Leader*.

The challenge facing *Going Global* was to shift from a traditional UK organisation, managed by its founding owner to a professional, international organisation. Consequently, the organisation is looking very carefully at business drivers, and has carried out research to find out what people considered leadership to be. The intention is to shift the management culture from a traditional command and control style to more of a coaching style, where people are encouraged to work out problems themselves in order to arrive at the appropriate solution. The management philosophy is, therefore becoming much more supportive and encouraging. This shift has meant radical action and around 20 per cent of the top 150 managers have been removed from their roles because it was not felt that they could adopt a more empowering management style. It is hoped the new philosophy will usher in a different style of management, which would encourage innovation and creativity. It is also intended that this style of management would cut across the whole spectrum (of managers) irrespective of level. As part of this major effort *Going Global* has defined nine capabilities required by their managers. The nine competencies fall into three clusters as follows.

Business leadership

- Customer / market focus: the ability to demonstrate an acute awareness of the challenges, demands and developments in the marketplace, as well as current / potential customer trends and expectations
- Commercial acumen: the ability to apply a deep understanding of commercial environment to create the business vision, direction and strategies
- Drives results: the ability to create an environment that encourages people to strive continuously to achieve success

People leadership

- Individual performance: the ability to harness individual effectiveness through goal setting and review
- Team performance: the ability to energise teams to perform to optimum effect
- High potential environment: the ability to create an environment in which individuals and teams across the business flourish, grow and release business potential

Personal leadership

- Impact and influence: the individual's style and approach in interacting with others both internally and externally
- Change orientation: the individual's ability to adapt, initiate and encourage sustained business and individual change
- Works smart: the degree to which the individual operates in ways which optimise their personal effectiveness and contribution

All managers are made aware of the capabilities required in management and leadership. It is part of the performance and appraisal system which in itself is a culturally new phenomenon within the Group.

When managers were asked what good management meant to them, there were different views, which reflected different horizons. The UK managers tended to look close to the role, commenting on ability to listen, ability to make decisions, ability to tease out of people what is needed to deliver really good performance and push their boundaries. Similarly another manager spoke of implementing strategy. Non-UK Managers, whilst also speaking of the need to listen, to understand corporate goals and keeping people involved, spoke of clarity of vision and the ability to motivate and inspire to communicate and get the best out of people. This may be a reflection of the different perspectives that result from different company cultures. UK managers are inculcated in the rather steady culture of the parent company whereas the non-UK managers tended to come from quite different backgrounds and were involved in more entrepreneurial foreign ventures.

For *Market Leader* the situation is different but it had nonetheless sought to identify the management capabilities needed for success and to embed them within management behaviour. This organisation has been very explicit regarding what is meant by its management philosophy — a description of what leadership looks like and promises the organisation has made about what they deliver. There are four things they have told the staff that they have a right to expect:

- to be treated with trust and respect
- to have a manager who is there to help
- to have an opportunity to get on
- to have job interest.

These are offset by promises to the customer, these clearly focus on issues of major concern to consumers. The view is that the customer and people promises are self-sustaining and create a virtuous circle. Managers are expected to deliver these promises, they deliberately look for people who will make a difference, who will seek to fix problems and keep the organisation running smoothly. They describe their search for leadership as looking for the kinds of people who will leave a legacy.

The organisation says that the values are embedded, the staff survey is conducted against the four business priorities, the organisation operates a balanced scorecard, and the customer-people quadrant is measured against competencies. They have looked to see if these behaviours and promises have the same resonance across the global community of companies. Early research in Hungary shows that the four people promises are seen as the same, but trust and respect is seen differently in different countries. They have encouraged managers to get behind the language and they talk a lot about words.

They have also learnt from other countries. In the States the organisation celebrates success and it works, and so imported the concept back to the UK in the form of values awards to give people a pat on the back. At first people were embarrassed but the company now does it and it works, '*we take American ideas and do it more quietly'*.

Newcomer had a culture that reflected its relatively young and dynamic status. The company operates an 'open door' policy whereby employees are encouraged to air any grievances with any manager. It has specified leadership success factors and there are also eight competencies around a core of acting with integrity, delivering results, building effective teams, leading with vision, listening and communicating, thinking strategically, knowing the business, and developing others.

As a result of the relative newness of the organisation and the speed with which it is developing, the challenge facing it is to ensure that the strong task focus of the business does not mean that people management is a neglected skill. Hence most development for managers is focused on this.

Interestingly, managers' views on what a good manager looks like were very closely aligned and this was testimony to the dominance of the models used in the company. Every manager, regardless of nationality mentioned delivering results through others, whilst recognising that this required different techniques as each person was different. This reflects the widespread acceptance of the situational leadership model of Hersey and Blanchard, throughout the organisation both in the UK and US.

2.2.3 Summary

In this section we have explained where good managers come from and what good management is. The former though our survey of organisations and the latter through conversations with HR and line managers in our case study organisations. We have found that across all countries, good management is seen to be the result primarily of innate ability and job experience.

There are however, statistically significant country differences in this view. Norwegian managers value innate ability more highly than other nationalities. Spanish managers place more emphasis on external management education. In the UK, experience is highly rated whilst job-related qualifications and in-company training are rated low. In Germany generic formal qualifications are particularly lowly rated.

These country differences are stronger than status differences. In terms of status we see that domestic companies favour management education more than MNCs and MNCs prefer job experience to generic qualifications. If we look at sectoral differences we find that manufacturing companies place slightly more emphasis on vocational and generic management qualifications than other sectors.

Across Europe, but most markedly in Germany and the UK, generic qualifications are not judged to lead to management capability. These findings are perhaps a little surprising given the empirical indications that generic qualifications do relate to capability. This somewhat negative response to qualifications coupled with a relative preference for experience, suggests that the UK tends towards a more informal approach to management development but this preference does not set us much apart from Germany. It might however be limiting the effective development of managers and therefore we also asked HRD respondents how effective they believed their own managers to be. German respondents stand out as being very positive about their managers but conversely, not very positive about their company's performance. This contrast may perhaps be indicative of issues to do with national economic confidence in recent years but does not directly suggest that informal development is associated in the minds of HRD managers with poor capability.

However, our case studies have shown us that at company level in the UK, confidence in management capability is generally not high. The reasons for this can be more strongly associated with sector and business cycle than country of ownership. All of the telecoms companies were looking to transform the description of management capability to try and shift management culture. This was in part an acknowledgement of the rapid change in the sector and the need to update management skills in response. It was also in part necessitated by older companies believing that their current approach to management needed changing to enable their organisations to adapt and become more successful and entrepreneurial.

In retail companies, the drivers for a review of management capability were different. In one very successful organisation it was a means to capture and codify one of the elements of success, for another current management behaviour was seen to be an important driver of success and again the desire was to capture this behaviour and continue it, rather than change. Finally, the most established retail company was facing expansion into new markets and wanted to ensure its managers were up to the task.

When we asked interviewees what makes a good manager, responses are independent of nationality, sector or organisation. There was some indication that role can affect views of management with those in more restricted roles concentrating more on listening and managing performance, whereas those in wider roles also mentioning inspiration and motivation. In those organisations with strong cultures on management there is a clear consistency of view as to what makes effective management. This internal culture seems to outweigh any national cultures that there might be.

We have seen that within these organisations, national ownership was not a key differentiating variable and our original questions that perhaps different nationalities see good management differently did not hold. We now go on to explore if different nationalities interpret their role differently.

2.3 Perspectives on the management role

As part of our exploration of management capability we have also explored the degree to which different nationalities of managers perceive their role and their priorities differently. We asked a range of questions regarding these issues. In our survey we asked HRD managers to identify their most pressing emergent skill and competency requirements in the area of management and leadership capability. This provides a view as to what different sectors/organisational type and different countries may perceive as priorities. In our case studies we also asked managers what personally motivated them, what they felt was the most important thing to do in their managerial role, where they spent their time, and how they prioritised.

Table 2.2: Most important emerging skill and competency requirements, as reported by HRD Managers (per cent ranking each skill as most important)

	GE	NO	SP	UK	Total
Managing change	50.0	26.7	36.7	50.0	41.1
Ethical/value based behaviour	17.6	16.7	23.3	16.7	18.5
Partnership working	20.6	13.3	16.7	10.0	15.3
Risk management	2.9	20.0	13.3	6.7	10.5
Organisation learning	5.9	6.7	10.0	6.7	7.3
Awareness of stakeholders' impact	0.0	13.3	0.0	10.0	5.6

Source: IES, 2005

2.3.1 Emerging competency requirements

HRD Managers in the survey were asked to identify their most pressing emergent skill and competency requirements from a list of six, these were ranked in order of importance to the organisation concerned. Table 2.2 shows that by far the most prized leadership skill is that of managing change effectively, no doubt reflecting the uncertain and turbulent competitive environment in which they operate. Half of the managers in Germany and UK see this as the number one competency, and across the whole sample this figure is over 40 per cent.

Managing in an ethical and value-based manner is seen as the next most important emergent competency; this is consistent across the four countries and demonstrates a growing concern that organisations conduct themselves in a corporately responsible way. The remaining skills and competencies reflect differing priorities in each country. For managers in Norwegian firms, the ability to manage risks is the second highest emergent skill, but this is seen as less important in Germany and the UK. Perhaps surprisingly, organisational learning is regarded as the top priority by just 7.3 per cent of the total sample. However this same competency is ranked third highest by 22.6 per cent, suggesting that, when one or two of the other more operational competencies are in place, the ability to learn as an organisation (which implies the ability to stand back, reflect and question standard ways of working) assumes importance. Ranked lowest by Spain and Germany, is the competency associated with stakeholders: namely, being aware of how other corporate and institutional players may affect their activity and performance. There were no significant differences by size, status or sector.

In our case studies we asked questions about what managers find most motivating, what they felt was most important, where they actually spent their time and how they prioritised. This was to try and unpick what managers attend to and thus where any gaps or differences might be.

2.3.2 Needs and drivers of leadership capability

Having identified key emergent competencies, HRD managers in our survey were then asked two key questions:

- in which leadership areas they thought their company was most deficient
- how they got the most out of their managers.

These questions were open-ended, with no predetermined categories provided. The variety of responses received were analysed using cluster analysis, whereby items are allocated to groups or

Table 2.3: Areas of leadership where you are most lacking at present as reported by HRD managers (Total = per cent of 71 mentions)

Area of leadership	**Total %**
People skills: Social skills; communication; motivation; people development; influencing; team orientation; partner-building; mentoring and coaching etc	38
Business awareness: process thinking; decision-making; taking initiative; change management; strategic thinking; goal-setting etc	28.2
Style and example-setting: Code of conduct; living up to standards; transparency; assertiveness & alignment; managers as role models; commitment; giving time to people; etc	22.5
HRM: succession planning; information policy; conducting performance appraisals; understanding legal requirements; knowledge of employment law; etc	9.9

Source: IES, 2005

clusters, arising from the responses.

Leadership deficiencies

Allocating responses to categories requires some degree of discretion on the part of the researcher, but does allow the data to be summarised fairly succinctly (Table 2.3). The cluster labels (in bold) have been added retrospectively, but the phrases are all taken directly from the telephone interview schedules.

Not all respondents answered these questions (the non-responses were particularly prevalent for the Spanish sub-sample), but of the 71 competencies identified, ‘people skills’ emerged as the leadership area most lacking. These *softer* skills included the ability to get the most from staff, the ability to influence upwards, working effectively with teams and the like. The competencies associated with strategic thinking and planning — what we have called business skills — came next, with over one-quarter of responses identifying deficiencies in these areas. However, the technical dimensions of leadership are not enough. Over 22 per cent of responses refer to the need for leaders who set a good example, who practice what they preach, who balance assertion with alignment and give time to the people they are leading. Given that these respondents are responsible for MD, to find nearly ten per cent highlighting HR leadership competencies comes as no surprise.

Key drivers for getting the most from managers

Developing managers is one, but not the only, way of enhancing skill and improving performance in organisations. In our survey we explored line managers’ views on this, and Table 2.4 summarises their responses to the question: what are the key drivers for getting the most out of managers in your organisation?

It seems from this breakdown, the clear majority of organisations (representing nearly 40 per cent of mentions) rely on instrumental means to get the best from their managers, usually related to financial reward, career prospects and/or promotion. This, however, was far more prevalent amongst the German and Spanish responses. Also important, according to line managers, is clarity of performance expectations, expressed through effective recruitment and appraisal practices, project goal-setting followed by review and feedback. Here Germany again figured strongly, along with the UK (where this category was the most mentioned); by contrast no Spanish managers referred to drivers in this area. Third, overall, was the importance of the ethos or culture of the organisation. For

Table 2.4: Key drivers for getting the best from managers in your organisation, as reported by line managers (Total = per cent of 160 items)

Drivers	Total %
Reward and recognition: monetary incentives; commercial pressure; promotion to leadership positions; leadership development opportunities; clear career prospects; bonus system; incentive scheme; security of knowing job is safe; employee share ownership, *etc.*	39.4
Clear structures: goal-setting; monitoring; more complex tasks; performance appraisals; challenging projects; feedback; clear expectations; review of structure and job descriptions; support and back-up; good recruitment process; *etc.*	25
Culture/ethos; personal growth opportunities; mutual trust; empowerment; taking responsibility to act; good relationship with boss; autonomy and creativity; good relationships between departments; *etc.*	23.1
Training and development: personal development; seminars; technical qualifications; overseas conference; talent development; management training courses; regional workshops; commitment of time to training; high quality development conversations; HRD at branch level; on-the-job development; *etc.*	7

Source: IES 2005

a significant proportion of managers in all countries, especially the UK, being trusted, being given the opportunity and responsibility to act, being managed by an effective boss and having scope for creativity were highly motivational. Of all the drivers mentioned, seven per cent concerned training and development in some shape or form, whether formal or informal, on- or off-the-job. If we were to summarise the ideal working environment from these responses, it would be one where the performance expectations are stretching but clear, effort is rewarded, personal growth is encouraged and appropriate training and development is provided. There were no statistically significant differences by sector, size or status.

2.3.3 What is motivating?

These findings are complemented by our case study questions. When asked what they find personally motivating managers tend to identify aspects of themselves, their team, their manager or their role. Of these, the most common response was around developing and growing others.

Telecoms

In our telecom organisations what was motivating reflected the vibrancy of the organisational culture to some degree and the freedom to act that Managers had. In *Settling* managers tended to consistently find developing their teams and the positive culture of the organisation motivating. *Established* managers were motivated by those they worked for (UK) by growing people (non-UK) and by own internal standards (non-UK).

Retail

Our retail companies similarly had views which reflected the organisation rather than the sector. In *Going Global* we heard a wide range of views. One UK manager found inspirational leadership a key motivator — someone who listens to people and gives clear views of where the organisation is going next. Another commented on being motivated by self — by creating ideas, thinking them through but also getting others to do the same. The non-UK managers mentioned being motivated by building an enthusiastic team, another of the need to challenge existing structures and get people to understand ‘the bigger picture’ and to develop people to be able to deliver it. Those in *Newcomer* were also interested in making a difference, by taking people and developing them, seeing them thrive and believe in themselves. For the non-UK managers there is also a motivation in being able to have a much broader role in the UK than would be possible in the parent company.

Across all our interviewees, non-UK managers were slightly more likely to mention growing and developing their teams as motivational for them but with small numbers it is dangerous to build too much into this.

2.3.4 What is important?

What is it that managers find important? Where do they place their energies? The overwhelming response, regardless of organisation, sector or nationality was the need to provide clarity of objectives and goals.

> *'Have in mind clear objectives and criteria for people which shows that you have thought about those things and which makes it easier, therefore, to bring them on board.'* UK

> *'Communication, planning, setting clear objectives, having the ability to motivate people and to let them know when they are on the right path.'* Non-UK

> *'Have to be quite clear about corporate goals, to be able to plan but to also be flexible at the same time in the execution of the plan.'* Non-UK

> *'Understand the business, define what the business strategy is, define the plan to implement that strategy and make the team work together to achieve the goals of the strategy.'* Non-UK

> *'Be clear on what is expected, my job is to remove problems, give them clarity in a political environment, interpret communication, remove some of the blockages and find ways to do it'.* UK

> *'I need to have time for my staff, I also need to give them clear direction of what is expected of them but the freedom to do what they need to do. People work better if they feel they are allowed to get on with their job rather than being constantly interfered with.'* UK

> *'There are two important things I have to do as a manager – the first is to have clear roles and responsibilities, so people understand exactly what they are supposed to be doing; but importantly the manager must have a clear link to the business strategy, so that people are always provided with the bigger picture which also provides a framework within which to work. Secondly at a personal level I must empathise and be open to my people to make them understand how that bigger picture and their roles and responsibilities interact with their individual personal development.'* Non-UK

There were also several mentions of networking and the ability to forge useful relationships globally.

It is important to note that there are no national differences in what is believed to be important.

2.3.5 How managers spend their time

Unsurprisingly, how managers spend their time is not mapped directly on to what they thought were the most important aspects for their role. Most managers acknowledge that they spend more time doing rather than thinking or coaching others, than they would like. Spending a lot of time in meetings was a common comment made. There is also time spent networking and visiting the operational parts of the business. Once again these views did not vary by organisation or sector.

Non-UK managers were more likely to comment on their inability to do in practice what they felt to be important, than UK managers although it is uncertain whether this is because they have a greater problem in finding the time to do what they feel is important or because they are more acutely aware of this dilemma.

2.3.6 What do managers prioritise?

Managers prioritise their work in two main ways — by imposing their own sense of priority on their work or by taking their lead in terms of priorities from others. Some look at their workload and seek to decide if the various tasks they have to do are urgent and/or important, they also look at deadlines. Others are more at the whim of others or crises in the organisation. Others determine their priorities from the organisation's business plan or from team plans working in collaboration with team members. The more strategic overview was expressed by those who worked in younger and more entrepreneurial organisations. This meant in some cases (*Established* and *Going Global*) the non-UK subsidiaries of UK owned multinationals. In others it was the UK-arm of a foreign-owned company (*Settling* and *Newcomer*). Sector and nationality did not seem to be a discriminating factor.

2.3.7 What managers feel hinders

In our case studies we were also able to explore the other side of management capability by asking managers what inhibits them from doing their role well, what they find most difficult and what supports them.

Managers feel constrained in the execution of their role in a number of ways. For some it is an issue of their own capability whereas for others it is the culture of the organisation which helps or hinders. Some managers felt hindered by lack of resources, which meant that deciding on competing priorities was made more difficult. Inevitably, resource problems meant that more strategic work is pushed back to make way for more urgent but less important tasks. Changing roles impose problems for people too, they may have to work in very different kinds of ways to those they are used to.

Telecoms

In *Established* there were several comments about the culture of the organisation making managers work more difficult. One said the culture tolerates poor performance, one commented on the silo nature of the business and another on the political nature of organisational interactions where people do not disclose information freely and tend to be too secretive. Comments were made of a reluctance to share information with others, people being overly territorial, '*everyone is building their fiefdoms, and everyone is working with stove pipes*'. Interestingly, all of these observations came from non-UK managers. Other negative aspects were perceived to be the constant change in the organisation and some aspects of management capability and culture.

In *Settling* one of the difficulties, predominately with managers from the foreign subsidiaries, was adapting to the influence of the group centre. There has been resistance from the subsidiaries to the influence of the centre. There was also some comment on the lack of processes for example the lack of a succession planning process and lack of clarity as to what makes a good manager.

Retail

In *Going Global,* one manager commented that his new role meant he had to exert influence in a much less direct way, he has to do more thinking in the new role and consider the viewpoints of others more. Another manager, in trying to change style, found an empowering role difficult in the sense that he had to help people find the solutions for themselves rather than tell them what they might be. Another UK manager commented that focusing on what adds value is more difficult and frequently finds herself pulled off by other demands. Similarly non-UK managers spoke of the problems of managing competing priorities and ending up having to do more immediate work rather than the more strategic work. One mentioned feeling quite alone in a new role, having to influence people but with no powers to change anything. Another non-UK manager mentioned the difficulties of learning to let go and supporting others rather than operating in a hands-on fashion.

In *Newcomer*, our other retail case study, constraints tended to focus on the reality of retail, the fast paced environment which means decisions have to be made quickly and change is the order of the day. Managers also mentioned the tendency in the organisation to make decisions and move on rather than reflect and learn from them. This can mean that the organisation makes the same mistakes more than once.

2.3.8 What managers feel helps

Telecoms

In *Established* the company systems were praised, good development processes, systems of regular meetings, development forums for identifying talent. Managers from a new part of this business which was perceived as very international, mentioned the competence of key strategists in the business. There has been deliberate diversification of managers in the organisation and that too is seen to have helped. What helps in *Settling* is that the brand is seen very positively, with individuals taking their cue from the brand. Growth and relative inexperience also means that diversity is welcomed and tolerated.

As we can see, these views do not cluster into sectoral bundles but reflect a more diverse and culturally related response.

Retail

There are of course aspects of organisations or jobs or processes and practices that help people. For example in *Newcomer* the culture of the organisation was mentioned by all managers as being helpful to them. This culture was defined as open, commercial, enthusiastic, and helpful with a distinct lack of personal agendas. Staff have access to senior people; the organisation is focused on success and responds quickly and simply to issues. The other side of the coin of what helps managers is what hinders them undertake their role. The negative side of the open and active culture was the entrepreneurial and responsive attitude in the organisation could also give rise to flavour of the day reactions, priorities were seen to change rapidly. Senior people were seen to become overly stuck in the minutiae of the organisation, looking for too much detail which is probably a result of the rapid expansion of the organisation.

The absence of these kinds of comments from the other case study managers is perhaps compelling. In *Going Global* all comments on being asked what helps were with regard to personal strengths *e.g.* being performance-driven, being confident, intelligent, and having high levels of energy.

2.3.9 Summary

In this exploration of how organisations and managers perceive the management role we have seen that the most important emerging skill requirement for all countries was for effective change management although this was most frequently mentioned for German and UK organisations. The next most frequently mentioned skill was for ethical and value based behaviour — of specific importance for Spanish companies. Partnership working was most important for German organisations, risk management for Norwegian companies and awareness of stakeholder impact for Norwegian and UK organisations. When asked what skills they felt they were most lacking, survey respondents identified people skills, followed by business awareness and acting as role models. Survey respondents felt that the organisation facilitated good performance through reward and recognition structures, clarity over role and organisational culture. Relatively few mentioned training and development systems. National differences were clear with German and Spanish companies using reward based incentives, UK and German organisations using clarity of performance expectations (with Spain particularly low in this regard) and with the UK also scoring relatively high on being given the opportunity and responsibility to act and through empowered leadership.

In our case studies we asked managers for their own views on what motivates them. Managers themselves are most motivated by developing and growing others but there were many other motivators too. As suggested above, UK managers mentioned inspirational leadership or the skills of those they work for. Organisational culture was also frequently referred to, from both ends of the spectrum. There were those organisations in which managers emphasised the positive aspects of culture and those which emphasised the negative. It is very difficult to separate out nationality from all the other aspects which clearly influence responses in the case studies. We heard very positive views from both UK owned organisations and from foreign owned and it would seem that organisational culture has a much stronger influence on what motivates managers than national culture. Similarly there were no national differences in what managers feel is the most important aspect of their role, with consensus that it was to provide clarity of objectives and goals. Neither are there emerging national differences in how managers spend their time with most agreeing that they spend more time on operational as opposed to managerial aspects of their role than they would like.

Echoing our survey respondents, case study interviewees commented on the difficulties of adapting to changing roles especially in those organisations, which were undergoing structural or cultural change. One of the most frequently mentioned inhibitors of being able to do a good job was felt to be culture within organisations where the culture was judged to be resistant to change or where it inhibited effective working. In contrast, interviewees mentioned culture as a positive influence where it was seen as open, enthusiastic and motivating. These differences were not clear-cut by nationality but rather a complex interplay between national and organisational culture.

In the next chapter we go on to explore the differences in management development.

3. Management Development

Not only has UK management capability been called into question but we have seen from our review of the literature (appendix 1), there is considerable doubt regarding the quality and quantity of development that managers in the UK receive. We therefore devoted the main part of our survey to the exploration of management development processes, practices and experiences. We wanted to understand if there were country level differences in terms of:

- HR strategy: the strategic integration of management development
- MD systems: the systems in place to support a firms MD
- MD ethos: the philosophical approach to long term development of managers
- MD importance: the importance attached to management development by the organisation as perceived by line managers
- MD amount: the amount of development provided.

We have also explored with HRD managers the development approaches which are undertaken in their organisations and assessed the impact on organisational performance. Throughout the chapter, relevant findings from the Case Studies are presented alongside the survey to add depth to the survey findings.

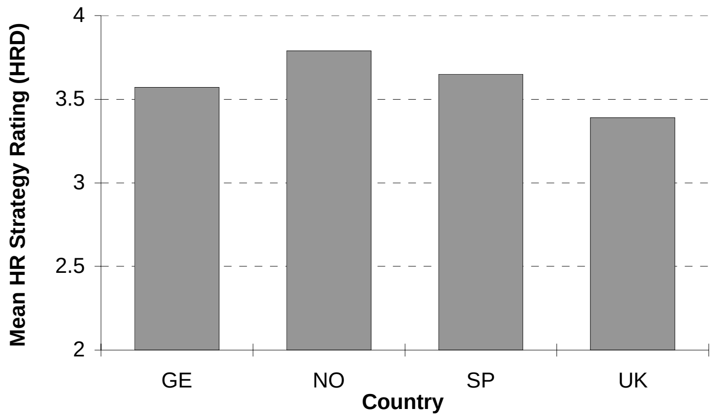
3.1 Development approaches

This first section considers the overall approach to management development and whether it is located within the business strategy of the organisation – **HR strategy** and **MD systems**.

3.1.1 Design, delivery and perceived impact

A number of items in the questionnaire concern the role of **HR in the business strategy,** the approach to developing managers, the MD systems used to achieve this and the perceived impact of all these activities on the firm's performance. Based on the model of MD created in the previous

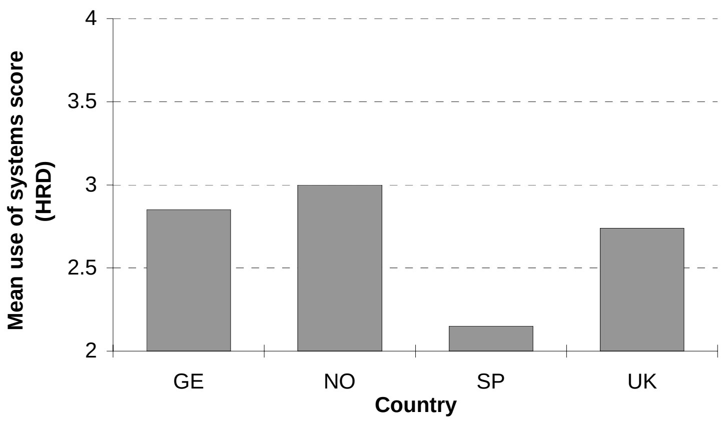
Figure 3.1: The degree to which HR plays a strategic role reported by HRD managers (by country) n= 484



Source: IES 2005

studies (Mabey 2002; Mabey and Ramirez, 2005) these items were combined to form constructs (see Appendix 6). We look first at how the four countries rated themselves on the constructs (HR Strategy, MD Ethos, MD Systems, Importance and Amount), irrespective of status. Figure 3.1 shows that, generally, HR plays a more strategic role in Norway, and UK companies fare worst on this dimension compared to their counterparts. Although the differences are not significant, they confirm the common view that HR specialists in the UK are relatively less likely to be represented at senior levels and/or often find themselves in positions of low influence. Linked, but not necessarily determined by HR strategy, is the infrastructure put in place by a company to support the way it develops its managers. This includes having an MD policy, appraisals, fast-tracking, career planning and systematic evaluation, what we call **MD systems**. We find Spain is significantly lower than its European partners (Figure 3.2) on this dimension. This may be due to a relative lack of sophistication in such systems and/or a greater reliance on informal ways of developing managers including patronage, networking and informal mentoring as against more formalised and procedural mechanisms.

Figure 3.2: The use of MD systems reported by HRD Managers (by country) n=484



Source: IES 2005

3.1.2 Sectoral effects

When measuring the five MD constructs (HR Strategy, MD Ethos, MD Systems, Importance and Amount) across the four countries, we find no significant differences reported according to sector; no single sector has a consistently superior or inferior approach to developing its management cadre in Europe.

3.1.3 Size differences

Irrespective of country, size has a uniform effect on MD constructs. From Table 3.1, we can see that smaller firms (with less than 250 employees) are significantly less likely than medium sized and large firms to report extensive **MD systems**. This is unsurprising given the need of large firms to create cohesive policies across a range of business units and the presence of relatively more resources to fund these. However it is the larger firms where HR managers also report a significantly more progressive **MD ethos** and line managers rate the **importance of MD** given by their organisations more highly. Given the influential nature of these two constructs in enhancing organisational performance (see Section 3.4), there is a lesson here for medium and small firms. Namely, any effort aimed at improving the strategic nature of MD over the longer term, which subsequently translates into credible MD practice in the eyes of line managers, is an extremely worthwhile investment. It would seem that such focused activities are more likely to yield bottom-line value than either the amount of training undertaken (which is actually greater, though not significantly so, in small companies) and the degree of sophistication of MD systems (which is typically lower in smaller firms). In short, quality not quantity, is what matters when it comes to MD; therefore there is no inherent disadvantage in being a smaller firm with lower economies of scale.

Table 3.1: Breakdown of MD construct scores by organisation size, HRD and line managers (n=484)

	Size			
	Small (<250)	**Medium (250-500)**	**Large (>500)**	**Overall**
HR Strategy	3.6	3.5	3.7	3.6
MD Ethos	3.7	3.8	4.0**	3.8
MD Systems	2.0	2.8	3.3**	2.7
MD Importance	3.3*	3.5	3.5	3.4
MD Amount	9.5	8.6	8.6	8.9

Significant differences * p>0.05; p>0.01**

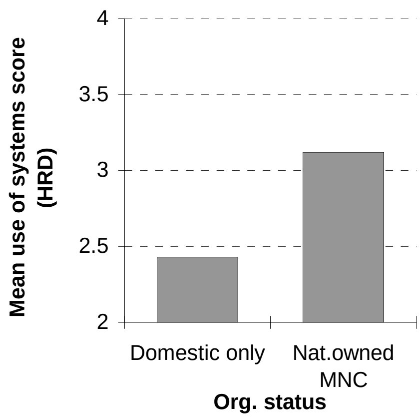
Italics indicate construct is derived from Line Manager

Source: IES, 2005

3.1.4 Status differences

We find that HRD managers in MNCs are significantly more likely to report a full range of internal **MD systems** than their domestic counterparts (Figure 3.3).

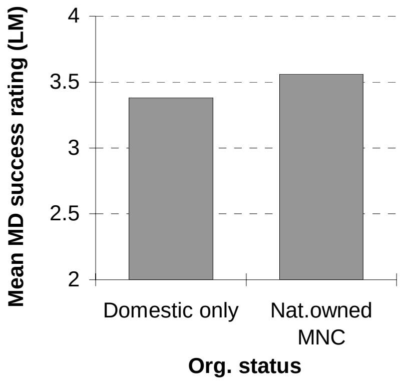
Figure 3.3: Use of MD systems by status, as reported by HRD managers (n=484)



Source: IES, 2005

It is possibly connected, that line managers in MNCs consistently rate the success of MD in their organisation, in terms of developing managers with the appropriate skills and overall firm-level impact, as significantly higher that those employed by domestic companies (Figure 3.4). No status differences are found concerning the determinants of a good manager, suggesting that this is a factor driven more by country context than ownership status. This makes sense, as we might expect cultural values to be more influential on what defines a good manager than ownership.

Figure 3.4: Success of MD as rated by line managers (n=484)



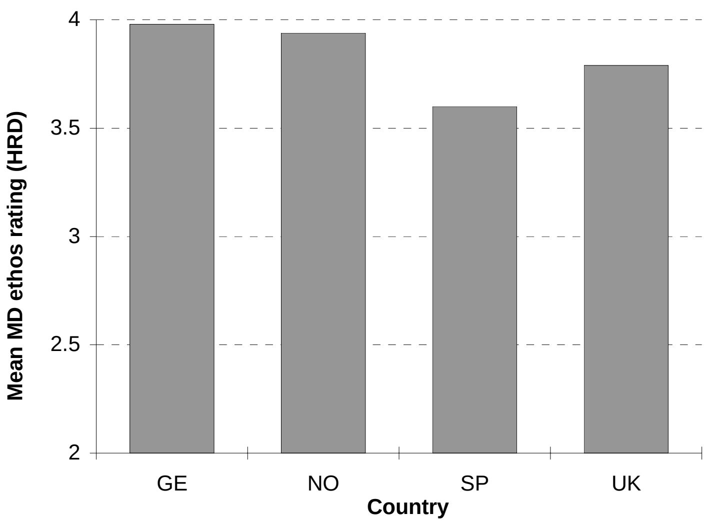
Source: IES, 2005

3.2 Development of talent

Are there differences in the way organisations develop managers – do they have an ethos of nurturing and developing management talent (MD ethos)? How much development activity is undertaken by managers (MD amount)?

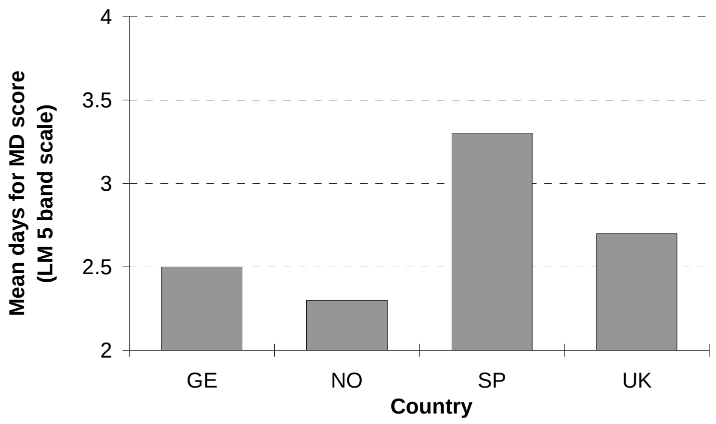
Spanish companies are also significantly adrift when it comes to creating a cadre of managers via retention and internal promotion strategies over the longer-term, labelled **MD Ethos** (Figure 3.5). UK organisations are also relatively weak in this area, but not significantly so. What is surprising is that despite these results, Spanish line managers are significantly more likely to report a higher **amount of MD** activity based on the average number of days spent on MD per year (see Figure 3.6,). Given the relatively low attention to systems and the poor ratings on MD ethos, this suggests that although a good deal more training and development is taking place in Spanish organisations, these activities may lack the strategic coherence and systemic support which companies in Germany, Norway and Britain create.

Figure 3.5: Management development ethos reported by HRD managers (by country)



Source: IES 2005

Figure 3.6: Amount of MD undertaken each year reported by line managers (by country)



Source: IES, 2005

The case studies provided much more detailed information regarding how organisations manage talent to form decisions on future leaders. We had a variety of practice partly because several of our organisations were seeking to discover a quite different kind of manager to those they had developed and promoted in the past. This was so for all bar *Newcomer* and *Market Leader*, both retail organisations, which were experiencing a period of growth and success.

3.2.1 Telecoms

Established was typical of those trying to change the profile and capabilities of its managers. It was also trying to improve the means by which talent was identified. In the past it used a system of career councils, whereby HR people facilitate meetings of the senior team, with the team nominating people as having the potential to progress beyond their current role. Career councils still operate, to identify people who are good at delivering projects.

Managers in *Established* showed confusion over what was wanted and rewarded by the organisation when promoting people. This confusion could perhaps be explained by the shift to a more performance-based culture, to being more proactive, to embedding leadership into management. This had meant that new changes in core values *etc.* were working their way through the organisation — '*it is no longer acceptable to turn up, do the job, and go home. You can't be reactive, you have to be proactive. I think* [Established] *is looking for new ideas and leaders as well as a manager. You can't just be a manager anymore. You've got to be some form of leader.*'

Survivor uses a range of methods to help target development activities such as appraisal discussions, 360 degree review and also the ratings from the organisational attitude survey to explore performance against the four areas of capability. Succession planning used an organisational capability review. This examines the performance of the top 600 people and looks at key achievements, aspirations, and performance. These individual results are then amalgamated to provide an overview of capability for the organisation by business area, region *etc.* It has required some effort to ensure that ratings of performance are accurate and realistic after the period of cutback, one of the responses was for managers to be more generous in their ratings to offset low morale elsewhere.

The organisation facilitates a very small number of planned international moves, but on the whole the workforce is not very mobile.

Settling has a high talent group of employees who are dealt with through a '*framework for exceptional leadership*'. They have a series of talent reviews and a talent management process. The talent review group decides what talent looks like and defines some key attributes such as performance consistently exceeding objectives *etc.* At country level a talent review meeting takes place to identify who is good and to form succession plans. These reviews take place at all levels and are underpinned by the values of the organisation. For more senior managers the important attributes are management style, brand values and hard knowledge.

Despite these clear processes, managers in *Settling* did not really know what good management was and felt that the reasons for career success were less transparent higher in the hierarchy. This might be expected given *Settling* was seen to have grown faster than its processes or practices. The organisation had not yet got to the point of firmly stating what it was looking for from its managers or of embedding this into systems, for example, one manager commented that success may be less about one's own capability but how people were perceived and the ability to relate to senior people — the ability to be proactive and outspoken was key.

When we asked managers what is expected from them there was not always great clarity as to what the organisation was looking for from its managers.

3.2.2 Retail

Newcomer has a range of methods for identifying talent. There are two processes for dealing with management appointments. Once a year there is a meeting with senior managers to identify those with potential for the next role or two roles ahead. They look at both potential and performance axes and grade people on each, *e.g.* an AA score would mean performing very well in the current role and with potential for two grades above. The organisation seeks to identify where they have gaps in talent and where there are felt to be dangers in terms of succession. The organisation also identifies problem performance and will seek to improve poor performers or move them on. The manager will put together with them a '*get well*' Personal Development Plan, which the district manager is responsible for delivering with the individual.

The organisation recognises potential through performance appraisal and through demonstration of attitudinal factors such as high commitment. This assessment is based on the line manager's views in conjunction with other managers. Assessments of potential include both delivering results and soft skills. Everyone is discussed and these discussions go on to drive the executive development programme. On this programme, attendees have a 360-degree assessment managed by external assessors plus attend an assessment centre. Some get executive coaching. At a senior level there is consistency in development approaches across the UK and the parent company with a common leadership programme. Managers in *Newcomer* showed remarkable similarity of view with regard to what kind of manager succeeded, with a clear understanding of what the company was looking for — a reflection of the embedded success factors.

Going Global had put considerable effort into its processes for recognising and developing talent in specific response to the identified need to change management style. Although promotion is open to all, the new management development system has in-built procedures aimed at identifying people with 'high potential'. All managers are encouraged to undertake a self-assessment against the known criteria or competencies before putting themselves forward to be included in the high potential leadership programme. There is a two-stage selection process. The first stage is a virtual selection, where candidates complete business case studies and other exercises; the second stage is an assessment centre. The successful candidates then undergo fast-track training and development. This is an 18-month programme at a Management College, intended to prepare people to progress to a directorship role within two years.

Going Global undertook a great deal of research in order to identify the capabilities considered to be especially important in '*high potential*' managers. The exercise identified several '*high potential*' differentiators, covering three broad areas of **people, strategy and learning**:

People

- driving and leveraging partnerships to benefit the organisation
- creating '*joined up*' teams across and within the organisation.

Strategy

- passionately driving the future of the organisation
- broad, innovative long-tem thinking
- simplifying business complexity.

Learning

- building the organisation's learning and developing capability
- demonstrates a real learning agility.

There is particular emphasis on high potential managers to develop long-term thinking, *i.e.* people who can think beyond the year, rather than from one week to the next, as was often the case. The rationale for self-selection partly reflects this, asking for people to be nominated by their boss would reflect the dominant company focus on the short-term.

In terms of selecting potential managers, the approach is to promote 80 per cent of people from within, and recruit only 20 per cent from outside. Those recruited from outside are selected on the basis of the competency criteria; they are not selected necessarily on the educational background or industry experience. The company believes that the retail sector requires people who understand how to trade or sell products, as well as an understanding of how retail shops work. It is also important to look at people who are intellectually 'bright', and who can be provided with the necessary education and guidance for their development.

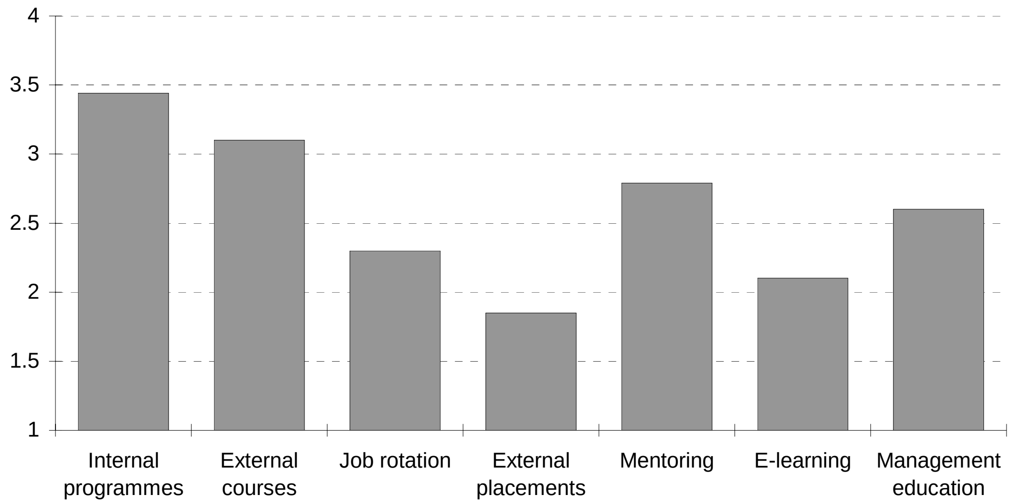
For *Going Global* this may well be a reflection of the shifting demands of the organisation and the desire to move from a UK centric and relatively old fashioned culture to a more global player. This shift may well explain why our interviewees said that they did not understand what the organisation was looking for. Our UK interviewees commented on the need for people with different experiences to the past; they suggested that the company now needed people who could develop strategy at lower levels in the organisation and who had cross functional and international experience. Our non-UK interviewees focused on the need to find people who could think more creatively, challenge the business and seek to move the organisation forward. How this might happen was viewed differently, one manager felt that in her company there was a culture of tolerance of mistakes, another commented that the organisation in Italy was looking for young, energetic and bright graduates.

3.3 Development methods

Having considered the processes and quantity of MD, what type of MD is provided by organisations? We find that how organisations seek to develop their managers varies by country, sector, size and status.

At an overall level, Figure 3.7 shows results from the survey of the respective weight placed upon different methods for developing managers disregarding country differences. The first observation is that, from the seven options provided, a heavy reliance is placed upon internal programmes to develop skills by companies in all countries, followed by the use of external courses, and seminars. Mentoring also rates favourably, being identified as the third most extensive method for MD across all countries.

Figure 3.7: Extent to which different MD methods are employed, as reported by line managers



Source: IES, 2005

These results need to be tempered by the findings arising from an open-ended question to line managers. They were asked to describe their most developmental experience in the previous year. Of 60 responses, 35 per cent referred to challenges they faced in their everyday work. These included the responsibility of dismissing people, setting up a new business unit, having to grapple with unclear management strategy, coping with the loss of an excellent employee, being promoted to a senior position, starting up a new company, opening an office in a new country, involvement in an industry think tank and dealing with a multi-racial workforce. Linked to this was the second category: self-initiated development, referred to in some way by 25 per cent. Among examples mentioned were: managing a change project, coaching staff, giving feedback to key staff, doing some teaching, helping up and coming managers, a conscious attempt to build a network and giving a speech externally. Several examples were also given of internal (17 per cent) and formal external (15 per cent) training activities, and a further eight per cent referred to feedback and support from their boss. However, if we combine the first two categories, we find that an overwhelming majority (60 per cent) of the examples provided refer to management and leadership development gained from on-the-job experiences.

3.3.1 Differences by country

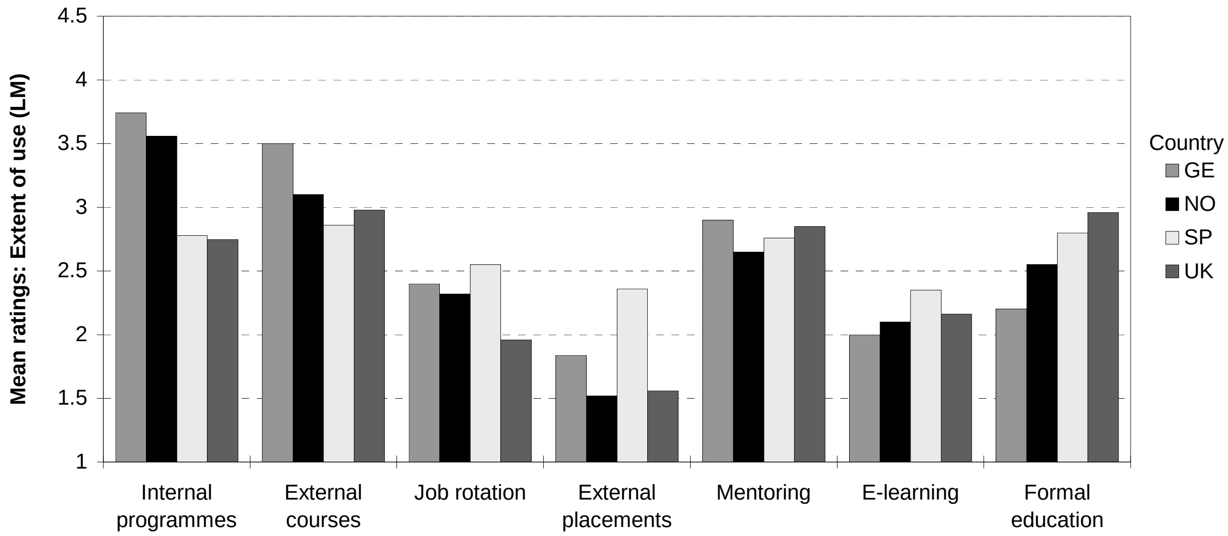
When analysed by country (Figure 3.8) we find that for all nationalities internal skills programmes are ranked highest as the most favoured and used method for developing managers, followed by external courses, and external placements are ranked lowest universally. E-learning is ranked sixth out of seven for all countries except the UK, where it is ranked fifth.

Elsewhere some interesting preferences emerge:

- German companies are significantly more likely to send managers on external courses but significantly less likely to concern their managers with qualifications-based MD.
- Spanish companies place significantly more emphasis upon external placements and e-learning than those in other countries.
- UK companies are significantly less likely to utilise job rotation to develop their managers and regard formal qualifications highly, although this latter difference is not statistically significant.

Germany and Norway both rank mentoring third and job rotation fourth, whereas Spain and UK rank management education as third and mentoring fourth.

Figure 3.8: MD methods: extent of use, as reported by line managers (by country)



Source: IES 2005

3.3.2 Differences by sector

When we explored the results of the survey of the preferred methods of delivering MD by sector, there were significant differences. These vary by country, so we focus on the findings for the UK sample only. Generally, service sector organisations tend to use a wider range of methods more extensively than either manufacturing or distribution companies (Table 3.2). This trend is significant in two instances: the service sector uses external courses more frequently and distribution companies are significantly less likely to use management education.

Table 3.2: Breakdown of MD delivery methods by organisation sector reported by line managers (UK organisations only n=121)

	Sector			
DVs	**Distribution**	**Manufacturing**	**Services**	**Overall**
Internal Programmes	3.2	3.1	3.5	3.3
External Courses	2.5**	3.0	3.5**	3.0
Job Rotation	2.0	1.8	2.2	2.0
External Placements	1.7	1.5	1.6	1.6
Mentoring & Coaching	2.6	2.9	3.0	2.8
E-Learning	1.8	2.1	2.1	2.1
Formal Qualifications	2.5*	3.1	3.2	3.0

Significant differences * p>0.05; **p>0.01
Numbers refer to average ratings of usage from 1=not at all, to 5=to a great extent

Source: IES 2005

It seems there is a challenge here for organisations in the distribution sector and, to a lesser extent, for manufacturing companies, if they wish to improve their provision of training and development for managers relative to firms in other sectors. They need to provide more opportunities for managers to attend external training and to encourage their participation more extensively in qualifications-based management training.

3.3.3 Differences by size

How do companies of different size compare when delivering their MD? Again, there were significant differences in our survey responses, but these varied by country, so Table 3.3 again focuses upon the UK breakdown only. Despite devoting slightly less time to training managers than smaller firms, organisations employing more than 500 staff utilise a wide range of methods more fully (and significantly so for five out of the seven MD methods) than their smaller counterparts. In contrast, size does not appear to be a factor in the use of external courses and mentoring.

Table 3.3: Use of MD delivery methods by organisation size reported by line managers (UK organisations only, n=121)

	Size			
DVs	**Small (<250)**	**Medium (250-500)**	**Large (>500)**	**Overall**
Internal Programmes	3.0	3.0	3.6*	3.3
External Courses	3.0	3.3	2.9	3.0
Job Rotation	1.8	1.7	2.4**	2.0
External Placements	1.5	1.3	1.8*	1.6
Mentoring & Coaching	2.8	2.6	3.0	2.8
E-Learning	1.8	1.8	2.4*	2.1
Formal Qualifications	2.9	2.6	3.4**	3.0

Significant differences * p>0.05; p>0.01**
Numbers refer to average ratings of usage from 1=not at all, to 5=to a great extent

Source: IES 2005

This pattern is the same for German companies except there are no significant differences by size for e-learning and formal qualifications. There are no significant size differences in Spain and only one in Norway (more use of internal programmes for large companies).

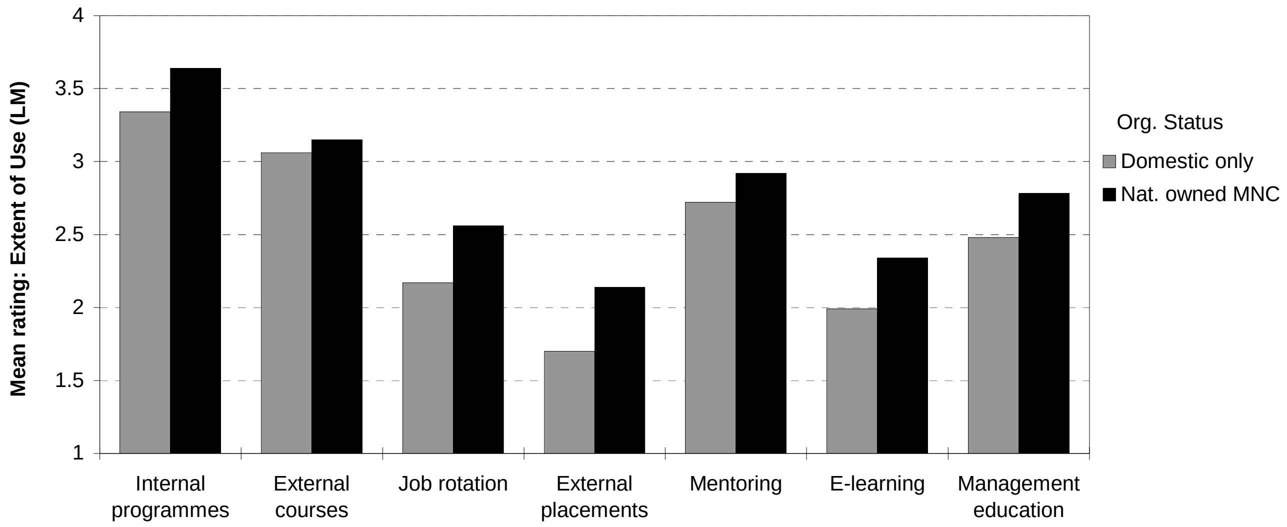
Further observation of Table 3.3 shows an underlying pattern: (although the differences are not statistically significant), whereby medium sized organisations report least utilisation across the range of delivery methods except external courses (which typically require least forethought and planning). This suggests a vulnerability and a vulnerability that is peculiar to the UK. Given their size, it could be argued that a systematic and strategically coherent approach to MD is a priority for medium-sized organisations (compared to small organizations which can exist with a more organic approach), yet they lag behind both their smaller and larger counterparts in the UK. They also lag behind their medium sized counterparts in the three other countries on all delivery methods.

3.3.4 Differences by status

We have already noted that when it comes to preferred delivery methods, there is a consistent pattern irrespective of country or status (Figure 3.7). But again this overall picture hides some detailed differences with regard to status. Figure 3.9 shows that MNCs use *all* MD approaches more extensively than their domestic counterparts. This difference becomes statistically significant when it comes to adopting job rotation, external placements, formal qualifications and e-learning. Once again, it is worth noting that these findings control for size and sector, so the significant differences can confidently be attributed to status.

Taken together these results have some intuitive credence. We might expect MNCs to possess both the economies of scale and resources to introduce and maintain a formal MD policy, which incorporates appraisals, fast-tracking, career management and systematic evaluation and for development methods like job rotation and external placements to be woven into an MNCs strategy for developing its managers. Furthermore, operating by definition in an international arena, requires that attention be given to such systems across affiliates; indeed it has been argued that MD in particular is frequently the ‘glue’ by which uniformity and cultural coherence is achieved (Gratton et al. 1997).

Figure 3.9: Use of different MD methods as rated by line managers (by status) (n=484)



Source: IES, 2005

For a number of years, the relative influence of country setting and MNC status upon HRM policies has been debated. Some argue, and have assembled evidence to suggest, that the way an organisation goes about developing its managers is primarily determined by the institutional context, the vocational and educational system, the degree to which a government intervenes, the vitality of the labour market and, not least, the cultural expectations of what constitutes good management (Rosenweig and Nohria, 1994; Gooderham *et al.*, 1999). Others have made an equally strong case that MNCs introduce their own HR policies and practices, these typically emanate from the parent organisation and are diffused as best practices across affiliates, which remain largely resistant to local isomorphism (Whitley, 1992). Still others have found evidence of a hybrid model, where MNC subsidiaries in some countries are more likely to adopt parent-company HR policies than others (Gooderham *et al.* 2004), or the degree of localisation depends on whether the policies in question are micro or macro (Tregaskis, 2001). With the exception of the last study, which examined training and development, specific analysis of MD has not been undertaken. From the findings so far discussed, we find more support for the impact of country on MD than MNC/domestic status.

3.3.5 Case study evidence

As we have already mentioned several of our case studies are driven by the desire to change their culture of management or by a recognition that what was acceptable in one circumstance, was no longer acceptable in another. Case study responses to management development activity could be seen to be a reflection of this.

Telecoms

Survivor was motivated over the past few years to turn round the agenda on management and had created a learning programme for the top 200 managers. This programme was delivered in partnership with a firm of business psychologists. Inputs are a 360-degree profile, and several other psychometric profiling instruments. It is comprised of a one and a half day workshop where managers work on a business project that they want some help with and look at future capabilities in groups of ten, thinking through what they need to do in the future to be successful. The participant writes a self report which is passed to the psychologists who write an overall report and comment on ten different behavioural traits, skill and capability and also provide external capability benchmarking against the next level up. The findings are discussed in a two-hour coaching interview followed by three-way discussion with the individual, the psychologist and the boss.

The idea is that the organisation will also look at the emerging data from this process and consolidate it into development initiatives such as developing leadership, influencing, personal PR and coaching. The programme is a global initiative where the profiling and workshops take place in the UK.

A challenge is to cascade this programme down the organisation to less senior levels of management in an affordable way. There is excellent e-learning provision in the company and it is likely that this will be used to do so.

Settling had a number of subsidiary companies that were at very different levels of development sophistication. Many had relatively poor infrastructure whereas the UK based subsidiary was the most established and generally had developed much more sophisticated systems and processes including some management development activity. The small group holding company was relatively unsophisticated in terms of its development strategy. There was no overriding development strategy, and the approach to development was overseen more by a business philosophy than a development strategy. In each of the subsidiary companies, but not in the holding company, there is an HR account manager who looks after an individual's development needs. Managers are also encouraged to take responsibility for staff development and responsibility also rests on the individual to make the most of the development offered.

There is a development programme covering strategy and specific leadership skills for the top 250 and below that level development is more local. The organisation also runs a process to maintain managers' contact with the customer whereby senior people undertake to do a customer-facing role for several days each year *e.g.* working in a call centre or in a shop. They also aim to broaden horizons by getting managers to go into other companies. The organisation operates some internal mentoring and coaching schemes but these are not well developed.

The company had experience of seeing the impact of various development programmes at a global level. They had found that the use of feedback was an issue in the Far East and France. In Thailand the culture is one of interdependence and it is not acceptable to challenge peers, and in France they found that 360 degree review was also culturally unacceptable and they compromised on 180 degree review processes.

There is some training offered which focuses predominantly around the brand or the culture of the organisation which is seen as a major driving influence. *Settling* acknowledges that other, more established, organisations in the sector have tended to have much more focused management development activity.

Talent reviews designed to help fill the many opportunities in the company, led to a middle managers programme. These reviews identified that managers were not disciplined enough and the holding company set up a specific programme to deal with it.

Established has just introduced a new management development programme. That programme is underpinned by a view that high potential managers must move around the business at least every two years and they must have international experience as part of their development. There was a view that some people in the talent pool are not as mobile as they should be and it was noted that non-UK managers tended to be more mobile than their UK counterparts. This has become an important concern of senior leaders and high potential managers alike. There are some well-regarded and high profile top level programmes – Global Business Consortium for *its 'top, top talent*', and an international Masters programme in Practising Management — which takes people all over the globe.

As these programmes are available to only a small number of people, the organisation is seeking to develop a range of options which would expose more managers to development. Overall, management development is highly decentralised, and depends very much on the individual and their line manager. The organisation expects everyone should have a personal development plan in place, including regular one-to-one meetings with their manager, and one-to-one meetings with the HR lead.

The organisation selects people for further development via a '*talent forum*' operating across the entire business. Quite often senior managers are presented with a proposition to fill a role from within the talent pool with HR acting as a broker.

The culture of resourcing is that people should progress through the organisation. In the UK there are many opportunities but one of the problems with UK managers is that they do not seek experience outside their current area of work and are not very mobile. By contrast, such opportunity is not available to people in its non-UK businesses; which also means that they have to become more mobile if they want to progress.

Retail

Market Leader had experienced similar issues to other case studies but not necessarily with the same results. Like *Settling* they too experienced problems in wishing to roll out 360-degree review internationally. However, they have succeeded in introducing 360 in France when everyone said they could not. They found it took more work to engage people before it felt right, but once people were engaged and willing to invest, they believed it had an authenticity and discipline in France that it does not have in the States.

Similarly they have leadership development centres where people get lots of feedback. In the Far East they acknowledged it is uncomfortable to get and give corrective feedback in public, and consequently they have found different ways of delivering feedback there — individuals hear it one to one rather than in a group.

The organisation runs a development options programme at all levels — they found they had better retention when induction was done properly. At each level there are awards for skills that represent increasingly skilled abilities. For example a bronze award level might involve an individual being able to complete a task whereas a gold award would imply they could coach others to do so.

As far as possible they involve end users in the training design and carefully consider what they want people to be able to do as a result of the learning. As all managers need to be able to understand the business, all managers work in shops for one week a year. The career of senior people would be expected to include a line job where they run things, an influencing job *i.e.* as a thought leader plus ideally a broadening experience *e.g.* an international appointment or a stint on a major project if they want to be a director.

Newcomer has developed a leadership pathway that is common across all functional streams. The organisation has various development workshops which are tailored to certain populations *e.g.* step 1 is for high potential staff and junior managers and covers leadership, team skills, coaching skills *etc.* Step 2 is for middle managers *e.g.* assistant managers in stores, step 3 is for store managers and head office managers and step 4 is for district manager level.

Going Global has a management development programme for people from the stores, right up to the Board. The initial stages of management development operates at three levels, and starts with induction, which takes people up to the stage of managing other people. Once they have reached this stage of managing people, there is a group-wide programme — introduction to management programme — which includes things such as how to influence people, how to negotiate, how to communicate, how to have '*presence*', and how to coach. This is the programme for the 5,000 or so store managers and middle managers. Once they have completed this programme, there is another group-wide programme that involves strategy and explores the difference between management, leadership, marketing and finance. The third of the management development programmes is the '*executive programme*', which is aimed at talent, *i.e.* high potential managers.

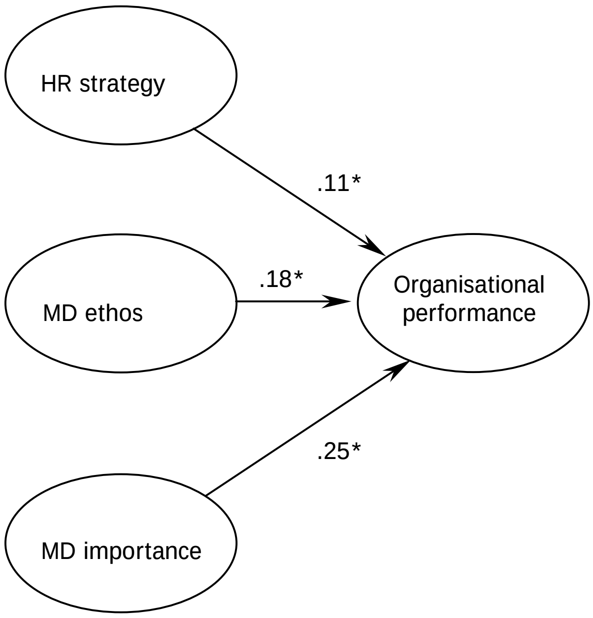
3.4 The impact of MD on organisational performance

So far we have analysed the way organisations design and deliver their management development, and the extent to which these patterns are influenced by country and status. This begs the question of whether different approaches to MD have an impact on firm-level performance. We have sought to test this statistically by comparing the various measures of activity we have explored in this chapter and relating them to respondents' views on company performance. To do this we have created a measure of performance by taking the overall average of the HRD and LM performance ratings (due to a small number of missing cases on the LM performance rating, the sample size decreases from 484 to 478). This composite measure avoids some of the problems of single source measures which may lead to bias in ratings.

Through statistical tests we have sought to explore which factors relate most strongly to the performance indicators and what proportion of the variance in performance across our sample they explain (see Appendix 4 for more detail). We found that three factors are significant predictors, explaining 21 per cent of performance: HR Strategy, MD Ethos and, from line managers, perceived importance of MD (see Figure 3.10 which shows the strength of the relationship between each of the factors and business performance). These results are consistent for all firms in the sample regardless of country, status or sector. It is worth recalling that this performance index is derived from both HRD and line managers who are asked to rate their company against competitors in their sector over the previous three years. This benchmarked index covers a wide range of factors concerning the quality and development of products and services, the ability to attract and retain essential employees, the satisfaction of customers and clients and relations between employees and management (see Appendix 5). Our findings indicate that if a company is able to improve the connection between its HR and business strategy, to create a progressive MD ethos and to gain an internal reputation amongst its line managers that it is taking MD seriously, then it is likely that it will outperform its competitors.

We have also explored specifically how the UK performs on these measures using a technique called moderated multiple regression.

Figure 3.10: Which factors explain performance in European firms (n=478)



* p> 0.05 **p>0.01

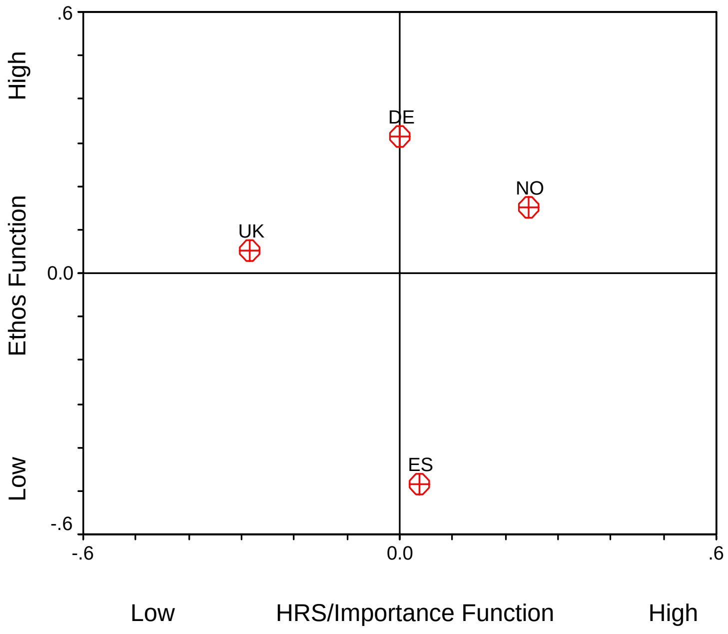
Source: IES, 2005

Two functions emerged as critical here: the first concerns the connection between HR and business strategy and the importance accorded to MD as perceived by line managers. The second concerns MD Ethos. Figure 4.11 depicts where each country is located on a quadrant created by these two axes. It can be seen that, generally speaking, UK companies lag behind their German and Norwegian counterparts when it comes to creating a progressive ethos for the development of managers, but they are ahead of Spanish firms who perform poorly in this area. Of the four countries, UK companies have most ground to catch up in linking their HR and business strategies and in convincing their line managers that they are taking MD seriously.

Equally telling from this analysis, is the finding that MD Systems and the Amount of MD fail to explain significant variance in organisational performance.

So although the amount of MD is an area where Spanish and UK firms rated themselves higher than German and Norwegian firms (see Figure 3.6), this counts for little. The lesson seems to be that having the infrastructure in place to support MD (like a policy for MD, appraisal, fast-track and career systems, and systematic evaluation) and even carrying out a high amount of MD, does not in itself guarantee improved firm performance. Unless the MD activities are integrated with the longer-term business strategy, are supported by a progressive ethos and are seen as credible by line managers, superior performance effects will not be achieved.

Figure 3.11: Comparative strengths and weaknesses of four countries on key MD dimensions



Source: IES, 2005

3.5 Summary

We have explored through the survey a number of key constructs which previous research has shown to be related to the effectiveness of management development. The first of these was the degree to which HR plays a role in business strategy and this varied significantly by country with HR playing a more strategic role in Norway and least in UK companies. We also explored the infrastructure which companies put into place in support of strategy. Spain is less advanced than its European partners in terms of having a MD policy. Spanish companies are also less likely to have strategies to develop managers over the long term although interestingly, its managers report much more management development activity than those from other countries. There were no significant differences in management development ethos by sector although in smaller firms MD systems are less common, the importance attached to MD is lower, and MD ethos is less progressive although MD activity is not lower.

In terms of the kind of development provided, in-company programmes are the most common form of development regardless of country, with external courses, mentoring and management education following in popularity. Managers in the survey however were more likely to mention job related experience as being influential. This contrast between what the company seeks to provide and what individuals find particularly meaningful is also reflected if we link back to the question asked of HRD managers as to what leads to a good manager where in-company training and experience were seen much more positively than management education. There clearly is some conflict between what is felt to be most successful and what is provided in practice. This may reflect the difficulties of capturing the learning from everyday experience in a meaningful way and the importance of management education in practice, even if beliefs regarding its effectiveness are limited.

Not surprisingly, the use of all forms of MD is greater in MNCs than domestic firms, and line managers rate the success of MD higher. Similarly, larger organisations use a wider range of methods in developing managers. There are some sectoral differences *e.g.* service sector organisations in the UK use a wider range of methods than either manufacturing or distribution companies.

There are also a number of national differences in the use of MD methods; German companies are more likely to use external courses but less likely to use qualifications based MD, Spanish companies are more likely to use external placement and e-learning than other countries, UK companies are less likely to use job rotation.

Our case studies provided plenty of detail regarding the ways in which organisations seek to develop talent although these policies did not always translate into practice. In some cases managers in our case studies were unclear over what was needed for success in the absence of clear culture, policy and practice regardless of systems and structures in place. All our case study organisations provided management development but the degree of strategic coherence and the coverage of the programmes varied enormously. In support of the survey work, the greater the coherence, the greater the impact on the organisation. In this regard, UK owned organisations seemed to suffer from two main difficulties:

- Management development was not always strategically coherent *i.e.* activity was not related to an overarching framework which influenced the design and delivery
- In some organisations where there were competency frameworks in use, managers themselves did not feel that the organisations necessarily preached what it practised and what was rewarded was not necessarily the same as what was developed.

These findings gain further support in our statistical analysis of factors relating to organisational performance from the survey. Some 21 per cent of the variance in benchmarked firm performance was explained by three variables: HR strategy, MD ethos and line manager's view of perceived importance of MD. UK organisations tend to lag behind German and Norwegian companies in terms of both HR strategy and the importance of MD, plus the MD ethos within the organisation.

4. Perceptions of National Differences

Within the case studies we asked both HR representatives and managers what they thought of the capabilities of managers of different nationalities. There were some strong views expressed but one of the difficulties here was unpicking other variables from these views. For example the circumstances of the UK operation may be quite different from that of the non-UK parts of the organisation.

4.1 Telecoms

In *Established*, the view of our HR interviewee was that UK managers were less straightforward, and because they do not want to be seen to be controversial they find it difficult to deal with people if there are issues relating to poor performance. They also find it difficult to cope with feedback, or give proper feedback when required to. The organisation was trying to address this problem by getting its senior managers to undertake quarterly reviews of the performance of their own managers in addition to the regular appraisals.

HR felt that the evidence from these quarterly reviews suggests that non-UK (European) managers exhibit a broader range of competencies, and have more rounded skills, compared with their UK counterparts. HR also felt that the low turnover of managers had led to a culture that tolerates poor performance. It discourages movement, so that there are blockages at senior level. The result is that the organisation has very capable people, but not necessarily confident people; people who are unwilling to take risks because of their concern over failure. There was a view that the line management role was diluted by the range of other responsibilities which line managers were expected to fulfil which meant there were relatively few good line managers and hence, relatively few good role models.

Not surprisingly, UK managers from this organisation were not so negative in their views on the performance of UK managers compared to those of different nationalities, whilst acknowledging that there were differences. One UK manager with quite wide international experience commented that these differences reflected wider cultural differences. For example, in the Netherlands, the general ethos is of working to live, rather than living to work. Consequently, people have a good work-life balance, but are also competitive and want to do well and are more focused in their time at work. In Spain on the other hand, especially at senior level, progression is often through networking, i.e. how people get on depends on who they know and where they are educated. They felt that people in Spain are valued for their networks as much as for their ability to deliver. By contrast, in the UK, people are valued almost solely on their ability to deliver.

This manager also believed UK managers have more concern for the person as a human being; they are politically correct; accept diversity, and accept cultural differences. Non-UK nationals, by contrast, were not believed to be as culturally sensitive. Their priorities were felt to be different in terms of what motivates them, especially on issues such as position and power. UK managers were believed to be more sensitive regarding what can be expected of people whereas Non-UK managers (especially northern Europeans) had higher expectations of people, and seek to enforce this through their hierarchical power.

An American manager also provided examples of different cultural practices. She believed, for example, that the way the UK approaches project work is to create large teams of people, with very specific tasks which they focus on. But this means that there is not a lot of innovative working going on. *'They stay in their stove pipes'.* This manager had found working with managers from the Netherlands very challenging. She suggested that the Dutch way of working is to critique proposals and tend to point out how any proposed solutions to a problem may not work, and what is wrong with the solutions. On the other hand:

> *'In Germany, people do not make judgements of others. They listen to what you give them, but it's never enough. They want more detailed information, and are very uncomfortable pursuing a line of action or detail. But because they are hierarchical, they will accede to a command or instruction to 'just do it'; and do it very well.'*

She finds working with those from Latin countries (southern Europeans) the most challenging. She believes their culture is relationship-orientated; and so people spend a lot of time building relationships. Although they appear to agree to do things jointly (i.e. in a team), in practice, they do things independently.

An American contrasted Europeans with Americans:

> *'As an American, the behaviour sets that have been rewarded (in my career) are a dogged determination to get things done. There is always a possibility; nothing is impossible. Arguing and debating is the only way you solve problems. So if you think a decision has no merit, you state it and fight it. But, depending on the individual personalities, you are also willing to accede a point or change your perspective if you are convinced by an argument.'*

She felt the biggest problem in UK management was that organisations do not punish negative behaviour, and that the biggest perpetrators were senior managers with *'stove pipe'* or fiefdom mentality. UK organisations work along functional lines, and job descriptions are focused on this. But this does not encourage team working, interchanging, or the sharing of ideas. UK managers do not like challenging people; they do not like to give feedback; and they do not want to highlight negative behaviour or punish people for this.

A Belgian manager was another who took a view that what makes a good manager is strongly driven by the culture of the country; and cites examples of these from her experience of different countries.

> *'In Spain, although they spend a lot of time interacting and cultivating a family atmosphere, the manager needs to be the tough one. It is the manager who has to make the big decisions. It is the manager who takes responsibility for the whole team. So, hierarchy comes in at that level. Whereas in Belgium or the Netherlands, people are practical and more straightforward, and can live with a flat structure. They actually prefer it because it enables them to be more visible, to speak their mind, and be straightforward. So what is a good manager in that sense, is someone who allows that to happen, but can still keep the company going.'*

She thinks hierarchy is also very important for UK managers. But even more important is what she described as their lack of candour.

> *'There is a reluctance to be straightforward or direct. It is not in their culture. They want to be polite and civilised. But in dealing with non-UK people, UK managers, for example, would say 'that is interesting, and I'll look at it'. What they actually mean is that they didn't like it, but they are not going to tell you that. And they are not going to look at it, and they are going to ignore it.'*

She also believed that UK managers do not like conflict.

> *'They want everyone to be happy; and everyone is very good; and everyone gets a pat on the back that they've done a great job. Whereas in other cultures, especially Belgium and the Netherlands, people ask 'how can I be better? Tell me where I need to improve''.'*

This has implications for the organisation.

> *'Because if you want to have a performance-based culture in the company, telling everyone they are very good is not managing performance – good or bad. So on the good side they don't manage talent and push people to get even better. And on the other hand, they don't*

manage poor performance. So you (the organisation) are very mediocre. But you can't be mediocre if you want to grow and be an international company.'

Across *Settling* there are in many ways very different company cultures, but in other ways the key elements of the culture are very clearly defined. The approach of the organisation is to get the infrastructure right and then allow more freedom over the detail. There are still differences however; it was said for the French for example it is very important what school people went to and their level of education.

One manager from Eastern Europe found that the more she worked internationally, the more she would see differences amongst different nationalities. She described the Dutch and the French as very fact oriented, the British as strategy oriented. The Dutch were very practical whereas the French were more elaborate and she felt that she had to be very diplomatic with them.

A UK manager also commented on the difference between the British and the French. For the French he felt that the style is very different, the school or university someone attends is vital, being intellectual and having high ability is also essential, there is a recognition of the hierarchy, and sense of knowing your place. As a consequence the French never challenge the boss and therefore decisions are not made in meetings. The French will also never express opinions of senior people.

A Danish manager commented that in France it is important to understand that you have to spend social time first, whereas North Europeans tend to get straight down to business. Job titles are also more important in France in terms of how you are received. The Grand Ecole system in France has considerable impact and it is very important to present the intellectual side of the argument whereas in the UK it is less so.

A Spanish manager commented that UK subordinates did not appreciate a direct approach and were easily offended.

4.2 Retail

Our *Market Leader* company had something like half its retail space overseas and operates in some ten countries. The HR perspective was that there were not considerable differences by nationality. There were issues of cultural sensitivity and a view that British managers could be insensitive when operating abroad but that this might just be inexperience. Successful international operation requires the ability to build an understanding, a will to assimilate.

In *Newcomer* the parent company is located in the States but the UK has developed its own initiatives which tend to be modelled on those of the parent company. Some practices such as definitions of expected behaviours, job descriptions, and performance appraisals are common across the entire organisation. Senior people get involved in secondments between the countries.

The HR perspective on cultural difference was that the work ethic was less pronounced in the United States, people seemed less pressured and tended to leave around 5.30 p.m. This may be in part a consequence of the different business circumstance where the UK subsidiary is new and growing and hence more entrepreneurial in nature. In the UK, it was felt that people tend to be more reactive to issues and have to multitask more as there are fewer people to do things.

Going Global is pursuing a deliberate policy to diversify the national backgrounds of senior management. This is reflected first in the steps taken to change the composition of its main Board. In the past three years or so, most of the company's non-UK managers have been selected rather than developed internally. The HR view is that the managers from France, Spain and Italy have higher standards of capability and performance, compared with their UK counterparts; they were described as:

'First class, excellent and absolutely fantastic, especially with regard to their leadership style, entrepreneurship, ability to generate enthusiasm, team work right the way across the board, motivate people, and deliver results.'

HR also commented that the non-UK managers have better stretch intellectually, and so, for example, speak several languages; whereas most of the UK managers do not speak any language apart from English. In terms of their reputation in other countries, UK managers are perceived to be '*bureaucratic*', and make things more complex than they need to be. UK managers are perceived as being of a more dictatorial type, perhaps as a result of having been developed in the old culture of the organisation. Much of this comparison of UK managers is believed to stem largely from a (past) organisational culture, which did not allow or encourage people to learn and pursue management qualifications. A large proportion of the UK managers (about 50 per cent) were believed to have left school at 16, and without other formal post-compulsory education qualifications; and although fantastic traders, are not as sophisticated in long-term thinking. By comparison, their European counterparts are more likely to have management qualifications, such as MBAs; and, therefore, bring '*more sophisticated approaches to their management role*'. The non-UK managers bring a '*breadth of perspective, and are able to think more broadly and long-term*'. Consequently, they are able to manage ambiguities better, because of their experience from managing start-up businesses.

A Spanish manager commented that in other countries the relationship with their team is a very close one. By contrast, there is some '*distance*' between UK managers and other employees, both senior and junior. So, for example, UK managers find it more difficult to communicate effectively with their senior managers. On the other hand, UK management development has its advantages, especially in terms of setting clear directions.

A Norwegian manager commented on being appraised less on creativity and challenging orthodoxy. Different countries in the organisation have a different view of what makes good managers. This is partly historical, but it is also partly because different companies in the organisation are at different stages in their life cycles. Some are new and appreciate people from outside.

The main difference between UK and Nordic managers in her view, is that Nordic managers are more outspoken, and more competitive; and are more used to thinking outside the box, compared with the UK. This type of management capability, already existent in the smaller businesses that have been absorbed into the larger organisation, is becoming more important in the wider group itself.

An Italian manager also believed that different countries had a different view of what makes a good manager. She drew particular contrasts between Italy, the Nordic countries and the UK. Nordic managers were felt to have a much more structured way of doing things; they have a plan, and follow it in a more organised way. Italian companies, by contrast, do not '*respect*' time; they make few plans, and do not check to see if projects are on track. However, they have lots of ideas and are innovative, and although they spend a lot of time in meetings, which appear not to be very useful, they still reach their objectives. UK managers appeared not to be interested in the bigger picture and focused solely on their part of the business. They are more process-oriented and believe in the hierarchical structures of the organisation. Whilst this works in large organisations, it does not allow for quick decision-making, which also makes it difficult to negotiate the organisational politics.

A UK manager also believed that other European managers were more entrepreneurial, especially because they are going into new areas of business (albeit with the support and safety net of the larger group), and have been able to try out new things, launch new products, and develop new businesses. He felt they were building their own entrepreneurial cultures, which were less confining.

Another UK manager did not believe there was a cultural divide between the views of UK and non-UK managers. But conceded that non-UK managers appear to have an advantage in the sense that they have better language skills.

4.3 Summary

We have seen a variety of views as to the relative merits of managers of different nationalities. In some cases these were held very strongly, whereas in others there was not felt to be any significant difference.

In *Established*

- HR felt that UK managers were less able to deal with controversy, and therefore poor performance and were risk averse, non-UK managers were seem to possess higher skills.
- A UK interviewee commented that managers from Netherlands maintained better work/life balance, that UK managers were more people centred and managed diversity better.
- An American manager commented that UK managers were too task focused and limited in vision, Germans would not make decisions, and Latin managers operate too independently.
- A Belgian manager felt that Spanish and the British were relatively hierarchical, the Dutch happy with flat structures. UK managers were seen as reluctant to deal with conflict and therefore dishonest in dealings with others.

In *Settling*

- An eastern European manager described the Dutch and French as very fact oriented, the British as strategy oriented. The Dutch were practical and the French elaborate and concerned with face.
- A UK manager found the French much more concerned with status, very concerned over which university a person was educated at, and more hierarchical.

In *Newcomer*

- The UK managers felt the work ethic was more pronounced in the UK, the US managers felt it was more pronounced in the USA.

In *Going Global*

- The HR view is that non-UK managers have higher levels of competence, are less bureaucratic. UK managers are seen to make things too complex. As managers they are too autocratic and are poorly educated.
- A Spanish manager commented that there was greater distance between layers in the hierarchy in the UK.
- A Norwegian manager felt that Nordic managers were more outspoken and more creative in their thinking.
- An Italian manager felt that Nordic managers were more structured, Italians are creative and the UK focused too narrowly and therefore not strategic.
- A UK manager felt other nationalities were more entrepreneurial.

The results are therefore somewhat contradictory. UK managers are both more and less hierarchical than other countries, more or less strategic, better at managing staff or evasive and dishonest in giving feedback. This may of course, be merely a matter of perspective, with some nationalities positioned at one end of a dimension and some at another. The relative position of UK managers is therefore dependent on which nationality they are being contrasted with. If there is any commonality of view expressed it is that UK managers are less forthright than Nordic managers, but more so than the French. They have a stronger sense of hierarchy than many Europeans but this is less well developed than the French and Eastern Europeans. Their strategic capability is mentioned by some of our interviewees but appears to depend far more on company than on mere nationality, as does entrepreneurial ability and risk taking.

5. Conclusion

This is a wide-ranging study with consideration given to three key elements of data:

- A review of existing literature.
- A survey of MNCs in four European countries matched to an existing survey of domestic companies in the same four countries.
- Case studies and interviews with HR managers in MNCs from two sectors in the UK.

In this final Chapter, we bring our findings from all elements of the research together to present our conclusions and implications for policy and future research.

Our review of the literature (appendix 1) hinted that large UK companies tended to pursue many of the strategies which have been associated with international success, *e.g.* product diversification and organising structurally into multidivisions. These changes have generally been made earlier in the UK compared to competitor nations which suggests that any differences in UK performance, is not due to inappropriate strategy at this level. There has also been evidence that size is an important factor, with UK SMEs under-performing. The question remains as to whether it is purely size which is an issue or whether status *i.e.* MNC or domestic company is a key influencing factor on performance. The reasons underpinning these performance differences is also an issue.

We have also seen evidence that the UK under-invests in both human and physical capital compared to other nations and that its management and leadership population is under-qualified and underdeveloped.

National differences in culture may also underpin some of these performance differences. The UK appears to be relatively low on future orientation, below average on performance orientation and below average on uncertainty avoidance compared to the other key performing clusters of nations. Could it be that this too is a factor in organisational and national performance?

Our research enabled us to explore three key sets of questions:

1. What makes capable managers? How do managers spend their time, what do they attend to? What help and hindrance do organisations give to good management? Do these views differ by sector, size or status? Does the UK define M&L in different ways from other countries in the same sectors?
2. How do UK and non-UK organisations develop their managers and leaders? What is the evidence for the effectiveness of different approaches to M&L?
3. Are UK managers and leaders believed to be as good as those in other countries? Do they do some things differently?

5.1 What makes capable managers

By what means are good managers created? We found that there were differences in view by country, sector and status. At the country level there is a commonality of view that good management is the result of both innate ability and job experience and the degree to which these views are held does vary. The UK tends to be less appreciative of job related qualifications and in-company training than respondents from our other surveyed countries. This reflects the literature which suggests lower qualification levels and lower investment in MD in the UK than elsewhere in Europe. UK HRD managers were less positive about the calibre of their managers than German and Norwegian HRD managers although these views were not reflected in views of company performance. From our case study work, managers' own perspectives on what is good management vary but there are no discernible patterns by country, size or sector. What does appear to be a differentiating variable is managerial role — with those in more constrained positions likely to focus on tasks to do with those aspects of managing people which are about managing performance — a more control oriented approach, whereas those in larger roles focus more on managing people through inspiration and motivation. We also found that a strong organisational ethos on what makes a good manager is reflected in the views of managers themselves.

A sectoral analysis suggested that manufacturing companies place a little more emphasis on vocational and generic management qualifications in the development of management capability. Our case study work has shown that the experience of change rather than the sector *per se* appears to be a catalyst for concern over management capability. What we have seen from this close up of organisations, is that each was attempting to shift, sometimes subtly, sometimes in a more marked way, the culture or capability of management. They did this through explicit, behaviourally and attitudinally focused descriptions of capability. It is clear from these alone, that the issue is seen to be one of behaviour and of style rather than one of knowledge. Where there had been shift in competitive pressures (especially acute in telecoms companies), the organisation felt the need to change style of management which produced consequent pressures on capability. In doing so, an explicit articulation of the new style was commonplace, followed by a range of developmental initiatives. Interviews with managers confirmed the difficulties experienced when roles and expectations change and showed that managers too see inappropriate cultures as a barrier to their doing an effective job. This was not an issue of sector or nationality but rather each organisation's position in the business life cycle. Our two UK owned multi-national case studies were of considerably greater longevity than our two foreign owned MNCs. This is reflected in the latter's younger, more entrepreneurial and more agile culture. They may be facing challenges of their own, but these were not problems of bureaucratic organisations, or managers who had become too comfortable, or too political, or too narrowly focused. In these circumstances, perhaps not surprisingly, the organisations' views of the capability of UK managers compared to younger and newly acquired foreign subsidiaries were jaded. In our non-UK owned MNCs, UK managers were viewed much more positively.

There were less pronounced differences in views on where good management comes from by status. Domestic companies are more likely to suggest formal management education is a contributing factor. Managerial Survey respondents felt that the organisation facilitated good performance through reward and recognition structures, clarity over role and organisational culture. Relatively few mentioned training and development systems.

In our case study organisations, if managers are asked what is good management, what do they think is important, what do they prioritise, the similarities are far more striking than the differences. We anticipated that there may be differences in responses by nationality and that these differences might help explain existing beliefs regarding UK management capability. However, we found no differences in view by sector or nationality. On the whole, managers of all nationalities are motivated by developing others and all managers felt that the most important aspect of their role is to provide clarity of objectives and goals, and all feel that they spend less time on these aspects of their role than they would like. Where there were differences, these seemed to be more an issue of role than of the nationality of the manager or of the ownership of the organisation.

What was emerging was that our UK owned organisations were very large, of some longstanding and were trying to transform themselves to become more flexible. The jobs people had done in the past and which the organisation wanted them to grow beyond, were narrowly defined and closely controlled. Those in such roles tended to focus on tasks that were close to their role, those in wider roles or more entrepreneurial organisations tended to look further away. It so happens that the UK organisations tended to be more bureaucratic and established.

Where we saw very strong cultures of open and engaged management and leadership, the differences by nationality tended to disappear. In one organisation where there was enormous commonality of understanding as to what management and leadership was about, cultural differences were not seen.

When managers spoke about what helped and hindered them being effective in their role, culture featured as both an enabler and as an inhibitor depending on the organisational context. What is clear is that staid, bureaucratic, risk averse and political cultures are restrictive for most who live in them. Such cultures are also confusing in that managers tend not to be clear what is expected of them or what the organisation rewards. Such organisations are not transparent and power is closely guarded. Open, engaged, helpful and empowering cultures seem to create better managers and more motivated ones. In those organisations managers are clear what is rewarded and what is respected, there are no confusing messages.

Another way of exploring capability is to focus on deficits. The survey identified people skills as the area in which organisations felt they were most lacking, followed by business awareness. Our case studies however, spoke about change management as their most important emerging skill requirement.

One of the ways in which strong cultures can emerge is through a coherent management development approach. In one organisation we saw a very clear and supported sentiment on expectations of managers and leaders underpinned by a deeply embedded management development philosophy and approach. In another, there was much weaker management development ethos and practice but still a strong sense of organisational values. This provided some clarity, but not to the same degree as in the former organisation.

We have seen that there are some differences by nationality which may help us understand further the relative competitive position of the UK. We have seen that UK HRD managers are somewhat less positive about job related qualifications and in-company development, relying instead on experience. We have also seen that UK HRD managers are less positive about the calibre of their managers than those from Germany and these things may be related. Case study responses also suggest that the calibre of managers is a concern for organisations especially where the organisation was experiencing new and changing pressures that demanded a different kind of response. UK organisations seemed to be more vulnerable to trying to shift organisational culture (and therefore management culture too) from relatively staid and stuck cultures to more entrepreneurial although this is related to company lifecycle. This reflection of lifecycle and bureaucracy is also reflected in where managers place their attention. The larger and more bureaucratic the organisation, the more likely it is that managers experience constrained roles and see the world and their place within it in more closely defined ways. The issues is not one of nationality per se and where organisations had created entrepreneurial cultures (our examples were both non-UK owned), UK managers were well thought of.

5.2 Designing and delivering MD

So what overall country patterns can we discern from our survey findings in the arena of designing and delivering MD? Bearing in mind that we are focusing on comparisons between countries, and therefore painting a relative as against an absolute picture, the following conclusions can be tentatively drawn.

We find German organisations taking primary responsibility for the internal development of their management cadre, seeking loyalty from their managers over the longer-term and those in MNCs have a high regard for the quality of their host country nationals. To achieve this they place a high reliance on both internal and external courses, but have a low regard for MD associated with formal qualifications. This is under-girded by an assumption that the effectiveness of managers is largely shaped by their work experience and in-house training rather than generic qualifications. Like Germany, Norwegian companies also demonstrate a significantly stronger MD ethos, and of all the countries in the sample, they claim the highest (though non-significant in statistical terms) integration between their business and HR strategy. Again like Germany, they favour in-house training and work experience, although uniquely among the four sub samples, Norwegian HRD managers place the highest premium upon the innate ability of their managers.

Spain represents something of a conundrum. For both the creation of an MD ethos and the establishing of MD systems Spanish organisations lag significantly behind their counterparts in Europe, yet they report significantly more management training on average per year. As discussed above, this may be due to two things. First, the relative immaturity of strategic HR approaches in Spain, especially those involving sustained and coherent MD policies. Second, it may be that managers in Spanish organisations depend more on relationships than formal procedures for developing managerial competence. This interpretation is supported by the other results: significantly more reliance upon external placements and e-learning than other countries, and significantly more likely to believe that external education contributes to effective management than the other countries. All this suggests a more ad hoc, needs-driven attitude to formal MD which complements (or, at worst, runs alongside with little connection to) more informal managerial skill-formation and leadership development.

As for the UK companies, they do not differ markedly from those in other countries on the MD constructs, although a lower integration of HR with business strategy is noticeable but non-significant. When it comes to MD methods, HRD managers in UK organisations report significantly less usage of job rotation and more reliance on formal education than their counterparts. But, of all the countries, we find UK firms put significantly less store on vocational qualifications and in-company training; these approaches to develop management capability are used of course but a good deal less than their European partners. Work experience counts most in the UK, as it does in Germany. In short, attitudes towards MD in the UK companies appears somewhat ambivalent: with no strong trends towards a truly strategic, long-term approach, a tendency to respect formal, educational rather than vocational qualifications (which may have implications for the emphasis on NVQ standards in the UK) and an underlying belief that managers improve their capability primarily via on the job experience.

We have also explored whether size or status affects the policy and practice of MD. We found no differences by sector but in line with the rest of the literature, we find that size is strongly associated with less well developed MD systems and ethos and a lower value placed by line managers on the importance of MD. These factors have been shown to relate to performance irrespective of size, status or sector and therefore there are important messages here for smaller firms. What is perhaps surprising, is that smaller firms were not less likely to develop their managers and management development activity was high.

MNCs are significantly more likely to have more sophisticated MD systems that domestic companies and line managers are more positive about MD.

Finally we have looked at how MD activity and approach relates to organisational performance. We found three factors were significant predictors of performance: HR Strategy, MD Ethos and, from line managers, perceived importance of MD. The telling result from this exploration is that UK companies are less advanced at creating a progressive ethos for management development, less advanced in linking HR and business strategies and less advanced in convincing line managers that MD is taken seriously. Where the UK does better is in the development of MD systems and the amount of development which is undertaken – unfortunately both areas which do not relate to performance. Our case studies would support this overall view, that UK companies do not always link MD strategically or have the confidence of managers that they do so. These findings are particularly pertinent to our exploration of UK relative performance.

5.3 UK management capability

This leaves us with something of a conundrum. Survey findings find differences in approach towards HR, differences in the ethos of long-term development of managers and differences in line manager’s views on the importance that is placed on MD.

Views on management capability and how that varies by nationality provide a mixed picture. In nearly all of our case study organisations there was a strong view of the impact of nationality. However, these views varied from organisation to organisation and seemed to reflect two things — the perspective of the comparison *i.e.* the UK is more hierarchical than some and less than others, but more strongly, the context of the organisation. Managers style and approach reflects organisational culture more than it reflects national culture.

Perhaps the issue is not one of UK management but of UK leadership. With the right leadership and the right vision, all managers rise above national differences to assume the cultural mantle of their organisation. Alternatively what we may be seeing is the impact of life cycle. Our UK case study companies were in much later stages, they had more embedded cultures, were no longer growing and had matured and in some senses, ossified. They were trying to recreate a sense of agility, of entrepreneurial discovery. Something that for some of our younger organisations, and some of the newly acquired foreign subsidiaries, came naturally. In these large MNCs what we are seeing is that the culture of the organisation takes precedence over the culture of the individual. This may help explain some of the issues arising from the literature, of UK MNCs moving to competitive advantage quicker than many non-UK MNCs. That early move may now be wearing out and have run its course. What might be expected to have been an advantage, may in fact now be a disadvantage to these organisations.

5.4 Research and policy implications

This study adds to the existing literature in demonstrating that strategic approaches to management development, with an emphasis on career progression and embedded within HR strategy, has a positive impact on organisational performance and that this effect is regardless of sector, size or status. UK firms are shown to be weaker in these areas than those of many of our competitor nations. All organisations would benefit from attending to these issues.

We are not clear if approaches to management development ethos, HR strategy and line managers' views on importance, also vary by sector. We could not find any sectoral differences but numbers in each sectoral breakdown are relatively small. As these factors are so strongly linked with organisational performance, it may be that further research at a sectoral level would help explore this. Sectoral level questionnaires would benefit from including the questions from our survey on ethos and strategy.

Our case studies also show that a strong understanding of what constitutes good management has clear benefits for a common understanding and consistent behaviour by managers themselves. These seem to then create positive and healthy cultures which managers view as a benefit to effective management. All organisations regardless of size or sector would benefit from doing so.

Such cultures are assisted by common approaches to management development which convey a consistent message. Such approaches enable managers to talk with a common language and to understand better how to apply the learning in practice. Rather than adopting a range of management development programmes, organisations may do better to have a single programme or a common philosophical thread of what constitutes good management which runs through all programmes.

Empowering cultures which maximise the jobs managers do, which encourage devolved decision making and which recognise the importance of honesty and integrity in organisational transactions are also associated with positive organisational environments.

The approach to management development emerges as of significantly greater importance than the amount of development which takes place. The clear message is that smarter working i.e. embedding development within an overarching strategy of the organisation reaps dividends.

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Appendix 1: Review of Literature

A1 UK management capability in context

The project commenced by examining the available evidence on comparative management capabilities to rigorously explore just what is the weight of evidence that lies behind the perception or belief of poor capability.

In trying to unpick why there is a strong belief that UK management capability may be deficient relative to our competitor nations, it is important to also consider the wider economic and social context. Building management and leadership capabilities requires information about the task context (*i.e.* the environment within which managers operate), task activities (the abilities which are important for success) and human characteristics (knowledge, skills, abilities and orientations) and the relationships between these (Peterson and Bownas, 1982; Prien and Ronen, 1971).

This is no easy task. Management and company capabilities, and the dynamics of the national and international economic environment, develop over long time-scales, involving decades of cumulative investment in organisational capabilities (Chandler and Hikino, 1997) and centuries of socio-cultural development. *'Rich states are the product of — literally — centuries of co-evolution of civil society, politics and economic institutions, a co-evolution which we only partially understand and cannot transplant.'* (Kay, 2003). However, while a wide range of themes inform the development of an explanatory net for competitiveness, we limit ourselves in this review to those aspects of task context and task activities relevant to management capabilities.

The review will now develop the context by exploring three key themes:

- Britain's relative productivity performance – has the UK become trapped in a 'low skills equilibrium' whereby poorly trained managers and workers are producing low quality goods?
- Creative and competitive discovery – Large British firms and their managers have remained competitive in the global economy by diversifying their products and markets, and making their organisation more multidivisional. Why then, does this not show in the productivity figures?
- Management capability – investing in management capabilities is seen as critical for competitive success, so are UK managers inadequately qualified and trained compared to their international counterparts? Or could the problem lie with SMEs? Are there perhaps particular industrial sectors whose ineffective management practices are to blame? Or does the answer lie in the impact of cultural practices?

A1.1 Britain's relative productivity performance

The context for this literature review is the UK's persistent productivity gap with its main competitors. Table 1 shows that the UK economy is not as productive as the economies of the USA, France and Germany.

Note that when labour productivity is measured as GDP per hour worked the USA productivity advantage over continental European countries is much reduced, but the UK continues to lag behind the USA, France and Germany. More recent measures of labour productivity show that gradual progress on productivity may be paying off. This improvement is most visible using GDP per worker. Since 1990, UK productivity has grown faster that its main competitors and, as a result, UK workers on average produce more than those in Japan, and as much as those in Germany. The gap between France and the UK has narrowed by 17 percentage points. However, US workers are still just under

30 per cent more productive than UK workers. On GDP per hours worked the UK remains behind all our major competitors (Table 1).

Appendix 1 Table 1: Relative labour productivity levels, 1999. Total economy. (UK = 100)

	Market prices GDP per person employed	Market prices GDP per hour worked	Sector based prices (estimated) GDP per hour worked
USA	139	126	130
FR	115	124	129
GE	107	111	117
JPN	101	94	89

Source: O'Mahony and Boer, 2002

The opportunity, and challenge, facing government and business is to understand the reasons for this gap and to take steps to raise productivity and improve competitiveness with a view to higher standards of living for UK citizens. An immediate difficulty is that while government may be held accountable for its contribution to raising the standard of living of UK citizens, business owners and managers may not share this goal. One characterisation of the American business model (Kay, 2003) is that business owners and managers should focus on self-regarding materialism with low taxes and minimal political regulation. In other words business owners and managers are focused on maximising their profits for their own purposes. There is a belief that such market driven behaviour will deliver the best outcomes for prosperity and well being but others would argue that market failure would imply government intervention.

There have been persistent concerns over the UK being stuck in a *low skills equilibrium*. This phrase was first coined by Finegold and Soskice (1988) who argued that Britain was trapped in a low-skill equilibrium '*in which the majority of enterprises staffed by poorly trained managers and workers produce low quality goods and services*'. Finegold and Soskice used the term to capture the concept of a self-reinforcing system, which acts to stifle the demand for improvements in skill levels. Others have developed the concept (*e.g.* Keep and Mayhew 1999) to argue that it is a major inhibitor of UK productivity and needs to be considered in any discussion of the UK and skills. This might explain why so few organisations adopt high performance working practices and why demand for skills is low in the UK. It has been suggested that the concept of an equilibrium might be better rephrased as a trajectory to better capture the dynamic nature of the relationship. The essence of a low or high skills trajectory is that the goals and product market strategy of the company, product quality, HRM systems, work organisation, work design, management skills and skill demands are intimately bound together and interrelated. As the work of Finegold and Soskice in 1988 has shown, and more recently Kitching and Blackburn in 2002, the demand for different skills and the drivers behind new training needs are closely related to business strategy. Any attempts to up-skill and move an organisation up-market will depend on firm modernisation, innovation and new technologies and products, organisational change and the re-organisation of work. This line of thinking might be seen to have its antecedents in much earlier UK work *e.g.* Green *et al.,* who have also found evidence that increases in skill requirements were more likely to be associated with technological change, and the NIESR case studies (*e.g.* Mason and Wagner, 2002) with their recognition of the role of contextual factors. This evidence thus encourages a broader thinking about the route to achieving higher skills and how this approach might sit within, and be complemented by, the wider production and people management process.

A1.2 Creative and competitive discovery

One approach is to look at the challenges facing managers, firms and societies and to embed those within the structures and approaches that different societies take.

Our world has shown a dramatic shift in the past 20 years that can be lost within the constant change that many have commented on. At the end of the 1980s came a profound shift in technology with the advent of the Internet, which may be seen to itself confer an equally profound shift in our culture:

what Castells (2001) has termed a change from 500 years of the '*Gutenberg Galaxy*' (the age of the printed word) to a new '*Internet Galaxy*'.

A recent report for the USA non-partisan Council on Foreign Relations on the causes of technological innovation and its relationship to economic performance reaches three conclusions (Foster, 2002).

- The flexibility of market-oriented, capitalist modes of production is most conducive to fostering economic success based on technological innovation.
- Technological progress is often embodied in new corporations which have little formal R&D, but which are able to capitalise very effectively on the efforts of others.
- Technological innovation is increasingly becoming the central organising principle for managers and policy makers. The relevant problem is not how to administer existing business structures but how to create new business structures (Schumpeter, 1934).

Porter and Ketels (2003) place considerable emphasis on a requirement for competitive economies, such as the UK, to '*produce innovative products and services at the global technology frontier using the most advanced methods*' (Porter, 2003, p28).

It has been noted that much of the market-oriented modes of production occurs in oligopolistic market structures *i.e.* those where a small number of producers control supply and prices (Chandler and Hikino, 1997) rather than more multi-agent competitive markets. And yet nations sometimes act to reduce monopoly power or the power of the few, to encourage greater competition. Thus, while the basic determinants of business performance lie within the firm and are unique to each successful company, national institutional environments do matter (Cassis, 1997; Kay, 2003); and, '*striking the right balance between the nation and the firm is not simple*' (Cassis, 1997, p237).

Within these overall observations, there is still considerable variety of approach. According to the International Institute for Management Development (IMD) the three most dynamic economies in the world in 2000 were the USA, Singapore and Finland, '*three very different economically and technologically dynamic models*' of the Internet Galaxy:

1. 'the Silicon Valley Model' of a market-driven, open information society
2. 'the Singapore Model' of an authoritarian information society
3. 'the Finnish Model' of an open, welfare information society.

(Castells and Himanen, 2002, p18)

In seeking to understand how the actions of firms and their environments influence business success, Alfred Chandler has developed an explanatory model of the growth of big business and the determining impact of big business on the wealth of nations (Chandler, 1990; Chandler, Amatori and Hikino, 1997; Whittington and Mayer, 2000). Consideration of the comparative performance of firms, analysed by nation, in pursuing critical task activities, can be used to identify potential reasons for the UK's relatively lower levels of competitiveness.

Big firms and competitiveness

A primary driver of the growth of wealth in nations across the world is the large industrial enterprise (Chandler and Hikino, 1997; Whittington and Meyer, 2000). Examination of the comparative performance of such enterprises offers potential insights into gaps in management capabilities.

Chandler and Hikino provide an explanation for the growth of large firms:

'In an evolutionary manner large firms came to contribute to economic growth in four ways:

'They provided the initial financial, physical, and human capital necessary to exploit the new capital-intensive, scale-dependent technologies. Their retained earnings soon became a primary source for an industry's continuing expenditures on physical capital.

'They became the locus of learning in which the transformation of new technologies into commercial products and processes was carried out, and so became the seedbed for the further commercialisation of improved product and processes of that technology.

'They became the initial core of a network of ancillary enterprises essential to volume production and distribution of products whose number and variety expanded as markets became global.

'The intensive effort of research and development within large industrial enterprises made them a core of technological progress for the whole economy as technological learning bases and cores of industrial networks became more significant than the original role of investing in and utilising physical capital' (Chandler and Hikino, 1997, p37).

The defining and continuing strategy for the growth of these large enterprises, since the 1920s in the USA and more generally across the world since the 1950s, is '*growth through diversification into new regional and product markets based on competitive strengths that rested on a firm's learned internal organisational capabilities'* (Chandler and Hikino, 1997, pp.35-36). Generally this has tended to be diversification into related products and markets. For example, in the early 20th century, General Electric used parts and expertise developed in power generation in the production of domestic appliances, sales of which also increased the market for electricity. Typically less successful has been diversification into unrelated products and markets.

Internally, change in organisational structures has also been continuous. The most common approach to achieve internal co-ordination has been the decentralised, multidivisional structure. Operational decisions are decentralised to divisions; whilst strategy and resource allocation are controlled from the centre (Whittington and Mayer, 2000).

Since 1950, leading British, French and German firms have progressively engaged in strategies of related and unrelated diversification and their structures have become more multidivisional as shown in Tables 2 and 3. These two key trends have been seen as being a key factor in enabling large firms to maintain their continuing positions as industrial leaders and their steady and acceptable financial returns (Whittington and Mayer, 2000).

Appendix 1 Table 2: Trends in organisational structure in the top 100 industrial firms in Britain, Germany and France (percentage)

	GB			GE			FR		
	1950	**1970**	**1993**	**1950**	**1970**	**1993**	**1950**	**1970**	**1993**
Functional	—	8	**1.5**	45	27	**3.2**	56	18	**1.5**
Functional Holding	—	1	**0**	40	21	**14.3**	20	24	**9.1**
Holding	—	18	**9**	14	14	**12.7**	24	16	**13.6**
Multidivisional	**6**	**74**	**89.5**	**0**	**40**	**69.8**	**0**	**42**	**75.8**

Notes: Functional: tasks below Chief Executive are organised by operating functions such as sales, marketing and manufacturing.

Functional-Holding: builds on the functional core by adding a periphery of subsidiaries or partly owned ventures, typically headed by general managers.

Holding: corporate parent with limited relationships with predominantly autonomous subsidiaries; absence of common frameworks for accounting and planning.

Multidivisional: decentralisation of operations to discrete divisions, centralised control over strategy, more or less standardised accounting and control systems and the active integration of newly acquired operations.

Source: Derived from Whittington and Mayer, 2000

As can be seen in Tables 1.2 and 1.3, when compared with Germany and France, the managers of large British companies generally moved earlier and more extensively in pursuing external strategies of diversification and internal strategies of divisionalisation. Therefore, there is no evidence that British managers and their companies have been less successful than other European managers and companies in pursuing these strategies. This would suggest that the UK should have reaped the productivity benefits of these changes earlier than France and Germany. However, this does not appear to have been the case, suggesting either that British managers have done this less well *i.e.* an issue of capability, or that other factors are involved, such as UK corporate governance or shared expectations about how to deploy earnings and how to capitalise on capabilities.

Appendix 1 Table 3: Diversification trends in the top 100 industrial firms in Britain, Germany and France (percentage)

	GB			**GE**			**FR**		
	1950	**1970**	**1993**	**1950**	**1970**	**1993**	**1950**	**1970**	**1993**
Single	24	6	4.5	37	27	12.7	45	20	19.4
Dominant	50	32	10.4	22	15	7.9	18	27	15.2
Related Diversified	27	57	61.2	31	38	47.6	31	43	51.5
Unrelated Diversified	—	6	23.9	9	19	31.7	5	9	13.6

Notes: Single business: at least 95 per cent of turnover in a single business.

Dominant business: one business at least 70 per cent but less than 95 per cent of turnover.

Related business: no business as large as 70 per cent of turnover, but market or technological relationships between different businesses.

Unrelated business: no business as large as 70 per cent of turnover, and no –- or limited –- market or technological relationships between different businesses.

Source: Derived from Whittington and Mayer, 2000

One measure of competitiveness might be taken to be shareholder value reflected in stock exchange performance. Using this measure a more detailed examination of the comparative competitive success of large, diversified, multidivisional British companies in key sectors is shown in Tables 4 and 5.

Appendix 1 Table 4: Sector analysis of Fortune Global 500 companies, 2004: Relative weight of sector (percentage) within each nation

	USA	**JPN**	**GE**	**UK**	**FR**	**Total 1**	**Total 2**
Finance and Banking	20	17	29	32	19	21	24
Food, Drink, Tobacco	6	1	–	11	5	5	4
Retail	17	5	12	16	11	13	12
Energy	11	11	6	14	14	11	14
Engineering	6	18	21	3	11	10	10
Chemicals	1	2	6	–	–	2	2
Electrical and Electronics	13	18	6	5	5	12	13
Aerospace	5	1	3	5	5	4	4
Pharmaceuticals	4	–	–	5	3	3	2
Total 3	**83**	**73**	**83**	**91**	**73**	**81**	**93**

Notes: Total 1: Number of companies in sector in five nations as a proportion (%) of total number of companies in those five nations in Global 500; *e.g.*, 81 companies in Finance and Banking sector as a proportion of 379 companies in five nations in Global 500 = 21 per cent.

Total 2: Number of companies in sector in all nations as a proportion (%) of all companies; *e.g.*, 120 companies in Finance and Banking sector as a proportion of 500 companies = 24 per cent.

Total 3: Proportion (%) of companies in nation in relation to overall number of companies in Global 500 for that nation; *e.g.*, USA has 189 companies in Global 500 of which 159 are in the nine sectors shown = 84 per cent (error due to rounding).

Source: author's calculations from Fortune Global 500; No.13, August 2004

Using shareholder value as a measure, Tables 4 and 5 illustrate that British large firms are competitive in the global economy and the UK economy is a competitive economy. This also would suggest that their managers are competitive. But this does not show in the aggregate productivity figures.

Appendix 1 Table 5: Fortune Global 500 companies, 2004: Number of companies by sector and nation

	USA	JPN	GE	UK	FR	Total 1	Total 2
Finance and Banking	38	14	10	12	7	81	120
Food, Drink, Tobacco	11	1	–	4	2	18	19
Retail	33	4	4	6	4	51	58
Energy	21	9	2	5	5	42	70
Engineering	12	15	7	1	4	39	50
Chemicals	2	2	2	–	–	6	8
Electrical and Electronics	25	15	2	2	2	46	64
Aerospace	10	1	1	2	2	16	18
Pharmaceuticals	7	–	–	2	1	10	12
Total 3	159	61	28	34	27	309	419
Total 4	189	82	34	37	37	379	500
3/4	**84%**	**74%**	**82%**	**92%**	**73%**	**82%**	**84%**

Notes: Total 1: Total number of companies for sector in five nations; *e.g.*, 81 companies in the Finance and Banking sector.

Total 2: Total number of companies in sector across all nations; *e.g.*, 120 companies in the Finance and Banking sector.

Total 3: Total number of companies in nine sectors; *e.g.*, 159 companies in USA.

Total 4: Total number of companies in Global 500; *e.g.*, 189 companies in USA.

Source: Author's calculations from Fortune Global 500; No.13, August 2004

The five critical activities

Underpinning Chandler's findings about diversification and divisionalisation are five additional critical activities:

4. investing in physical and human capital
5. commercialisation of technological innovations
6. developing learned internal organisational capabilities
7. deploying retained earnings and learned capabilities in further investments in physical and human capital and related diversification, including further commercialisation of technological innovations
8. being an active member of an industry cluster.

All these activities are essential ingredients for producing 'innovative goods and services at the global technology frontier' as advocated for the UK and other leading economies by Porter (Porter, 2003, p. 28; Porter and Ketels, 2003). More recent research on the way corporations continue to innovate in how they co-ordinate their business activities is consistent with these critical activities (Pettigrew *et al.* 2003; Roberts, 2004; Whittington and Mayer, 2000).

It may be that British managers and their firms are not as effective as those in other nations in the five critical tasks for competing on unique value in an innovation driven economy. If this is the case this might explain the discrepancy between the examination of the large companies and the aggregate productivity figures. This is consistent with Porter and Ketels' finding (2003) that UK companies have competitive disadvantages resulting from insufficient investment in capital assets and innovation, positioning on low input cost rather than high value, and lagging adoption of leading management techniques.

The evidence is that UK managers have engaged in diversification and divisionalisation with considerable success, as illustrated by Tables 4 and 5. The reasons for potentially less success with the five critical tasks for innovative competitiveness are not clear but given the success of large British firms in diversification and divisionalisation it seems unlikely that the simple notion of a general absence of management capabilities provides the explanation. This suggests that the 'problem' may lie with organisational size or it may be that status is a hidden factor, with multi-national UK companies demonstrating much more capable management than those in domestic companies.

A1.4 Management capability

As we have seen, it is immensely difficult to tease out the reasons for the gap in UK productivity. Underpinning competitive success it is suggested, are three investments — in firm specific production, distribution and managerial capabilities (Chandler, 1990). Of these, managerial capabilities are seen to be the most important (Chandler, 1990). Where diversification is successful, then managerial capabilities are critical (Whittington and Mayer, 2000) for example superior managerial capabilities were considered a defining characteristic of the success of General Electric across the 20th century (Kay, 2003; Fortune, 2004).

There has been a longstanding view of management as being deficient in the UK originating in part from a number of studies in the late 1980s. These various studies found that a considerable proportion of UK companies (around 50 per cent) were not providing management training, a problem more acute for smaller organisations. At that time the average manager in large organisations took around 3.1 days of formal training per year. Studies also judged that UK managers were insufficiently educated and qualified. This work confirmed a belief that developing managers would improve the competitive advantage of UK industries.

This concern has remained to the present day. The UK Competitiveness Indicators suggest perceptions of management quality as a whole compare poorly with many other developed countries. The Cabinet Office Performance and Innovation Unit (now the Strategy Unit) report on workforce development has identified the impact of poor management and leadership on employee contribution and the Trade and Industry Select Committee's Report on Manufacturing (Select Committee Third Report, July 2002) also emphasised the importance of sound management and leadership to business performance. The National Skills Task Force report (DfES, 1998) concluded that UK managers were inadequately qualified and trained compared with their international counterparts.

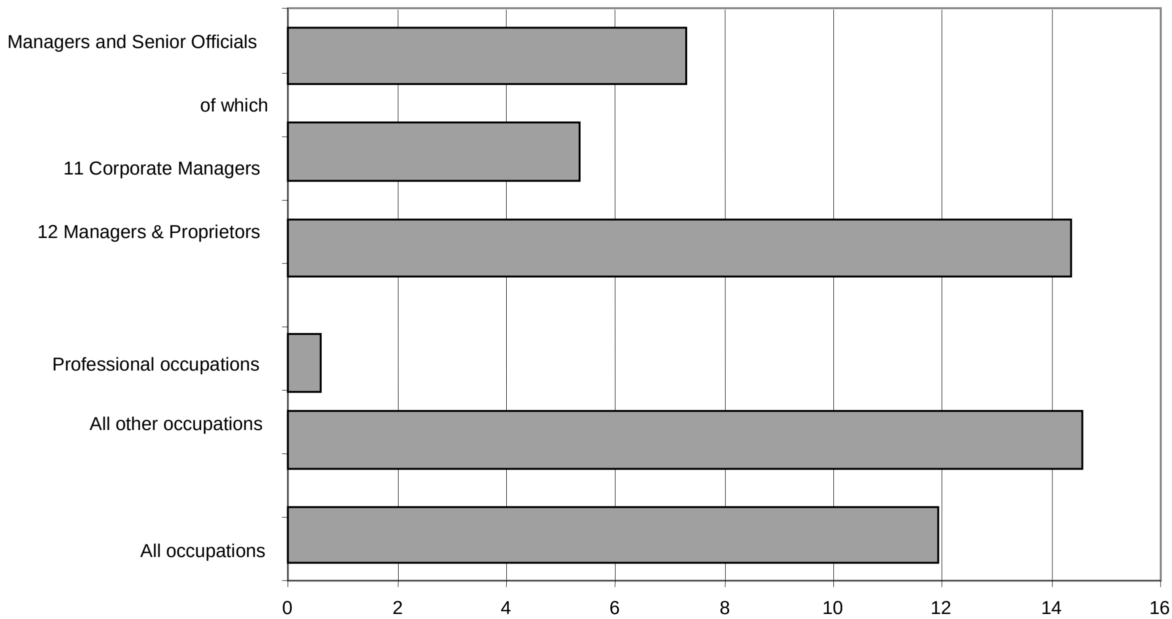
Researchers have also believed that one reason for the productivity gap is that '*UK management is not, on average, up to the quality of its main competitors*' (Nickell and Van Reenen, 2002). This is in part because they are inadequately qualified and with less effective levels of training and education (Campbell, 2002) but also perhaps because they are not trained in '*best practice*' management techniques (Nickell and Van Reenen, 2002).

Qualification levels

As we have noted, there have been major concerns raised regarding both qualification levels of managers and the amount of training and development which is undertaken. Previous work on management skills (Bosworth, 1999) suggested that qualification levels were too low relative to other occupational groups. A more recent review of the evidence confirms earlier concerns on qualification levels (Bosworth and Wilson, 2004).

Figure 1 shows all industry results comparing the proportions of managers who have no qualifications with professional occupations, all other occupations and the all-occupational average. Relative to professions, there are much higher proportions of managers without qualifications.

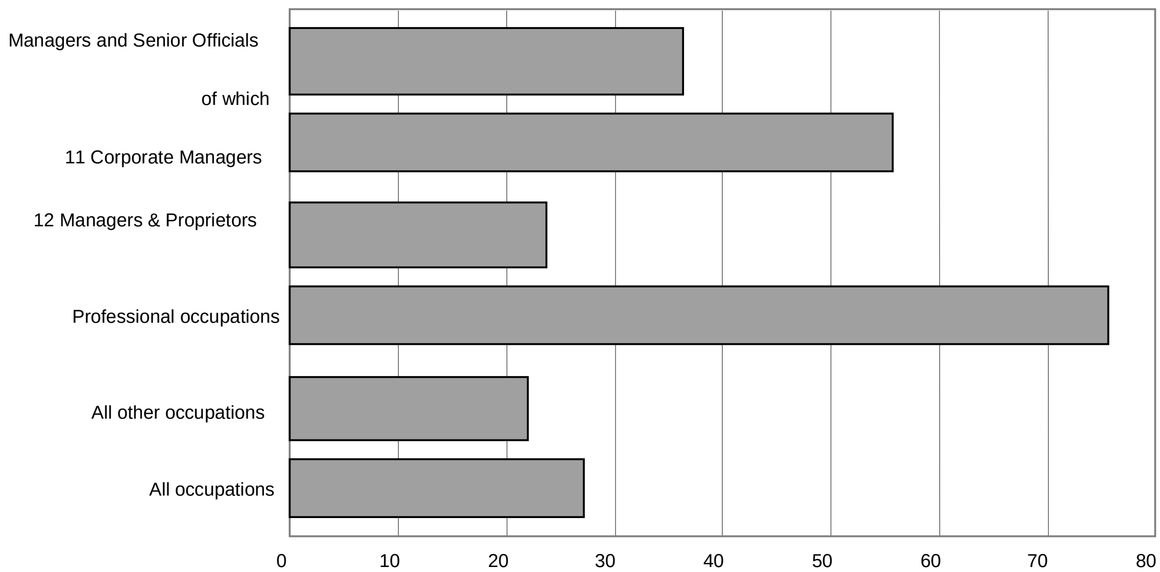
Appendix 1 Figure 1: Comparisons of percentages with no qualifications (percentage)



Source: Bosworth and Wilson, IER, 2004, based on LFS 2002

Similarly comparison of higher level qualifications (Figure 2) show wide disparities exist between occupations, with the proportion of the manager and senior officials group with Level 4 and above qualifications 40 percentage points lower than the professional occupations group.

Appendix 1 Figure 2: Comparisons of percentages with NVQ qualification Levels 4 and above (percentage)



Source: Bosworth and Wilson, IER, 2004 based on LFS 2002

Other research however, does not support the argument that UK managers are less qualified or capable than managers in competitor nations. Owen (1999) concludes that the argument that British businessmen were less well trained for management than their counterparts in other countries, is not supported by the evidence. The evidence from O'Mahony and Boer's findings on general qualification levels set out in Table.6 is interesting. This indicates that at higher levels of qualifications, the UK sits on a par with Europe but behind the US, whilst intermediate level skills are comparably lacking *vis-à-vis* France and Germany. Bosworth (1999) has made the point that managers in the UK are much less well qualified than professionals and it may be that fewer of the UK's highly qualified individuals enter management occupations.

Appendix 1 Table 6: Labour force skills, total economy, 1999 (UK =100)

% Qualifications	Higher level	Intermediate level	Lower level	Relative skills
UK	15.4	27.7	56.9	100.0
USA	27.7	18.6	53.7	100.5
FR	16.4	51.2	32.4	105.5
GE	15.0	65.0	20.0	105.3

Source: O'Mahony and Boer, 2002

So the evidence would appear to suggest that managers are less well qualified in the UK than their peers in other countries and less well qualified than those in what might be considered equivalent roles.

The role of management training

There is evidence that levels of individual training and development activity have shown some increase since the late 1980s. Thompson and Mabey's studies (1997) suggest a modest increase in formal management development provision by employers over a ten-year period to 1996 coupled with greater focus on management development. They concluded:

> *'the priority given by organisations to management development has increased significantly compared to ten years ago, and is expected to increase further in the foreseeable future.'*

Mabey and Thomson (2000) estimated eight days of informal training in addition to over six days of formal training per manager, and a training spend of £1,000 per manager by organisations able to give figures.

Concerns have been expressed by IES previously (Tamkin *et al.*, 2001) that there are indications of training by managers having increased in terms of numbers of managers reporting involvement, but also tending to become less frequent and of shorter duration. Thomson *et al*. (1997) also reports a move away from '*sheep dip'* training and organisations spreading their training input across all levels of management. This would tie in with the IES findings. These views are supported by work by Keep and Westwood (2002), see Table 7.

Appendix 1 Table 7: Training of Managers in the UK

	UK	USA	JPN	GE	FR
Average terminal education age	19.5	22	21	21	22
Graduate (%)	49	74	78	72	61
Off-the-job training (days)	4	7	5.5	5.5	6
On-the-job training (days)	4.5	8	6.5	6.5	6

Source: Keep and Westwood (2002)

Cross country comparisons have shown that some countries, such as Germany, tend to favour work based development whereas others, such as Denmark, have strong dual systems of vocational and academic education, delivered in the education system. The UK's system of vocational management qualifications has not yet secured market credibility at higher levels. The UK also emerges as having a short-term attitude to management and leadership development compared with some European neighbours.

A study, funded by the EC's Leonardo da Vinci programme, analysed MD policies and practices in seven countries: Germany, Denmark, France, Spain, United Kingdom, Romania and Norway. This shows the UK spend on management development to be lower relative to the other countries (see Table 8) (Mabey and Ramirez, 2004).

Appendix 1 Table 8: Spend on management development

Country	Euros per manager (average per yr)
Germany	4,438
Denmark	3,387
Norway	2,734
France	2,674
Spain	1,803
United Kingdom	1,625
Romania	424

Source: Mabey and Ramirez, 2004

Although the Leonardo sample included a small number of MNC organisations headquartered in respective countries, the study made no attempt to compare and contrast their approach to MD with that of domestic organisations.

Despite this evidence, Porter and Ketel (2003) did not find that a lack of management skills or deficiencies in management practices was '*at the core of the UK competitiveness challenge*' (p6). However, they did find some indications of slower take-up of modern management techniques and lower returns from implementing them in comparison with competitors. This is consistent with Nickell and Van Reenan's findings (2002), although it is puzzling that Porter and Ketel argue that other studies, including that of Nickell and Van Reenan, '*find UK companies to be average in the use of management techniques*' (Porter and Ketel, 2003, p.37).

The role of SMEs

An equally plausible argument may be that the problem resides with UK small and medium-sized enterprises (SMEs). They may be less exposed to international pressures, and hence international management practices, than the larger UK companies. Recent analysis of variations in firm level productivity in the UK, shows that the worst performers have productivity levels significantly lower than their international competitors (Haskell and Martin, 2002) and there is a much bigger spread across UK firms. Whereas the best UK performers had productivity levels equivalent to the best international competitors, there is a large tail of low performers. However, there is also a significant positive relationship between productivity and market share *i.e.* the biggest producers tend to be the most productive.

SMEs consistently show less formal development for all staff including managers. Findings from a review of skills issues for SMEs published by the Department for Education and Skills (Johnson, 2002), noted that very few SMEs have a formal policy about management development, but around 40 per cent, (Gray, 1997) had some form of informal policy. A similar proportion said that they simply reacted to immediate needs. When a broad definition is used, most SME owner / managers have undertaken some form of management training or development in the recent past. Curran *et al.* (1996) found that 78 per cent of managers had undertaken some form of management training during the previous 12 months. However the preference is for informal on-the-job training rather than more formal externally provided courses, particularly for the smallest enterprises (Curran *et al.*, 1996). Others too have noted that the amount of management training and development increases with firm size, as does the formality of the training / development received (Gray, 1997). Owner-managers tend to rate training dealing with personnel and communication skills as relatively unimportant and tend to rely on themselves or other members of staff to deliver the training (in 47 per cent of cases, Curran *et al.*, 1996). The consensus is that larger firms place more emphasis on training and development, yet in a study of 229 SMEs in Britain, Bacon *et al.* (1996) found that many were pursing a new approach to managing staff, and that one of four reasons for this was MD.

We have seen that there are also sectoral differences in performance and it may be that these are underpinned by differences with regard to management capability. We turn now to look at how the UK performs at the sectoral level.

Sectoral differences

It may be that more detailed consideration of key sectors could give additional insights into the comparative performance of British managers and their firms on the critical activities required for economic growth.

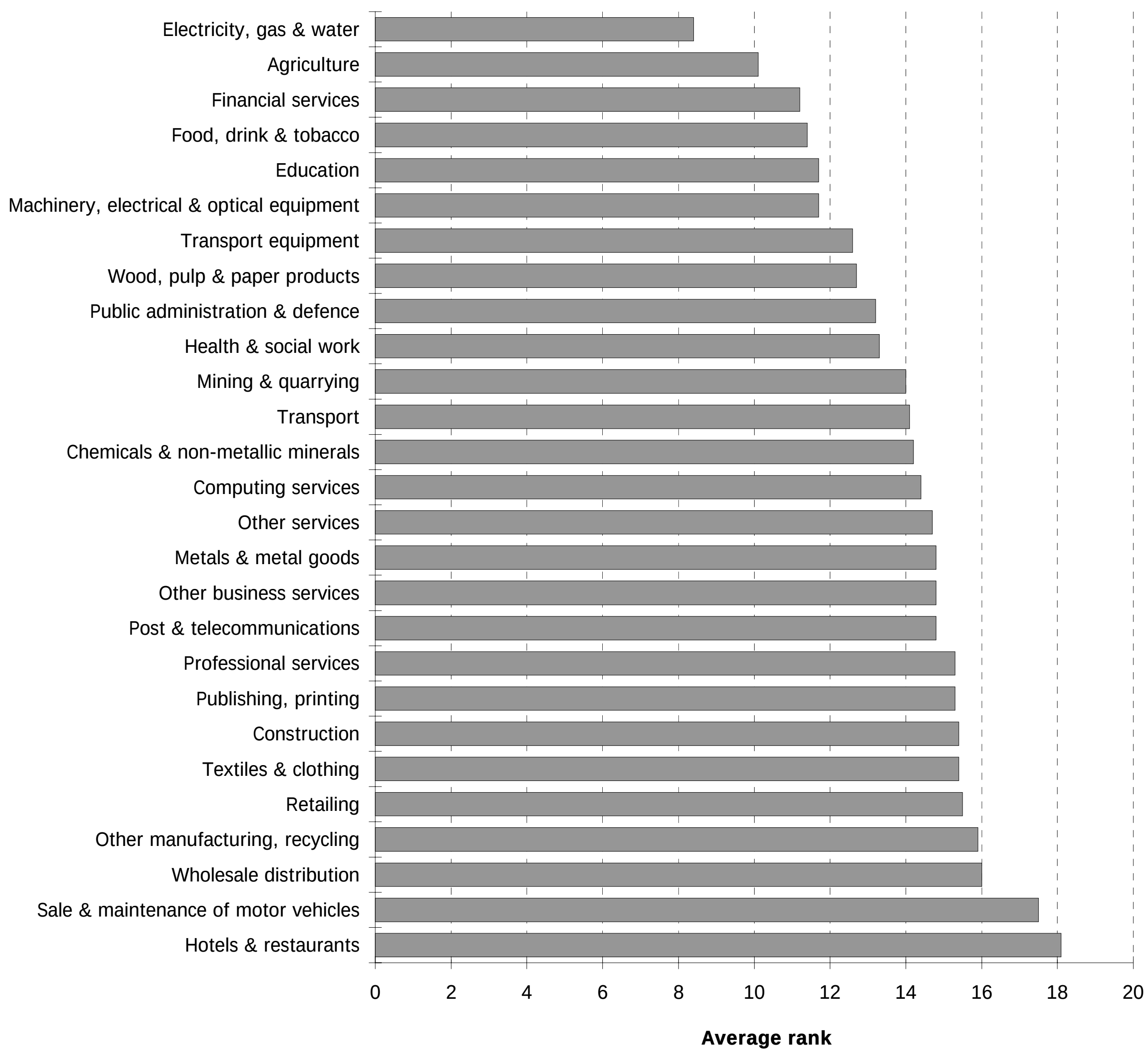
A sectoral analysis of labour productivity shows that the existence of a productivity gap is common across all parts of the UK economy and affects most sectors, therefore any improvements must be economy wide (Mahoney and De Boer, 2002). A recent report by the Advanced Institute of Management (AIM) (Griffith *et al.*, 2003) however, contradicts some of these findings and suggests that more than half the gap in productivity between the UK and US can be attributed to three sectors: 'wholesale and retail', 'financial intermediation' and 'machinery and equipment'. Their analysis of changes in the gap since 1990 suggest that, although the size has not changed particularly, the sectoral composition giving rise to the gap has shifted considerably. The gap has narrowed in the service industries such as gas and water, in manufacturing (with the exception of machinery and equipment) and in business services. The share of the gap accounted for by manufacturing (excluding machinery and equipment) declined more than any other sector over the decade. The gap has risen over the decade in 'wholesale and retail', 'financial intermediation', 'hotels and restaurants' and 'machinery and equipment'. In many sectors, the UK's relatively poor performance can be attributed to a greater acceleration in productivity growth in the US rather than low growth in the UK. Both countries are increasing productivity but the US is doing so faster. Other analyses by sector support this overall picture (HM Treasury, 2001). Productivity has been rising across the UK economy but much faster in manufacturing than in services. Manufacturing output grew by over five per cent in the 12 months to December 2000, the strongest performance since 1994. Output per worker in manufacturing has been growing strongly since 1999.

This recent evidence contrasts with a longstanding view that the UK has some sectors of steady high performance. London and New York are the two uniquely dominant global financial centres (Dicken, 2003). The roots of persistent British pre-eminence as a global financial services cluster go back to the first industrial revolution between 1780 to 1815. In 2004 almost a third, 32 per cent, of the UK's 37 leading global companies are in the finance and banking sector (Tables 1.4 and 1.5). British companies also have clear global strengths in the pharmaceuticals and food and drink sectors (Jones, 1997). This is reflected in Tables 1.4 and 1.5 (Fortune, 2004b). Automobile and electronics companies in the UK perform well under foreign ownership and control indicating that a lack of skills among British workers or managers is not likely to explain the lack of success of British firms in engineering and electronics (Jones, 1997). Jones suggests that British-style corporate capitalism is the major handicap in many capital-intensive industries in the UK, rather than gaps in management skills. So rather than distinct sectoral weaknesses, a more general classic failure of organisational capability is a preference for using profits to pay dividends to shareholders rather than investing in physical or human capital. This has been seen as a persistent characteristic of British corporate governance (Jones, 1997). One reason for this is likely to be the way in which UK managers developed large, diversified and divisionalised companies. The corporate parent typically focused on financial matters only, leaving divisional managers considerable autonomy in strategic decisions on production and sales and potential under-investment (Jones, 1997). Porter and Ketel's more recent review (2003) confirms this assessment of UK companies' competitive disadvantages: low capital stock, low investments in innovation, compete less on unique value (versus cost) than advanced nation peers, some indications of low uptake of modern management techniques and some indications that manufacturing is lagging the overall economy.

There is some research, which suggests that the UK continues to have comparative strengths in the finance, food, retail, energy and pharmaceuticals sectors (Jones, 1997; Porter and Ketels, 2003; Whittington and Mayer, 2000).

Separate from evidence on sectoral competitiveness, there is also evidence of relative skill levels of managers in different sectors. A recent report to the SSDA looks at the evidence on a range of skill gaps by sector including management (Bosworth and Wilson, 2004). This provides new information on the degree to which individual sectors experience skill gaps. Figure 3 illustrates the degree to which the 27 sectors are experiencing management skill problems. Sectors are ranked from '*least problematic'* (electricity, gas and water) to '*most problematic'* (hotels and restaurants).

Appendix 1 Figure 3: Management skill problems by sector



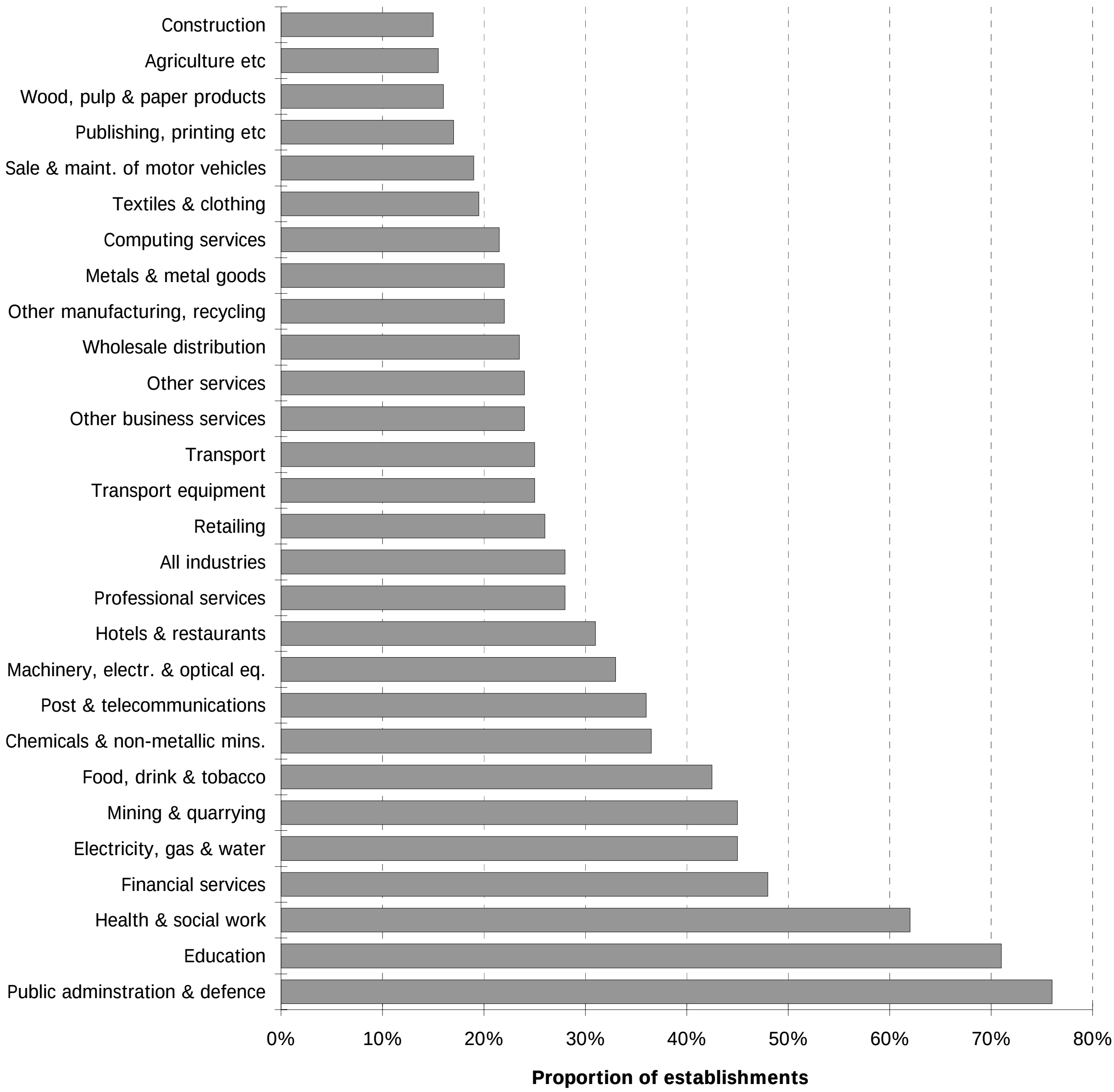
Source: Bosworth and Wilson (2004) based on NESS 2003

Similarly, data on qualifications shows that some of the poorly performing sectors such as retailing and hotels and restaurants have quite high proportions of managers with no qualifications whereas financial services and machinery, electrical and optical equipment have very low numbers.

There are also significant variations in the provision of training across all sectors. Based on data from the National Employer Skills Survey 2003, Figure 1.2 illustrates the sectoral variations in proportion of establishments that provide training to their managers. On average just over 28 per cent of establishments report that managers received some training over the past 12 months. construction; agriculture; wood and paper; publishing; sale and maintenance of motor vehicles; and textiles and clothing, are conspicuous for their low levels of training provided to managers. High levels of training (over 60 per cent of establishments in the sector) are offered to managers in health and social work; education; and public administration.

Variations across sectors are large, in large part because of variations in the average size of establishment (larger establishments are more likely to offer some form of training). The existing qualification level of the manager is also important with managers without qualifications significantly

Appendix 1 Figure4: Proportion of establishments providing training to managers



Source: Bosworth and Wilson (2004) , based on NESS 2003

less likely to receive training. Training is also greater the higher the management vacancy ratio and the greater the reported incidence of skills gaps.

Mixed messages emerge from this analysis. Some of the sectors contributing the most to the productivity gap have quite low levels of management skill problems *e.g.* financial services and manufacture of machinery, electrical and optical equipment. However wholesale and retail and hotels and restaurants are at the other end of the distribution. There is also no obvious link between levels of training and relative productivity in this analysis.

The Impact of Culture

In addition, and intertwined with these factors of size and sector, is the important issue of culture both at the level of the organisation and at a national level: what do organisations expect of their managers, how is performance rewarded, how much emphasis is given to formal systems as against informal patronage, to what extent is hierarchy respected and so on.

Cutting across such industrial and socio-cultural differences is the international strategy of the company. In particular, it is likely that domestic organisations (those located in a single country with limited international relations) will seek to create their management capability in distinctively different ways to MNCs based in the same country. There are many reasons for this. First, for MNCs management training and development provides a way of controlling their international operations and inculcating a common culture across far-flung operations. Second, there is a tendency for MNCs to adopt parent or '*best-practice'* norms particularly in more macro-HRD practices like training needs analysis, MD delivery and evaluation procedures (Tregaskis, 2001). Third, the economies of scale associated with MNCs permit access to a richer vein of resources for MD than is possible for many domestic companies. Indeed there is empirical evidence that US-based MNCs diverge from their host country counterparts by attempting to apply their parent company HRM practices to their subsidiaries in western Europe (Gooderham *et al.*, 1999).

Others have also commented on cultural aspects of the UK. For example Porter and Ketels advise that a '*change of perspective*' is required if UK managers are to succeed in re-orientating company strategies 'towards a greater level of innovation and the provision of higher value goods and services' (2003, p.46). Chandler (1990; see also Chandler and Hikino, 1997; Jones, 1997) suggests a cultural explanation for the relatively lower competitiveness of British firms in comparison with other leading economies.

Such cultural explanations for relative competitive performance have seen a resurgence in recent years, for example the publication of a collection of essays on this theme sponsored by Harvard University (Culture Matters, 2000, edited by Harrison and Huntington). Like earlier work in this area, such work continues to be controversial.

The GLOBE project

The Global Leadership and Organisational Behaviour Effectiveness research programme (GLOBE) is a ten year, and ongoing, long-term programme designed to conceptualise, operationalise, test and validate an integrated theory of the relationship between culture and societal, organisational, and leadership effectiveness. Current findings (House *et al.,* 2004) are based on the results of a survey of more than 17,000 middle managers in financial services, food processing and telecommunications in 62 societies.

House and his 170 international colleagues from across the world have identified nine dimensions of societal and organisational cultural values and practices relevant to these 62 societies (see Appendix 2). They have examined the relationships between cultural values and practices and various indices of economic competitiveness and human well being. Selected comparative findings for the five nations are presented in Table 1.9. It should be noted that the UK findings are based on an English sample.

It is immensely difficult to tease out the implications of these findings. Two significant aspects of these findings at a very general level follow:

- Cultural *practices* are consistently more important for both economic success and social well being than cultural *values*, with the exception of gender egalitarianism values.
- There is a strong relationship between the cultural practices associated with future orientation, performance orientation and uncertainty avoidance, and economic success. There is also a strong relationship between the cultural practices associated with uncertainty avoidance and social well being. (Social well being is also associated with future orientation and performance orientation practices and gender egalitarianism practices and values).

Appendix 1 Table 9: Comparative cultural practices (see Appendix 2 for definition)

	Average	USA	JPN	GE	UK	FR
Power Distance	5.17	4.88	5.11	5.25	5.15	5.28
In Group Collectivism	5.13	4.25	4.63	4.02	4.08	4.37
Institutional Collectivism	4.25	4.20	5.19	3.79	4.27	3.93
Uncertainty Avoidance	4.16	4.15	4.07	5.22	4.65	4.43
Assertiveness	4.14	4.55	3.59	4.55	4.15	4.13
Performance Orientation	4.10	4.49	4.22	4.25	4.08	4.11
Humane Orientation	4.09	4.17	4.30	3.18	3.72	3.40
Future Orientation	3.85	4.15	4.29	4.27	4.28	3.48
Gender Egalitarianism	3.37	3.34	3.19	3.10	3.67	3.64

Note: all figures are given as averages of a 1-7 scale where 1 = behaviour greatly inhibits a person being an outstanding leader and 7 = contributes greatly to a person being an outstanding leader

The UK results are based on an English sample

Source: House et al, 2004

The GLOBE study found confirmation for its hypotheses that societies that score high on the **performance orientation** practices of improving performance, rewarding performance, being innovative and setting challenging goals tend to be more economically prosperous, competitively successful, have stronger social support for competitiveness and enjoy higher levels of human development. These findings are consistent with Weber's thesis, that societal practices that encourage hard work and improvement are associated with economic and business success.

The Confucian Asian cluster of Taiwan, Singapore, Hong Kong, South Korea, China and Japan has the highest average score of 4.58 on this dimension. The Germanic Europe cluster of Austria, Germany, the Netherlands and Switzerland comes next, scoring 4.41, and the Anglo cluster of Australia, Canada, New Zealand, the USA, South Africa (white sample), England and Ireland third, scoring 4.37. Note that the UK (English sample) scores the lowest of the five-comparator nations in Table 1.9.

The practices that constitute the **uncertainty avoidance dimension** in the GLOBE study are orderliness and consistency, being highly structured, establishing detailed instructions, following rules and laws. Although associated with economic success and social well being, some of these practices are opposed to the innovation practices associated with performance orientation. Nordic and Germanic Europe (Finland, Sweden and Denmark; Austria, Germany, the Netherlands, Switzerland), score highest on this dimension. Currently Finland is one of the world's most competitive nations. At 4.65 (Table 1.9) the UK scores second highest on uncertainty avoidance practices so, as with performance orientation, more fine grained analysis is needed if this kind of data is to be used to differentiate between the relative competitiveness of the world's leading economies.

Future orientation practices are planning ahead, planning for the future, living in the future and planning meetings. Germanic and Nordic Europe score highest on this dimension with the Confucian Asian societies third and the Anglo societies fourth. While this data could be used to argue that Confucian Asian and Northern European versions of capitalism have better long term prospects than Anglo-American versions, the fact that the economy of the USA continues to dominate the globe and has done for most of the past 100 years — currently for example with 38 per cent of the world's top 500 companies — suggests more careful analysis is required.

A1.4 Summary

It would seem that understanding what makes good management, requires attention to context, activities and management characteristics.

A1.4.1 Task context

Analysis of relative productivity levels implies that the UK economy may not be as competitive in some aspects as the economy of the USA or the economies of France and Germany.

There is no one best way to originate, realise and renew competitiveness. However, technological and organisational innovation drives economic growth, which points attention in three directions.

- In a similar way to natural selection, environmental pressures act to select the competitive variations and innovations that succeed. There is an ongoing dynamic interaction between the changing internal capabilities of managers and firms and changes in the external competitive environment of markets and institutions.
- This requires the identification of the critical activities that predict the kind of processes more likely to lead to competitive success. Multilevel analysis of these activities is required, including analysis of individual firms and industrial sectors within and between nations and regions.
- Human knowledge, skills, abilities and orientations create and adapt to the external environment. Managers' capabilities in these areas might be expected to be important for business success.

A1.4.2 Management capability

There is evidence (*e.g.* Bosworth, 1999; Mabey and Ramirez, 2004) that UK management qualifications are lower, and the amount of management training and development which takes place is less than that in many other countries.

A1.4.3 Task activities

Pursuing diversification strategies based on technological product and service innovations and adopting the crucial organisational innovation of the multidivisional corporation has been believed to predict economic growth and competitiveness. The UK has been as successful as France and Germany in pursuing these strategic activities. However, enduring success in technological and organisational innovation requires an ongoing cycle of five critical activities:

- investments in physical and human capital
- commercialisation of technological innovations
- development of learned internal organisational capabilities
- deployment of retained earnings and learned capabilities in further investments in physical and human capital and related diversification, including further commercialisation of technological innovations
- active membership of an industry cluster.

Very generally, UK managers and firms do not invest as much in physical capital as companies in the USA, France and Germany and do not invest as much in non-managerial human capital as French and German companies. However, the USA is more competitive than all three European countries which suggests that more detailed analysis of all five activities and analysis by firms and sectors is needed if the reasons for the UK's lower level of competitiveness are to be identified.

Human characteristics

Some specific cultural practices — the shared behaviours rather than the shared values of organisations and nations — seem to predict competitiveness. These shared behaviours are those described as future oriented, performance oriented and uncertainty avoidance. Middle managers in the Confucian Asian, Germanic European and Anglo clusters of societies have the highest scores on most of these practices, but nations in the Anglo cluster, including the UK, often score lowest of these groups. Intriguingly these clusters align with arguments about competing versions of capitalism: Asian, European and American. While these practices are likely to be associated with competitiveness they do not make clear the reasons for differences between the economic success of specific firms, sectors or nations in these three huge regions of the globe.

A1.4.4 Unanswered questions

There is much in the literature which is intriguing, the analysis of creative and competitive discovery implied that large UK firms have adopted some of the practices to do with competitive success such as diversification and internal re-organisation as extensively as those from other nationalities and so perhaps the problem may be with SMEs. And yet, other research suggests that UK firms (of all sizes) invest less in management capital. Large firms will tend to be MNCs and so perhaps there is something unique about MNCs which sets them apart from domestic firms. Are UK multinationals operating at a higher level of management capability than domestic companies, or is size the main issue? There would appear to be a gap in the literature here and a need for research that explores the relationships between size, sector, status and management capability. There are also some question marks over the five critical activities associated with business success (see Section 1.2.2).

This research has been designed to shed some light on these issues by exploring a range of factors which might be expected to relate to management capability and to do so in a way which enables us to also explore the influence of size, sector and status. We have therefore asked questions about what makes capable managers by enquiring into management practice, such as what do managers prioritise? What aspects of their role do they consider important, what does good management mean within the case study organisations? And how consistently is it promoted and rewarded? How do companies develop their managers and leaders? We consider the different approaches organisations take and the philosophies which guide them. Finally we have looked at views of the relative merits of managers from different countries and whether UK managers are believed to be as good as those from elsewhere.

Appendix 2: GLOBE Cultural Dimensions

- Power distance: the degree to which members of a collective expect power to be distributed unequally
- In-group collectivism: the degree to which individuals express pride, loyalty and cohesiveness in their organisations or families
- Institutional collectivism: the degree to which organisational and societal institutional practices encourage and reward collective distribution of resources and collective action
- Uncertainty avoidance: the extent to which a society, organisation, or group relies on social norms, rules and procedures to alleviate unpredictability of future events
- Assertiveness: the degree to which individuals are assertive, confrontational, and aggressive in their relationships with others
- Performance orientation: the degree to which a collective encourages and rewards group members for performance improvement and excellence
- Humane orientation: the degree to which a collective encourages and rewards individuals for being fair, altruistic, generous, caring, and kind to others
- Future orientation: the extent to which individuals engage in future oriented behaviours such as delaying gratification, planning, and investing in the future
- Gender egalitarianism: the extent to which a collective minimises gender inequality

House et al, 2004

Appendix 3: Choice of the Three Comparator Countries (with UK)

From the constructs described in appendix 6, two functions were created:

- **Function 1**: Primarily *HR Strategy*.
- **Function 2**: Primarily MD Ethos but also MD Systems and Perceived Importance, summarised as *MD Priority*.

Mean scores on these functions were then plotted for each country with *HR Strategy* on the horizontal axis, ranging from low at the left to high at the right, and what we call *MD Priority* on the vertical axis from low at the bottom to high at the top (see Appendix 3 Figure 1).

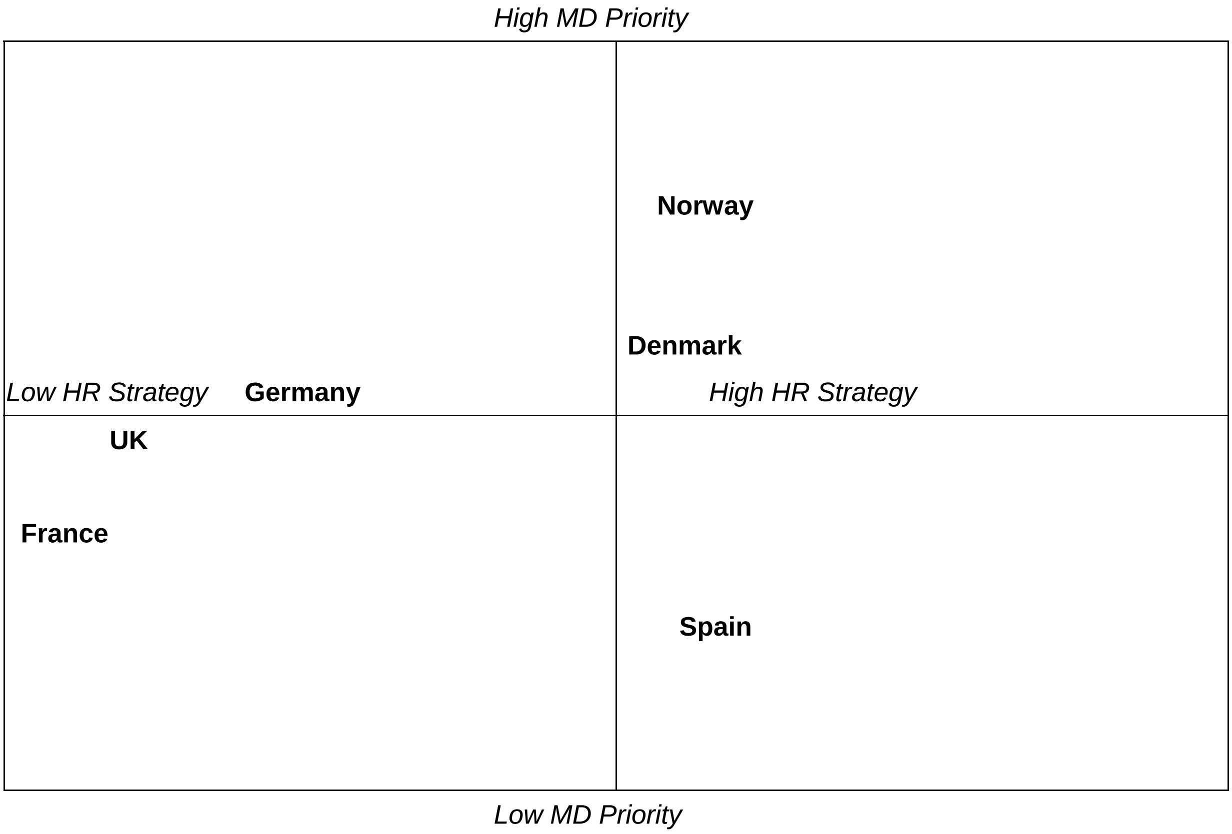
It should be emphasised that the figure identifies mean values obtained on function scores for each country and provides no indication of variability across organisations *within* each country, so there is the possibility of overlap between organisations of differing nationality on the grounds that they have similar function scores.

Further scrutiny of the scores shows that relative homogeneity and 'uniqueness' exist with respect to the French, Norwegian and Spanish sub-samples. The results are far less clear-cut with respect to the German, Danish and especially British organisations.

With these caveats in mind, a European picture begins to emerge. We might term the bottom left quadrant *Tactical HR/Instrumental MD* or the '*fire-fighter*' approach, because the approach to HR here is non strategic and managers are developed in a more ad hoc manner and according to short-term requirements. It appears this characterises many French and some UK organisations. Bottom right might be termed *Strategic HR/Instrumental MD* because, while there is a more strategic understanding about the role and influence of HR at a business level, the creation of a management talent pool does not figure prominently in this strategy. Managers are, of course, trained but usually this is to address short-term skill gaps rather than as part of a coherent, future oriented plan. Presumably companies in this quadrant typically rely on other HR measures like recruitment, career management and compensation to aid the achievement of business goals. Spanish organisations typify this approach. This reinforces an earlier finding that career development in Spanish companies tends to occur via informal patronage rather than systematic procedures.

The top left quadrant can be termed *Tactical HR/Developmental*. Here the development of management capability is taken seriously by the firm and many of the systems are in place to facilitate management training, however the overall HR approach is either immature or HR specialists are not yet regarded as a business partners and therefore HR has little influence at a strategic level. Although not extreme on either axis, some German companies seem to fit this quadrant most comfortably. Organisations in the upper right quadrant not only have a strategic, business-related HR focus but management development would frequently feature as a key element of this overall approach to talent management. So *Strategic HR/Developmental* would be the way to describe this quadrant, and Norwegian, and to a lesser extent Danish, companies are most often located here.

Appendix 3 Figure 1: Management Development: an emergent typology of country differences



Source: IES, 2005.

Again, the fact that UK, Danish and to some extent German companies are positioned near the centre of the quadrant is due to the wide variation of approaches to HR and MD pursued by firms in each of these countries. So, while a core of German organisations can be characterised as tactical/developmental, many overlap with those in each of the other quadrants (French, Spanish and Norwegian). Likewise, some UK companies are more extremely non-strategic/instrumental like the majority of French firms, but some are also non-strategic/developmental overlapping with those in Germany. Finally there is considerable variability in the approach adopted by Danish firms, but in general they seem to be located in the strategic HR/developmental quadrant along with companies in Norway.

Appendix 4: Method, Sample and Statistical Analysis of Survey

Method

The Leonardo study of MD in Europe (Mabey and Ramirez, 2004) generated results for 700 firms, the majority of which were domestic companies. The intention of this present study was to create a comparative sub-sample of MNC companies, headquartered in the same countries. Budgetary constraints only allowed us to explore this dimension in just four of the seven country settings (Appendix 3 of the report explain more fully the choice of the three comparator countries with Britain).

HRD managers

Adopting an interview schedule which was almost identical to that used for the Leonardo study in 2002, telephone interviews were conducted with HRD managers, or the person responsible for MD, and one line manager in a range of organisations in Germany, Norway, Spain and UK. The intention was to secure data from 120 MNCs in order to '*top up*' the existing MNCs from the Leonardo study in order to create approximately equal sub-samples of parent MNCs and domestically-owned companies in each country.

Utilising standard available databases, interviewers approached the HRD manager or equivalent in a list of MNC companies headquartered in each respective country. This was continued until a quota sample of 30 was reached in each of the four countries. The response rate for German MNC was poor. Of around 175 MNCs contacted 33 actually participated (a response rate of 18.8 per cent). The response rates in the other three countries were better: UK 53.6 per cent, Norway 39.5 per cent and Spain 63.8 per cent.

Line managers

Interviews were also undertaken with a line manager in each organisation. As with the HRD manager individual and firm-name anonymity was assured. This person was chosen as someone able to speak with some authority about the way MD was undertaken in his or her organisation. HRD managers were asked to provide contact names at the end of their interviews. In about a third of cases (45), one of these referrals was used, but the rest (78) were the result of direct approaches by interviewers. We can therefore regard the majority of line manager views as reasonably uncontaminated, with no particular reason to express a corporate view.

Overall sample

Taking together the Leonardo responses collected in 2002 and the SSDA interviews conducted in 2004, paired responses (HRD manager and line manager) were secured from a total of 505 organisations: Germany 123 (32 per cent response rate), Norway 126 (58 per cent), Spain 130 (59 per cent) and UK 126 (66 per cent). Due to missing data on one or more of the study variables, the sample used for most of the analysis in this Report is 484. Appendix 4 Table 1 shows the composition, with the new data, collected exclusively for this report, depicted in bold.

Appendix 4 Table 1: Composition of final sample (Leonardo and SSDA)

	Leonardo Domestic (2002)	Leonardo MNC (2002)	SSDA MNC (2004)	Total
GE	59	24	33	116
NO	85	6	30	121
SP	70	26	30	126
UK	89	2	30	121
Total	303	58	123	484

Source: IES, 2005

Appendix 4 Table 2: Explaining variance in organisational performance (MMR summary Statistics - Steps 1, 2 & 3)

Variables entered	R	R^2	R^2_{adj}	F	Sig	F_{cha}	Sig_{cha}
Country, status, size, sector	0.23	5%	4%	3.77	p<0.01	--	--
Above + HRS, Ethos, Systems, Importance, Amount	0.48	23%	21%	11.83	p<0.01	21.93	p<0.01
Above +Moderators	0.52	28%	22%	5.26	p<0.01	1.25	n.s.

Source: IES, 2005

The intention of creating reasonably sized sub-samples of MNC and domestic organisations for each country is achieved, although it should be noted that there is a pronounced under-representation of MNCs for the Norwegian and UK sub groups.

Interviews

The person responsible for MD in each company was asked about general HR strategy and the policies, practices and methods associated with MD. For the purposes of the interviews the definition of MD policy was stated as *'including all on-the-job and off-the-job activities, structured or unstructured, formal and informal, that are undertaken to develop your manager expertise'*. The respondents were also asked about the growth, turnover, number of managers employed and performance of the company.

In addition a line manager was interviewed in each organisation to give their views on the HR and MD policies and practices, as well as their experience of MD. In particular we felt the line managers were well positioned to comment upon the delivery methods used for MD, the actual amount of MD undertaken and the degree of importance and priority attached to MD by their company.

Statistical analysis

Differences in distributions across sector and size within Country and Organisational Status determined that inferential analyses depicted in this Report were undertaken treating Sector and Size as co-variates.

Size was expressed as number of employees with raw scores subjected to non-linear transformations to approximate normality of distribution across all cases. Sector was expressed as two dummy variables (Manufacturing vs. other and Services vs. other).

Analysis was undertaken by applying four MANOVAs (Multiple Analysis of Variance) to the data with the set of dependent variables (DVs) being either scores on the five MD related constructs or the seven MD methods of delivery items from the Line Manager interview schedule.

The Independent Variables (IVs) comprised country together with either sector or size (number of employees). The latter was re-coded into three bands. This design allowed the following three effects to be tested in each MANOVA outcome:

- Overall Main Effect of Country — A significant effect here would indicate differences between countries on one or more of the DVs that were consistent, regardless of size or sector.
- Overall Main Effect of Size or Sector — A significant effect here would indicate differences on one or more of the DVs between organisations categorised by their grouping that were consistent regardless of country.
- Overall Interaction Effect — A significant effect here would indicate differences on one or more of the DVs between organisations classified by sector or size that varied on a Country by Country basis.

On all these effects, statistical significance in an overall, multivariate sense, established by MANOVA outcomes, would justify uni-variate testing for significant differences being applied to each individual DV by means of ANOVA (uni-variate Analysis of Variance). Where results are established as non-significant using MANOVA, moving on to uni-variate testing is not statistically acceptable due to enhanced likelihood of false conclusions being drawn.

All the analyses were undertaken on organisations with complete data sets across items used in all four MANOVAs resulting in a final total sample of n=484.

Testing for impact of variables upon organisational performance

Appendix 4 Table 3: The significant predictors of organisational performance (MMR– Step 1)

	Correlation coefficients [a]						MR Weights	
	HR Strategy	**MD Ethos**	**MD System**	**Perc'd Import**	**MD Amount**	**Org. Perf**	**B**	**β [b]**
DE	–0.02	0.14	0.06	0.03	-0.10	-0.14	-0.04	-0.04
NO	0.11	0.13	0.13	0.10	-0.21	0.11	0.08	0.09
ES	0.04	–0.23	-0.21	-0.03	0.27	0.13	0.14	0.16**
MNC	0.02	0.08	0.22	0.11	0.05	0.02	0.01	0.02
Size	0.00	0.22	0.42	0.11	0.00	-0.11	-0.53	-0.17**
Manufacturing	0.01	–0.01	-0.08	0.03	0.05	0.04	0.06	0.07
Services	0.07	0.01	0.05	-0.02	-0.02	-0.01	0.03	0.03
HR Strategy	1.00	0.46	0.27	0.13	0.01	0.26	0.05	0.11*
MD Ethos		1.00	0.52	0.21	-0.04	0.25	0.12	0.18**
MD Systems			1.00	0.20	-0.09	0.15	0.02	0.08
Importance				1.00	0.27	0.32	0.11	0.25**
MD Amount					1.00	0.16	0.10	0.08
						CONSTANT	2.75	

[a] Values greater than 0.09 significant at p=0.05 level. Values greater than 0.12 significant at p=0.01 level.
[b] * indicates significant at p=0.05 level. ** indicates significant at p=0.01 level.

Source: IES, 2005

An appropriate way to test this statistically is moderated multiple regression (MMR). A three step MMR was carried out with the composite organisational performance index as the dependent variable (see Appendix 4 Table 2). In the first step, the control variables sector, size, country and status were entered. This resulted in a four percent, significant impact on organisational performance. In other words, in combination, some of these factors lead to significant changes in performance of the firms in our sample. From Appendix 4 Table 3 we find that neither sector nor status account for this, but there is a significant relationship between Spanish companies and performance, and also a significantly negative between size and performance. For some reason smaller companies and those located in Spain explain a small but significant variance in organisational performance in this sample.

At the next step, the constructs concerning HRM and MD were entered. The combined effect is to explain an additional 21 per cent of variance. This is highly significant and we can deduce from Appendix 4 Table 3 that three factors are especially important here: MD Ethos (p<.01), Importance (p<.01) and HR Strategy (p<.05).

Appendix 4 Table 4: The significant predictors of organisational performance (MMR– Step 2)

	Correlation coefficients					MR weights	
Variable	**Ethos**	**Systems**	**Importance**	**Amount**	**Org. Perf**	**B**	**β[b]**
HR Strategy	0.45	0.27	0.13	0.01	0.26	0.05	0.11*
MD Ethos	1.00	0.52	0.21	-0.04	0.25	0.12	0.18**
MD Systems		1.00	0.20	-0.09	0.15	0.02	0.08
Importance			1.00	0.27	0.32	0.11	0.25**
Amount of MD				1.00	0.16	0.10	0.08

[a] Values greater than 0.09 significant at p=0.05 level. Values greater than 0.12 significant at p=0.01 level.

[b] * indicates significant at p=0.05 level. ** indicates significant at p=0.01 level.

Source: IES, 2005

Finally the interaction effects between country, status and each of the independent variables were entered as a third step in the MMR. This improved the variance explained by just one per cent, which is not significant.

Appendix 5: Measures Used in the Survey

For the majority of measures used in the study, constructs scores were calculated by averaging scores across item sets with Likert type five point rating scale responses. (Exceptions are as follows: MD Systems, response coding was converted to 0 and 1 for dichotomous items and 0, 0.5 or 1 for items in this subset that had three point response formats. Construct scores were then calculated by summing revised codes). The figure in brackets alongside each construct heading below is the alpha co-efficient. A score of .6 or higher indicates respectable internal validity.

HRD managers

Human Resource Strategy (0.73)

- HR plays active role in formulating business strategy (1-5 scale)
- HRM linked to business strategy (1-5 scale)

Management Development Ethos (0.66)

- Expect to retain managers for 5 years or more (1-5 scale)
- Promote managers from within (1-5 scale)
- Primarily concerned with long-term development (1-5 scale)
- Emphasis on developing individual potential (1-5 scale)
- Managers developed against competency/skills (1-5 scale)
- Organisation takes responsibility for MD (1-5 scale)

Management Development Systems (0.69)

- Established MD policy (yes/no)
- Use of appraisals (for none, some, all)
- Select high potential managers for fast-track (for none, some, all)
- Systematic evaluation of MD activities (1-5 scale)
- Career planning (for none, some, all)

*Manager Quality (0.63)**

- Quality of HCN managers compares favourably with FCN managers (1-5 scale)
- Quality of HCN managers constrains our strategic business aspirations (1-5 scale, reverse scored)

Line managers

Importance of MD (0.73)

- My organisation gives a high priority to MD (1-5 scale)
- MD policy reflects my organisation's business strategy (1-5 scale)
- My organisation develops managers against skills set (1-5 scale)

Success of MD (0.72)

- MD has had a positive impact on my organisation (1-5 scale)
- MD is successful in developing managers to meet our objectives (1-5 scale)

Both

Organisational Performance (HRD 0.73; LM 0.74)

- Quality of products/services/programmes (1-5 scale)
- Development of new products/services/programmes (1-5 scale)
- Ability to attract essential employees (1-5 scale)
- Ability to retain essential employees (1-5 scale)
- Satisfaction of customers/clients (1-5 scale)
- Relations between management and other employees (1-5 scale)
- Relations between employees generally (1-5 scale)

Line managers

Amount of MD

Raw scores for a single item were used. For inferential analysis, non-linear transformations were applied in order to approximate a normal distribution of scores across the entire sample.

* Line Manager Quality was a new question, for which no Domestic Status data were available. So Anova analysis was confined to country, sector and size.

Appendix 6: MD Constructs

Appendix 6 Table 1: Means and standard deviations by country

Country		HR Strategy	MD Ethos	MD Systems	Perceived Importance (LMs)	MD days per year (LM)	Host country mgr quality
GE	Mean	3.6	4.0	2.8	3.5	7.0	2.5
	N	116	116	116	116	116	116
	Std. Deviation	1.00	.58	1.40	.69	4.95	.85
NO	Mean	3.8	3.9	3.0	3.6	6.2	2.3
	N	121	121	121	121	121	121
	Std. Deviation	.96	.56	1.42	.94	5.53	.87
SP	Mean	3.7	3.6	2.2	3.4	12.8	3.3
	N	126	126	126	126	126	126
	Std. Deviation	.78	.78	1.51	.88	10.29	1.07
UK	Mean	3.4	3.8	2.7	3.3	9.5	2.7
	N	121	121	121	121	121	121
	Std. Deviation	.90	.56	1.43	.84	10.40	1.06
Total	Mean	3.6	3.8	2.7	3.4	8.9	2.7
	N	484	484	484	484	484	484
	Std. Deviation	.92	.58	1.47	.85	8.63	1.04

Source: IES, 2005

Appendix 6 Table 2:

		Country Main Effect	Org. Status Main Effect	Interaction Effect			
Construct as DV	**Alpha**	**F**	**Sig.**	**F**	**Sig.**	**F**	**Sig.**
HRD HR Impact	0.72	2.44	n.s.	0.23	n.s.	1.27	n.s.
HRD Ethos	0.66	7.03	p<0.01	0.10	n.s.	1.77	n.s.
HRD Systems	0.69	7.31	p<0.01	6.07	P<0.05	0.16	n.s.
LM Number of Days	n/a	16.53	P<0.01	0.15	n.s.	2.02	n.s.
LM Importance	0.73	1.40	n.s.	2.61	n.s.	0.62	n.s.
LM MD Success	0.73	0.93	n.s.	4.04	P<0.05	1.22	n.s.
HRD Org Perf.	0.73	4.79	p<0.01	2.26	n.s.	2.34	n.s.
Mgr Quality*	0.64	10.45	p<0.01	n/a	n/a	n/a	n/a

Source: IES, 2005

Appendix 6 Table 3: Breakdown of MD by constructs

Construct	GE Dom.	GE MNC	NO Dom.	NO MNC	SP Dom.	SP MNC	UK Dom.	UK MNC
HRD HR Impact	3.5	3.6	3.8	3.8	3.8	3.5	3.3	3.5
HRD Ethos	3.9	4.1	4.0	3.9	3.5	3.7	3.8	3.8
HRD Systems	2.5	3.2	2.8	3.5	1.8	2.6	2.5	3.4
LM Number of Days	7.6	6.4	5.7	7.4	12.4	13.3	9.5	9.4
LM Importance	3.4	3.6	3.6	3.6	3.3	3.5	3.2	3.6
LM MD Success	3.6	3.5	3.5	3.6	3.4	3.5	3.2	3.6
HRD Org Perf.	3.7	3.6	3.9	3.8	3.9	3.9	3.7	4.0
Mgr Quality*		4.5		3.7		3.1		3.8

Source: IES, 2005

Appendix 6 Table 4: Breakdown of MD Delivery Methods

Delivery Method	GE Dom.	GE MNC	NO Dom.	NO MNC	SP Dom.	SP MNC	UK Dom.	UK MNC
Internal programmes	3.6	3.9	3.5	3.6	3.2	3.4	3.1	3.7
External courses	3.6	3.4	3.1	3.1	2.7	3.0	3.0	2.9
In-house rotation	2.3	2.4	2.3	2.4	2.3	2.8	1.8	2.5
External placements	1.6	2.1	1.6	1.8	2.2	2.5	1.4	1.9
Mentoring/coaching	3.0	2.8	2.7	2.6	2.5	3.0	2.7	3.2
E-learning	2.1	1.9	2.0	2.3	2.0	2.8	1.9	2.5
Formal Education	2.1	1.9	2.3	3.1	2.6	3.0	2.8	3.3

Source: IES, 2005

Appendix 6 Table 5: Breakdown of MD delivery methods

Delivery Method	GE Dom.	GE MNC	NO Dom.	NO MNC	SP Dom.	SP MNC	UK Dom.	UK MNC
Internal programmes	3.6	3.9	3.5	3.6	3.2	3.4	3.1	3.7
External courses	3.6	3.4	3.1	3.1	2.7	3.0	3.0	2.9
In-house rotation	2.3	2.4	2.3	2.4	2.3	2.8	1.8	2.5
External placements	1.6	2.1	1.6	1.8	2.2	2.5	1.4	1.9
Mentoring/coaching	3.0	2.8	2.7	2.6	2.5	3.0	2.7	3.2
E-learning	2.1	1.9	2.0	2.3	2.0	2.8	1.9	2.5
Formal Education	2.1	1.9	2.3	3.1	2.6	3.0	2.8	3.3

Source: IES, 2005

Appendix 6 Table 6:

Delivery method	F	Sig.	F	Sig.	F	Sig.
Internal programmes	0.83	n.s.	0.76	n.s.	0.53	n.s.
External courses	*3.92*	p<0.01	0.08	n.s.	1.40	n.s.
In-house rotation	3.16	p<0.05	6.33	p<0.05	1.21	n.s.
External placements	13.78	p<0.01	8.69	p<0.01	0.39	n.s.
Mentoring/coaching	1.56	n.s.	1.97	n.s.	1.81	n.s.
E-learning	3.26	p<0.05	7.06	p<0.01	3.66	p<0.05
Formal Education	20.34	p<0.01	12.16	p<0.01	3.15	p<0.05

Source: IES, 2005

Appendix 6 Table 7: Breakdown of determinants of manager ability

Determinant	GE Dom	GE MNC	NO Dom.	NO MNC	SP Dom.	SP MNC	UK Dom.	UK MNC
Innate ability	3.7	4.0	4.5	4.0	3.9	4.1	3.8	3.9
Vocational quals.	3.4	3.6	3.5	3.4	3.8	3.5	3.2	3.2
Generic quals	2.3	2.3	3.4	3.0	3.4	3.1	2.6	2.7
In house training	4.0	4.0	4.2	3.9	3.9	4.0	3.6	3.9
Work experience	4.2	4.1	3.8	3.9	4.0	4.0	4.1	4.2
Management ed.	3.1	3.1	3.3	3.1	3.9	3.7	3.3	3.2

Source: IES, 2005

Appendix 6 Table 8:

	Country main effect	Org. status main effect	Interaction effect			
Determinant	**F**	**Sig.**	**F**	**Sig.**	**F**	**Sig.**
Innate ability	5.29	p<0.01	0.03	n.s.	5.14	p<0.01
Vocational quals.	*4.13*	p<0.01	0.14	n.s.	1.39	n.s.
Generic quals	25.33	p<0.01	2.09	n.s.	1.77	n.s.
In house training	2.86	p<0.05	0.36	n.s.	2.58	n.s.
Work experience	2.41	n.s.	0.14	n.s.	0.49	n.s.
Management ed.	13.13	p<0.01	1.09	n.s.	0.05	n.s.

Source: IES, 2005

List of previous SSDA Publications

Please note all publications can be downloaded from out website www.ssda.org.uk

Research Report 1 *Skills for Business 1000*

Research Report 2 *Evaluation of the Trailblazer Phase of the Sector Skills Council Network*

Research Report 3 *Skills for Business Network – Phase I Evaluation*

Research Report 4 *Skills for Business 2003 – Survey of Employers*

Research Report 5 *Skills Pay: The Contribution of Skills to Business Success*

Research Report 6 *The UK Skills and Productivity Agenda: The Evidence Base for the SSDA's Strategic Plan 2005-2008*

Research Report 7 *The UK Workforce: Realising our Potential*

Research Report 8 *Sectoral Management Priorities: Management Skills and Capacities*

Research Report 9 *Raising Sector Skills Levels – How Responsive is Local Training Supply?*

Research Report 10 *Skills for Business Network: Phase 2 Evaluation Main Report*

Research Report 11 *Skills for Business 2004: Survey of Employers*

Research Report 12 *Skills for Business Network: Phase 2 Evaluation Case Studies*

Research Report 13 *Sectoral Productivity Differences Across the UK*

Research Report 14 *Sectors Matter: An International Study of Sector Skills and Productivity*

Research Report 15 *Evaluation of Pathfinder Sector Skills Agreement Process*

Research Report 16 *Skills Abroad: A Comparative Assessment of International Policy Approaches to Skills Leading to the Development of Policy Recommendations for the UK*

Working Futures 2: National Report 2004-2014