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Managing core talent and positions:
Key questions and recommendations

Employment rights of agency workers:
proposals for change and the impact upon HR strategy

Achieving value from "HR metrics"

Creating cohesive cross-cultural teams

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The aim of this journal is to publish cutting-edge articles on human resources to inform best practice, policy and theory in the field.

Its brief is interpreted widely and covers issues relating to people resourcing, learning and development, employment relations, rewards and benefits and human resources strategy, as well as some global and comparative issues.

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Gillian Fraser, Editor

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Editorial

Despite a wealth of research suggesting links between strategic HRM and business performance risks, there is still ongoing debate about how HR contributes to business success. However, this debate risks deflecting attention away from what really matters.

Professor Jean-Marie Hiltrop argues that what is incontestable is the importance of talent in achieving business success. He suggests that HRM should therefore focus on three core talent processes, namely identifying "core" employees and roles which are critical to competitive advantage, competing successfully for the right talent and building the skills and competencies needed to deliver business strategy. Furthermore, strategies to address these key linkages in knowledge-intensive organisations require a very different set of HRM practices from those of a few years back. Professor Hiltrop concludes with a powerful set of talent management recommendations which will be of benefit to many organisations.

One key talent issue is the complex and topical question of the employment rights of agency workers. Tim Hart picks up this theme from Dr Sonia McKay in the previous issue. He highlights the various arguments of the different protagonists about the currently unresolved issues relating to the status of agency workers. In the UK, for instance, the trades unions are pressing for agency workers to have the same rights as permanent employees while the Confederation of British Industry [CBI] wants to leave well alone. In the meantime the trail of litigation gets ever longer. Tim provides an interesting and useful round-up of the various UK and European legislative proposals relating to agency workers and also draws out the practical implications for HR strategists who wish to prepare their organisation in the light of possible eventualities.

Any strategy should produce measurable results and Professor Andrew Mayo focuses on how effective measurement can focus action in the right places and increase understanding of the importance of human capital and the impact of HRM practices. Professor Mayo provides an overview of the various approaches and contributors to the developing science of HR measurement and argues that developing and using HR metrics is a missing piece of the HR jigsaw which must be filled. After all, appropriate measurement provides a great opportunity for HR professionals to change the landscape of performance measurement and position the contribution of people in its rightful place.

Finally, in a follow-on article outlining their research into cross-cultural team working, Annette Sinclair and Gemma Robertson-Smith highlight the importance of team-building from the earliest stages of cross-cultural team formation. They highlight some of the subtle cultural differences which can lead to misunderstanding and conflict unless teams learn how to appreciate and bring out the best in each other.

If you have views about any of the topics featured, or examples of good practice or key learning points from your organisation, we would be pleased to hear from you. Contact Gillian Fraser at *gillian.fraser@croner.co.uk* or me at *linda.holbeche@talk21.com*.

Linda Holbeche
Chief Editor

Developing HR Strategy

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Managing core talent and positions: Key questions and recommendations

Jean M. Hiltrop

Establishing a direct link between strategic HRM and business performance is inherently difficult and controversial.

As Brewster (2007) recently argued, given the theoretical complexity of defining "strategic" HRM, and the inevitable influence of other intervening factors in establishing causality, there can be little surprise that the evidence for the link between HRM and organisational performance is confusing, and in several instances, contradictory. Yet, what we can conclude from the empirical research studying the development of HR strategy is that there are clear benefits to be gained from strengthening the connection between HRM practices and business objectives, and that achieving these benefits requires clear answers to a number of "mission critical" questions. In helping several organisations develop and implement an effective HR strategy I have found the following three questions essential:

1. Who are our core employees and what are the jobs and positions that are critical for building and sustaining the organisation's competitive advantage?
2. How do we compete for talent and how do we differentiate ourselves from our competitors in the labour market?
3. What are the skills and competencies needed to deliver our business strategy and how do we ensure that we have the right person(s) in place at the right time?

Examining these questions in detail is well beyond the size and scope of this article, although doing so raises a fascinating range of issues and challenges associated with the implementation of strategic HRM, and exposes the immense advantages and opportunities that this approach to the management of people can offer to HR professionals and their organisations. However, within the limited space, let us take a closer look at some key issues and challenges associated with each of these questions.

Who are our core employees and what are the jobs and positions that are critical for building and sustaining the organisation's competitive advantage?

Getting a clear answer to this question is fundamental to moving toward strategic HRM as it defines where talent is having its biggest impact on business performance. There is a great reluctance and resistance, however, in many organisations to define what is meant by "core employees" or to decide which jobs, roles or functions are to be grouped or categorised as "core positions". Especially in egalitarian cultures and societies (such as the Netherlands, Norway, Finland and Sweden) where hierarchical status symbols, large income differences and public display of wealth are frowned upon, the underlying fear and concern is that employees who do not occupy a core position may feel they are viewed (and possibly treated) as second rate citizens.

Yet, well managed firms like GE, IBM and Microsoft all have highly developed systems and tools for identifying core positions. To do this, they rely on a set of clearly defined criteria and job characteristics, including (1) the extent to which a job or function is fundamental to the company's strategy and competitiveness, (2) the extent to which the occupant's performance can influence the strategic impact and (3) the cost and difficulty of replacing the current occupant. A short checklist for each component is listed in the table below.

Table 1: Checklist for identifying core positions

- *Strategic impact*
  - ~ What is the direct impact of this position on our value chains?
  - ~ How critical is this position for the success of our business?
  - ~ What would be the impact of a vacancy/departure on our performance and competitive position?

- *Discretionary impact*
  - ~ To what extent does the strategic impact of this position depend on the performance of the occupant(s)? i.e. Does the performance of the occupant have a major influence on the strategic impact of this position.
  - ~ To what extent does high performance of individuals in this position have the potential of substantially increasing revenue or reducing cost?

- *Replacement risk*
  - ~ How difficult and costly is it to find a competent talent to fill this position?
  - ~ How costly and difficult would it be to replace the competency level of the present occupant?

By definition, core positions score highly on these three sets of criteria and these are the jobs that need to be filled by the most talented individuals. The degree of overlap (or alignment) between talent and core positions is a good test

of the company's "strategic HR" orientation. A highly talented individual who does not occupy a core position is not likely to stay in the company or job for a long time, especially if the current occupant is (viewed as) less talented. Also, companies simply cannot afford to have top talent in every position. So, having identified core positions, one needs to review the existing talent pool and align talent with positions as much as possible. This alignment is a never-ending process. GE and Procter and Gamble for instance review their top talent pool at least once per year and are continually scanning their portfolio of core talent and positions. The score of such positions clearly will change as do business priorities. Obviously, this helps to ensure high performance. But it also provides a good basis for determining training and development needs, and to make internal and external hiring decisions.

As already mentioned, this approach to talent management may not be every company's cup of tea, and making clear distinctions between jobs and employees may run counter to some company's values and relationship with employees. In practice, however, no company can shy away from making hiring and promotion decisions. To do so on the basis of a clear set of criteria may, in the longer term, be fairest to all involved.

How do we compete in the labour market and how do we differentiate ourselves from our competitors for talent?

Numerous studies and articles have shown that finding and keeping talent will continue to be one of the greatest business challenges that organisations will face over the course of the next two decades. One reason for this is the growing gap between the supply and demand of skilled labour. The war for talent is especially fierce in high-tech industries. As *The Economist* (2006) points out, the arrival of an aggressive new

superpower, Google, has made it bloodier still. The company has assembled a formidable hiring machine to help it find the people it needs. It has also experimented with clever new recruiting tools, such as billboards featuring complicated mathematical problems. Businesses outside the tech industry — from consulting to hedge funds — also experience a growing shortage of talent. A recent survey of 4000 hiring managers showed that the average time to fill a vacancy had increased from 37 days to 51 days since 2004. More than one-third of the managers said that they had hired below-average candidates "just to fill a position quickly". One in three employees had recently been approached by another firm hoping to lure them away. There is no reason to believe that this challenge will go into reverse in the near future. On the contrary it can be expected that competition for talented specialists in this field will become even fiercer in the next century as a result of the global demographic evolution.

So what can companies do to get and keep talented people? The most common advice offered in the literature is to pay talented people well. Although most companies (especially those operating in newly emerging markets such as China, India and Central Europe) have little choice but to heed this advice and are forced to offer above-average salary and benefits to get and keep good employees, plenty of large scale studies have shown that in most countries and industries, (high) pay does not have a strong effect on employee attraction or retention. In fact, most surveys suggest that compensation is rather low on highly skilled peoples' lists when deciding to join or leave an organisation. As long as pay is not seen to be insultingly out of line, non-financial factors such as opportunities for training and development have much more impact on employee attraction and retention. Furthermore, using pay as a key method to attract and keep talent may not be cost effective. As Pfeffer (1994) pointed out, "pay is the most fungible of all the resources at an employer's disposal; if it is an employer's sole source of loyalty, then it always runs the risk of being outbid".

So how can an organisation protect itself against talent poaching? What can companies, large and small, do to convince talented people to work for them? One recommendation is to focus more on their "Employment Value Proposition". The EVP is the "deal" or "psychological contract" which defines what an employee gets out of working for a particular job or organisation. Obviously pay and benefits are an essential part of this contract, but the argument is that

there is much more emphasis on non-financial incentives — from an attractive organisational culture to the opportunity to go abroad, work flexible hours and/or boost ones' skills and employability.

Research conducted by McKinsey and other consulting firms indicate that having a clear EVP can be a powerful method to differentiate a company in the labour market and hence become a magnet for talented people who feel drawn to the EVP's mission and values. For instance, on the basis of a detailed study of about 90 companies, the Corporate Executive Board in the US argues that managing an EVP effectively increases a company's pool of good applicants by 20% and the retention of its employees fourfold. It can even reduce the payroll: companies with well-managed EVPs achieve low turnover rates whilst paying 10% less than those with badly managed EVPs. But most companies are not doing well in this respect. Surveys show that three-quarters of new recruits feel that their employers are failing to deliver on their promises, making young employees feel less committed to their company and work. According to *The Economist* (2006) most companies need to fine-tune their EVPs for different segments of the talent market, and particularly for different geographies, which account for most of the differences in what employees are looking for. Americans are keenly interested in health and retirement benefits, whereas employees in India put more emphasis on growth rates and innovation.

What are the skills and competencies needed to deliver our business strategy and how do we ensure that we have the right person(s) in place at the right time?

There is no doubt that some companies are more successful than others in their efforts to implement their business strategy and that part of this difference can be explained by their ability to have the right person(s) in place at the right time. For instance, in order to find out why some companies perform better than others, McKinsey compared the HRM practices of highly successful firms with those of laggards. The results show that the following HRM practices allowed talent-winning companies to perform better than their competitors.

- They are good at specifying the kinds of people (in terms of skills and attitudes) they need for their business.
- They recruit continuously, rather than simply filling openings when they (are about to) occur.

- They put talented people in challenging jobs before they are ready for them.
- They do not allow poor performers to stay in position.

These findings place enormous pressure on organisations to improve the ways in which they manage their "human resources". The key challenges are, first, to enhance the firm's ability to determine which talents are required to manage their business and, second, to optimise the utilisation of their talented employees.

What can be done to cope with these challenges? One recommendation is to develop and maintain a clear overview of the skill mix required to achieve the business objectives. Most commentators agree that the diversity of skill requirements in companies is growing and that, in order to cope with the speed of business and technology, companies require a more extensive mix of skills and competencies than their predecessors. For instance, as more companies adopt some type of network structure, employees at all levels need to have not only strong technical, commercial and self-governance skills, but also strong collaborative, partnership and relationship skills.

When conducting our research for *The Accidental Manager: Surviving the Transition from Professional to Manager*, Sheila Udall and I asked a group of senior managers "What do you think will be the key features of effective management teams in the future?". Extrapolating from their responses and experiences, we envisage that in order to sustain their competitiveness, most companies will need to maintain a "healthy" mix of skills and competences in the following five areas.

- **Visioning and planning.** In times of constant change, companies need to generate a picture of the future, which includes a vision of where to position the organisation and its staff. It may not be possible to support this vision with detailed long-term plans in the same way as in the past, but providing a clear view of a future for the organisation, together with plans to translate the overall vision into operational reality, is crucial as a point of focus and commitment for staff.
- **Information handling.** One of the consequences of the IT revolution has been the massive increase in the amount of information that can now be generated at work. The problem is often not what to collect, but what to ignore. Clearly companies need to be able to use new technology to generate, select and digest the information they need.

- **Leadership and motivation**. Great organisations have always understood the importance of leadership and interpersonal skills, but companies will find themselves increasingly relying on these skills as the new generation enters the workforce and relationships with employees are becoming more transactional.
- **Creativity and learning**. As customer expectations are constantly rising and competition is increasing, companies in all sectors will need to demonstrate that they can add value by generating and developing new knowledge or solutions to problems that cannot be solved by traditional methods. This will have implications for the development of innovation and "Google-like" organisational cultures. This is a big challenge. Most organisations say they value, even require, creativity and innovation. But in reality they discourage risk-taking and have a culture that does not tolerate mistakes.
- **Change and adaptation**. Managing change has been a key feature of successful management for some time. However, the traditional approach to change in which the manager acts as the captain of a ship sailing through calm seas, seeing a storm, successfully navigating through it and then returning to calm waters again, no longer holds true. One senior manager described his role as being "more like white water rafting, than sailing calm seas". In view of the current economic turbulence and financial volatility, the result of change is highly unlikely to be a new safe and secure island. Clearly, organisations need to improve their ability to cope with rapid and complex change in an increasingly turbulent environment.

How can these skill requirements be met? One option is to build your own talent pool from within as much as possible. Clearly, there are notable exceptions to this rule. For instance, recruiting internally may not always be possible or produce enough qualified candidates, especially if the organisation is growing fast or is undergoing rapid technological change. However, relying on internal recruitment and promotion to fill new or vacant positions has a number of major benefits:

- It tends to improve morale, commitment and job security of employees.
- It provides more opportunities to assess the abilities of job candidates.
- It usually is a cheaper way of sourcing talent than external recruitment and selection.
- It affords more opportunity to control salary levels.

The cost advantages of internal recruitment can be substantial. For instance, Deloitte calculates that it costs a typical (American) company nearly 50 times more to recruit a professional from outside the company than it spends on his or her further training every year (*The Economist*, 2006). Moreover, external recruits can take more than a year to learn a job. One solution is to make job vacancies internally transparent and encourage employees to apply for open jobs across the company (Hiltrop, 1999). Companies that do this, such as Schlumberger and Philips, encourage their employees to post detailed CVs on the company intranet. Similarly, McKinsey and Accenture allow consultants from all over the world to apply for any project within the company.

The possible disadvantages are higher levels of "political" behaviour associated with internal advancement and the danger of creating a single mindset among long-serving employees. Hence, a certain level of external recruitment may be needed to avoid the danger of complacency as a single mindset besets the organisation. In general, however, there are plenty of alternatives to explore before recruiting externally, including outsourcing, job posting systems and work reorganisation.

Conclusions and recommendations

Based on the first three questions, what are our HR business priorities (short term and long term) and how can we ensure that there is sufficient flexibility to adapt our priorities to changing business needs and circumstances?

1. Create a winning employee value proposition.

As mentioned earlier, an effective EVP is what makes a certain group of people want to work for a particular organisation. So to test your organisation's commitment to the quest for talent, ask the question: "Why would a talented person want to work here?" Companies with a good talent pool have a simple and highly compelling answer to this question. For some organisations the EVP is strongly associated with the main brands. Brand leaders such as Porsche, BMW, Coca-Cola, Proctor and Gamble, Microsoft, Virgin and McKinsey have the great advantage of having distinctive products and services that helps them to get the best people interested in working for them. For others, it is a strong reputation for training and development (HP, Unilever) and/or the opportunity for gaining international work experience (Nestlé, Shell, BP) that serve as talent magnets in the labour market.

Small enterprises rarely possess the brands and means to differentiate themselves from their competitors in the labour market. However, they often have the advantage of being local and they have a certain appeal to those people who do not wish to become part of a big organisation. Similarly, public sector organisations and not-for-profit organisations such as Oxfam, WWF and Médecins Sans Frontièrs can make good use of their unique mission and/or offer highly distinctive value propositions to people who look for stability or wish to use their talents to make a non-commercial contribution to society.

Most companies (especially small enterprises and not-for profit companies) also need to devote much more effort to getting their message out. People are cynical about information in advertisements. They put much more trust in what current and former employees say. Companies have to find ways to turn informal networks into recruiting tools. Volvo Construction Equipment, a global Swedish company, operates in a very tight market for talent, with low unemployment for technicians and big-name competitors such as Caterpillar and Komatzu. The company improved its recruitment by encouraging its existing employees to act as "champions", informing them what sort of people it was looking for and asking them to get involved.

2. Provide ample opportunities for learning and self-development, integrated with career planning and mentoring.

Graduate surveys, such as those conducted annually by Universum, show that one of the most important things companies can do to attract talented young people is to boost their market value and employability. Post-baby boomers no longer expect companies to offer job security. According to one graduate survey, 94% of those questioned thought that it was they, not their employers, who were responsible for long-term employment security (*The Economist*, 2006). But they do expect their employers to help them keep their skills up to date. Regular promotion

> " **The possible disadvantages are higher levels of 'political' behaviour associated with internal advancement and the danger of creating a single mindset among long-serving employees.**"

clearly is becoming the motivational currency of the old era. What matters now is job enrichment, employability and providing the opportunity for employees to develop the skills and perspective to take care of themselves. So the careers of managers and professionals cannot be managed the way they used to be. Instead training and development systems must be designed so that people are no longer promoted on the basis of their level, position or status, but instead on their actual or potential contribution to the firm.

This does not mean that strategic career management and succession planning are dead. Rather, it means that these techniques must be liberated from systems and structures in which employees are completely immersed in their company, work 80-hour weeks, and do whatever is required to get promoted. Increasingly, professionals attempt to manage their careers and income by upgrading their skills and selling their individual talents to the highest bidder. They identify themselves with their profession first and with the company second.

Adjusting the existing HR systems to this development is not as simple as it sounds. Most companies make much of their training and development programmes, but there is often less to these than meets the eye. Studies show that company investment in learning and development in Europe and the USA in 2004-06 barely kept up with inflation. The average US organisation spends only $800 per employee per year — about 1.25% of the annual payroll. The average European company provides formal training opportunities for only two-thirds of its employees, and some do much less.

Besides, as *The Economist* (2006) points out, most employees value informal training more than formal teaching. In a survey by Deloitte, 67% of respondents said that they learn most when they are working with a colleague, with only 22% saying that they do best when they are conducting their own research, and only 2% are happiest with a manual or a textbook. Clearly the best way for companies to attract and retain talent is to turn themselves into learning organisations.

3. Make line managers accountable for the people they need and lead.

Companies should hold their line managers accountable for attracting, developing and keeping talent. For example, at First USA, the ability to recruit talented new people is a criterion for promotion. However, according to the McKinsey "War for Talent" study, only 7% of the managers surveyed believed their companies actually do so. It seems that many line managers do not view themselves as being accountable for the quality of their staff.

Talent-intensive companies have provided both a model and a training school for how to make talent a priority for line and HR managers alike. The most often quoted example is GE, where the previous CEO, Jack Welch, spent more than 50% of his time looking after the top talent. The results are that GE has become a leadership factory, supplying top managers for other organisations world-wide. Indeed, when Welch chose Jeffrey Immelt to succeed him in 2001, two of his disappointed rivals were immediately snapped up by other companies. GE is also used as a model company in terms of executive education. In fact, it has been suggested that there are now 1600 corporate universities loosely modelled on Crotonville. Similarly, consultancies have become finishing schools and launching pads for future corporate leaders: Lou Gerstner at IBM and Meg Whitman at eBay and many others started out in consultancies.

To conclude, companies need to become smarter and more focused in their efforts to tackle the talent shortage in a more organised way. The first rule is to think more carefully about the jobs and positions that are critical for building and sustaining the organisation's competitive advantage; second, HR managers need to decide how to differentiate the company's EVP from competitors in the labour market; and third, they need to ensure that the right person(s) is in the right place at the right time. Applying these simple rules sometimes requires a drastic review of HR practices. Goldman Sachs, for example, underwent a wide-ranging internal review in 1999, complete with benchmarking against industry leaders. It increased its emphasis on formal training, setting up a Goldman Sachs University, and encouraged senior partners to put more effort into developing talent. McKinsey's People Committee has spent the past two years fine-tuning its talent machine. It has boosted its training budget to $100m, diversified its sources of recruitment and rejigged its internal organisation to appeal to well-qualified young people (*The Economist*, 2006). However, the benefits of following these simple rules can be enormous.

For instance, UPS found that even though it selected its drivers with great care, turnover was uncomfortably high, mainly because drivers hated the back-breaking work of loading the trucks in the morning. To cope with the problem, UPS started to contract out this job to part-timers who are much easier to find than drivers. As a result, the company reduced by 50% the turnover rate among the people who drive its trucks and deliver its packages and this has yielded a significant increase in efficiency and customer satisfaction. Clearly, managing talent has become a key source of competitive advantage.

Points to ponder

- Who are your core employees?
- How do you differentiate your organisation from competitors in the labour market?
- What are the skills and competencies required to deliver your business strategy now and in the medium term?

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Employment rights of agency workers: proposals for change and the impact upon HR strategy

Tim Hart

There is currently a veritable scrum developing around the question of the employment rights of agency workers.

The Confederation of British Industry [CBI] wants to leave well alone. The trade unions are pressing for agency workers to have the same rights as permanent employees. A private member's Bill, supported by 147 back-bench Labour MPs, echoes the trade union position. Gordon Brown is trying to establish a commission to look into the whole matter. The EU draft Directive aimed at giving agency workers full employee rights has once more failed to gain sufficient support to become law.

This article tracks recent developments in the political and legal landscape and explores how the proposed changes may impact upon HR strategy.

The extent of agency working in the UK

Temporary agency working has expanded rapidly in recent years. While it is difficult to obtain reliable figures, it is estimated that there are anything between 260,000[1] and 1.25 million[2] agency workers active in the UK labour market. Although they are a relatively small proportion of the total workforce, it is estimated that 76% of employers rely on agency workers to some extent to fulfil their labour resourcing needs.[3]

Employment rights: the current position

In the context of agency work the term "worker" is generally used to distinguish limited rights as compared to an employee. Agency workers have a number of basic employment rights:

- not to be discriminated against on grounds of sex, marital status, race, disability, age, religion or belief, sexual orientation, and membership or non-membership of a trade union
- to work in a safe and healthy environment
- to be paid at least the national minimum wage
- to receive paid holidays
- not to have to work more than 48 hours on average per week unless expressly consenting to do so in writing.

Providing the agency worker pays Class 1 National Insurance contributions, then he or she is entitled to receive social security benefits such as sick pay and maternity pay.

Specific statutory provisions[4] provide for the agency worker to receive a written statement from the employment agency of the terms under which he or she is working. The worker has the right to refuse additional paid services from the agency. The agency cannot impose unreasonable deductions from wages for such things as transport and accommodation.

This leaves the raft of employment rights from which agency workers are excluded, including the rights to:

- equal pay
- redundancy pay
- not be unfairly dismissed
- flexible working
- maternity and paternity leave.

Working in no man's land

The rights of the agency worker in practice depend on the interpretation by the courts of the specific contractual relationships which ensue. In the latest decision of the Court of Appeal, Mummery LJ adjudicating on the *James v Greenwich Borough Council* case [2008] EWCA Civ 35, declared agency workers to be operating in a kind of "legal no man's land."[5] The antiquity of the common law concepts which are applied, combined with an inadequate statutory framework, make it impossible for the courts to provide a definitive ruling on the matter.

Traditionally, a person either worked under a contract of service or under a contract for services. The relationship was one of either employee or self-employed contractor. The introduction of a third party, the employment agency, created a more complicated relationship.

Nowadays, the contractual arrangements surrounding agency working involve three parties in what has been described by the courts as a "triangular relationship"; the person supplying the work [the worker], the organisation arranging for the worker to undertake the work [the agency] and the organisation needing the work to be done [the hirer/end user] The contractual permutations are considerable. The agency could simply be entering

NB In the context of this article the word "agency" is used loosely; as a business which contracts with a worker to provide that worker to a third party, the hirer/end user. As distinct from the statutory definition which classifies the aforementioned relationship as an "employment business" and reserves the term "employment agency" to describe a situation where the prospective employee is simply introduced to the client employer for a fee.

into a business contract with the worker in such a way that the worker is an independent contractor. The agency could be the employer and the worker the employee of the agency. The worker could be the employee of the hirer/end user. To add to the intrigue, Lord Justice Mummery has said that one contractual relationship need not exclude another.

This problem cannot be resolved by the parties expressly stating in a written contract the legal relationship under which work is provided. Any written terms are not conclusive evidence of the relationship which subsists; especially if the contract comprises so called "status-denying" clauses. The courts may imply a particular contractual relationship on the facts, providing it is necessary to do so.[6]

A number of commentators have pointed to the judgment in the *James* case as a decisive marker in the adjudication of the "triangular relationship", claiming that the very high threshold now required to meet the hurdle of "necessity" will in future preclude the finding of an implied contract of employment between the agency worker and the hirer/end user in all but the most extreme cases. This view may prove overly optimistic. Lord Justice Mummery was at pains to point out that the decision in the *James* case does not undermine previously decided cases where a contract of employment has been implied with the hirer/end user. Employment tribunals are still at liberty to find an implied contract of employment on the facts.

The courts have tried and failed to settle the status of agency workers and have implored Parliament to address the matter. In the meantime the trail of litigation gets ever longer and employers, employment agencies and agency workers themselves cannot know with any degree of certainty what are their precise rights and obligations in respect to their working arrangements.

> " Lord Justice Mummery was at pains to point out that the decision in the *James* case does not undermine previously decided cases where a contract of employment has been implied with the hirer/end user."

The arguments for change

The CBI argues that flexibility in the labour force is essential to the success of the UK economy and that more rights for agency workers will jeopardise the positive contribution of agency workers to the economy. The CBI is also worried about the increased cost that additional rights will confer upon employers. The Recruitment and Employment Confederation [REC] echoes the CBI sentiments.

An additional concern, expressed by the CBI and others, is that further rights will lead to the demise of the agency sector, which will have damaging social affects. Agency work provides a valuable route into permanent work for people who have, for various reasons, been absent from the labour market. Many people work through agencies as a preferred choice due to lifestyle and family issues. Many vulnerable workers would not pass the stringent selection processes imposed by employers and find it easier to gain work through agencies. The CBI also claims that older people find it easier to obtain work through agencies than via the traditional recruitment process. All these particular arguments presume that the availability of agency work will reduce if new employment rights are granted to agency workers.

The Labour Government, while concurring with the central view of both the CBI and the REC, feels that the rights of agency workers should be improved but only in a way that would maintain the essential ingredient of labour flexibility. The Government is concerned that the erosion of the advantages of agency workers for employers will lead to a reduction in their use which will not be fully compensated by an increase in permanent employees; thus leading to a net reduction in employment. However, the pressures on the Government for change may prove irresistible in the coming months.

The EU draft Directive on "Working conditions for Temporary Workers" is likely to surface once again when Nicholas Sarkozy takes up the EU Presidency on 1 July 2008. First tabled in March 2002, the draft directive proposes that temporary agency workers are treated no less favourably than comparable permanent workers in the hirer/end user organisation. Since 2002, successive attempts among Member States to agree the directive have failed. The Government supports the underlying principles of the directive but will not concede to a form that would undermine the success of the UK's flexible labour economy. Sarkozy will push for its adoption to extinguish what France and other Member States see as the UK's unfair advantage in the way it makes use of agency working. The European Commission argues that providing equal treatment for agency workers will improve the quality of temporary agency work and contribute to the smooth running of labour markets.

Whilst a number of Member States rely on agency working, the pay and conditions of agency workers in these Member States are generally negotiated through industry or sector-wide collective agreements. This is different from the UK's situation where more individual and local bargaining occurs. This will give rise to problems of identifying whether agency workers are treated less favourably than comparable workers in the

hirer/end user organisation. This may lead to greater administrative costs and greater litigation for the UK in adjudicating any newly acquired agency worker rights.

Other concerns about proposals to extend agency worker rights include: the appropriateness and practicality of providing equal pay to agency workers as to that of comparable permanent employees and the question of a qualifying period after which the new rights take effect. The CBI wants 12 months as the qualifying period. The EU proposes six days. Some trade unions, along with the TUC, want the rights to bite from day one. If agency workers have the same qualifying period as permanent employees then most of them may never acquire the rights in practice, given the short-term nature of agency working. There is a danger that any qualifying period may risk encouraging short termism among agency placements as a tactic to avoid having to provide the rights.

The Government acknowledges that there are some dubious employment agencies and specific abuses in areas such as "permatemps" but asserts that it would be better to focus upon enforcement of existing rights before enacting new laws to provide additional rights.[7] Many Labour MPs are clearly not of the same mind; 147 back-bench MPs defied the Government and voted for Andrew Miller's private member's Bill[8] aimed at providing full employment rights for agency workers. It remains to be seen whether this Bill will ever get onto the statute book. Gordon Brown has proposed a commission to look into the whole matter but this idea has so far received a muted response.

Not all the arguments for additional rights for agency workers turn on pure economics. The trade unions and others are concerned that employers may supplant whole sections of the workforce with agency workers so long as these workers can be got at a cheaper overall cost than hiring direct employees; thus encouraging the development of a two tier labour force. One tier subject to casualisation with limited rights whilst the other tier enjoys the security and benefits of the full panoply of employment rights. The trade union argument often leads with social and moral reasons in terms of the iniquities of disparate treatment. Although campaigning for the rights of agency workers may not be purely altruistic. One of the threats from the disparity in rights

is the downward pressure this creates on the pay and conditions of permanent employees who are the unions' core membership.

The impact upon HR strategy

At the relatively mundane level a review of the procedures and documentation in relation to agency working might uncover deficiencies and vulnerability to litigation. Ideally the employment agency will have an express clause in the contract between itself and the agency worker confirming that the relationship is one of a contract of service. As a minimum requirement the contract should state that there is no contract of employment with the hirer/end user. If feasible, the contract with the agency should indemnify the end user against any claims by the agency worker associated with the worker obtaining employment rights. Although the length of an assignment is not a determinate factor in establishing employee status with the hirer/end user, by keeping assignments short it will reduce the costs associated with the accrual of employment rights. It would also be relevant to ascertain whether the contract permits the agency to pass on sudden increases in costs to the hirer/end user in the event that new employment rights are introduced. If so to consider re-negotiating any such clauses.

Thoroughly researching the employment agency market and having an effective and competitive tendering process will help to ensure best value. Once appointed the employment agency contract should be kept under review to ensure that the agency meets the agreed specification of its service contract.

A risk assessment could be undertaken based on assumptions of change. What is the extent of reliance on agency workers? Are they only used to cover fluctuations in demand or are they on long-term assignments undertaking critical core work?

Consideration could be given to re-balancing the overall labour resourcing mix; perhaps increasing the use of independent contractors and/or direct employees. Increasing direct employees could have benefits in terms of morale, motivation and productivity and reduced risks of costly litigation. There might emerge a generally more contented workforce with higher productivity and less prone to either industrial action or absenteeism.

Prior to deciding upon any changes in the labour mix

in favour of permanent employees it would be important to ensure that the requisite skills can be fully sourced by direct recruitment. People with particular skills sometimes choose to work exclusively through agencies and may be difficult to obtain by direct recruitment.

The increased payroll and servicing costs of a larger direct workforce would also need to be weighed against perceived benefits of the changes. Not only the absolute costs but the shift from variable to fixed costs and the implications for private sector organisations of raising the point at which the business reaches break even.

In the event that the additional direct labour is less than the labour discontinued through agency working then the impact on the workforce should be assessed. There may be work design, restructuring, pay and incentive interventions that can be made to help address pressures created by such conditions that will reduce the negative impact and improve overall productivity.

We will have to wait and see as to the specific changes that may emerge in the employment rights of agency workers. In the meantime HR strategists can be thinking and planning to accommodate such changes if and when they materialise so as not to be caught flat footed when the time comes.

Points to ponder

- Where do you stand on the issue of equal rights for agency workers and why?
- If agency workers are granted the same rights as permanent employees, what will the consequences be for your organisation?

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2. Recruitment and Employment Confederation estimate of the average number of active job placements, any one day in 2007.
3. CIPD/KPMG Labour Market Outlook, Quarterly Survey Report (Winter 2008).
4. Employment Agencies Act 1973. The Conduct of Employment Agencies and Employment Businesses Regulations SI 2003/3319 (in force April 2004). Conduct of Employment Agencies and Employment Businesses (Amendment) Regulations SI 2007/3575 (in force April 2008).
5. *James v Greenwich Borough Council:* (2008) EWCA Civ. 35, para.60.
6. See for example: *Harlow District Council v. SJ O'Mahony & APS Recruitment Limited* (2007) BAILII: UKEAT 0144 2106. *Dacas v Brook Street Bureau* EWCA (2004) ICR 1437. *Cable & Wireless v Muscat* (2006) IRLR 354.
7. Paraphrased from a speech made by Pat McFadden, Employment Minister in the House of Commons 22 February 2008 during the 2nd reading of Andrew Miller's private member's Bill (see Footnote 15).
8. Temporary and Agency Workers (Equal Treatment) Bill passed its 2nd Reading in the House of Commons on 22 February 2008 and may now go to Committee Stage.

Achieving value from "HR metrics"

Professor Andrew Mayo

The growth of interest in HR metrics has been substantial in the last few years. This has been fuelled by a number of factors, which we can summarise as follows.

- Research into the links between HR practices and business success.
- The DTI Taskforce "Accounting for People".
- The growth of "balanced scorecard" approaches to performance measurement.
- An increasing emphasis on "human capital management".
- David Ulrich's impact on "HR transformation" and the "HR Scorecard" and the desire of HR professionals to be more credible as partners with business-minded managers, not least in their numeracy.
- Empirical studies of the positive links between engagement and business performance.

Taking stock

It is appropriate to start by reviewing each of these drivers.

We can only briefly mention some of the extensive research that has been done. Jeffrey Pfeffer published his *The Human Equation* in 1998 — with his "Seven Practices of Successful Organisations". Shortly before, Mark Huselid at Rutgers University produced highly quantitative research showing the effect of HR practices on productivity and profit. Mercers, the global HR consultancy, produced its "Human Capital Wheel" and Watson Wyatt its "Human Capital Index". The CIPD has commissioned several studies over time, and the latest research of this kind is published by the Institute of Employment Studies entitled "People and the Bottom Line". This very detailed study uses a "4A" model — "access" (resourcing), "ability" (skills), "attitude" (motivation and engagement) and "application" (a supportive working environment). These studies can be summarised by their common conclusion — that there is a correlation between positive people processes and organisational performance. While this has gladdened the hearts of HR professionals, there is some doubt as to whether the findings have had much effect on senior managers. That may be because HR has failed to exploit the messages.

The DTI Taskforce "Accounting for People" (2003) stimulated considerable interest in the UK at the time, as HR directors felt they might have to produce a range of figures for company annual reports. The findings were watered down into a narrative, which most large companies were doing anyway. A few have produced figures voluntarily (eg Shell and Smith and Nephew), but most have avoided doing so. The CIPD produced two excellent papers on both external and internal reporting around the same time. But external reporting has ceased to be a real force for change.

The Balanced Scorecard, developed by Kaplan and Norton in 1992, has had extensive influence. Focusing on four quadrants of measures that support the organisation's strategy they did not specifically choose "people" as a measurement area, but rather "learning and innovation", ie what people generate. Many organisations have, however, changed that and have found some people measures to put in the system. If the methodology is followed rigorously the measures should be developed specifically to support critical strategies. At the same time in Scandinavia, Sveiby developed his "Intangible Assets Monitor" which was based on similar principles — people were described as "competence capital" and there was more emphasis on skills and expertise.

This work is linked to the use of "human capital" as a term to sit alongside "human resources". It is related to the oft quoted "people are our most important assets" — which we discuss further below. The lens of looking at people as "value creating" leads to a particular emphasis on such areas as talent management, retention and empowerment.

Fifth, the work of David Ulrich and his colleagues at the University of Michigan has had a transforming effect on the HR profession. Most of all he has stressed the involvement and partnership of HR in business achievement, and the need for numerate measurement to support that.

Finally, but by no means least, are the studies done in several retail and banking firms of the links between engagement and performance. These have been well publicised, and have helped to popularise the use of Gallup's engagement tool, the "Q12". Most of these firms benefit from replicable units — branches and shops — enabling meaningful comparisons that are difficult in more complex organisations.

It would be wrong not to mention also the longstanding contribution of the Saratoga Institute and its satellite consultancies in compiling various ratios and benchmarks; the specialised work of Eric Flamholz in Human Asset Accounting, and of the specialists on Return on Investment (ROI) such as Jack Philips and Paul Kearns.

So where are we now? We have several models of human capital management — the latest being from the CIPD (Armstrong and Baron, 2007). Seminars and conferences on the subject are popular. But despite all the work of the last 10 years, the existence of confident and strategically constructed metrics frameworks, which are an integral part of an

organisation's performance system, are still scarce. There are few excellent role models. Why is this?

I suggest there may be the following reasons:

- There is confusion about the purpose of a measurement framework.
- There is confusion about the mix of measures that are in use.
- Much of the attention has been at the "corporate" level, and therefore of less relevance further down.
- There is no standardisation of measures or models in use.
- Most of the exemplars, and indeed most of the literature, has focused on the commercial sector only.
- There is generally a lack of pressure from CEOs and CFOs. They can often see the value of the good work of HR qualitatively, but feel no need to demand more numeracy on the tracking of what is happening to their human capital.
- Related to this is a feeling of "if I put a lot of effort into this, will it really be valued?"
- In some HR functions, there is undoubtedly some discomfort with the levels of ability to undertake good measurement processes, and perhaps also with what some of the data might tell management.

In this article we will attempt to deal with these.

Purpose

The goal of the "Accounting for People" work was primarily aimed at providing information to people outside the organisation. Investors would benefit from data about people, acknowledged as the key assets of an organisation. Journalists and commentators would be able to make comparisons and analysis. Above all it provided a fairer, more balanced view of the operation of a company.

The clamour of such interested parties however is muted. Companies can see many pitfalls in the interpretations that could be placed on figures, and are naturally not lobbying for more disclosure on their own account. Those that do so voluntarily are linked more to objectives of good publicity and demonstrating sound governance.

A much more valid purpose is to monitor what is happening with people inside the organisation, who generally comprise both the largest cost and the greatest source of value creation, in a way that balances the importance given to finance.
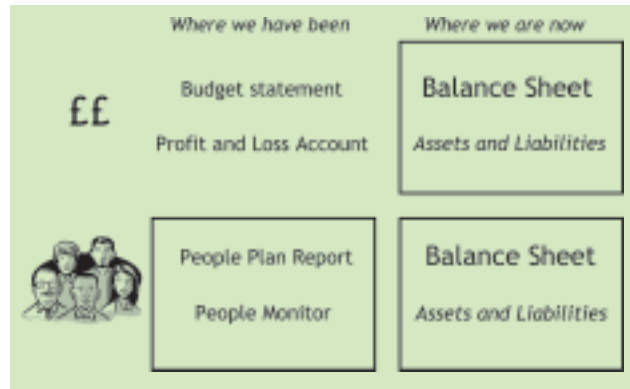
Figure 1: Balanced measurement and reporting tools

Figure 1 shows how that balance can be in practice. The finance profit and loss statement is a statement of what has happened over a period, usually compared with a plan called the budget. Likewise we can make a plan for our people resource, and report on how we are doing against it. The People Balance Sheet will not be in financial numbers (though there may be a few) but will be a statement of what is in positive territory, and what is negative and therefore requiring attention.

A third purpose of people-related measures is about the effectiveness of the HR functional contribution, which we discuss further below.

Towards a more systematic approach — untangling the jumble of measures

The majority of efforts in this arena have been to decide which "basket" of measures should be used. The choice has also been led by top-down thinking, ie starting with what would be useful at board level. The result is often a mix of measures of varying value and interest, and which are exposed to two dangers. One is that the "consolidated" figure is the enemy of the truth, which always lies in the detail and the variations from the mean. The second is that it can lead to a "one size fits all" approach, which may be applied to some areas with little relevance.

Figure 2 shows a systematic division of people-related measures into two main groups, with two sub-categories each.

Figure 2: A systematic framework for people measures
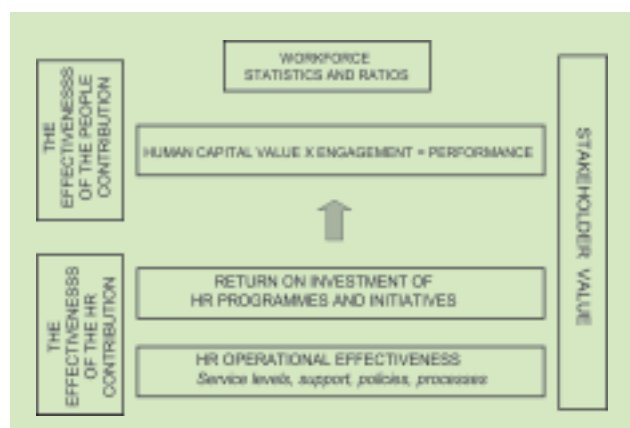
The two groups are, firstly those measures related to the workforce and their contribution to stakeholder value, and second those related to the effectiveness of the HR function. The latter affects stakeholder value as well, particularly through its cost effectiveness, but also feeds into the contribution of people.

All people measures have relatively little meaning as standalone numbers. They gain meaning when compared with similar measures — trends over time, achievement against targets, and benchmarking between similar groups.

Workforce analytics

This is one area where every organisation will have something to show. It includes statistics about the makeup of the workforce — by grade, length of service, gender, ethnic origin, job family, etc — whichever way one wants to cut it and display it.

As we learn from finance, it is ratios that help us manage more than absolute numbers. We will almost certainly have absenteeism and labour turnover as two of them, but there are second order ratios such as labour turnover per range of length of service which may be particularly useful. Examples of other ratios could be between job families (support staff: front line), gender percentages per grade, percentage of graduates, promotions by grade, and so on. Reporting on these could also include financial calculations of the cost of being "off target".

The trick here is not to produce every possible combination, nor to use the same for every part of the organisation, but to pick those that will be most useful and relevant in support of our business and people strategies.

The contribution of people to performance

For many years the Saratoga Institute has devised and suggested ratios of bottom line results versus numbers or costs of people. Many of these are indeed useful as productivity measures, at least in the commercial sector, but only at a level high enough for these figures to be calculated. A large proportion of employees are not directly linked to financial results, and need other measures of productivity — preferably based on *value added* to their particular stakeholders. This is true universally in the public sector, which finds productivity measures generally difficult and often prefers to measure activities.

What we need to understand is what drives

performance, and how we could measure this. We have noted above the correlation between good HR practices and results, but what about the people themselves? Research consistently shows links between the *motivation* of people and performance. Based on the pioneering work of the "Service Profit Chain" (Heskett, Sasser and Schlesinger, 1992) companies, especially in the retail and banking sector, have looked for, and found, statistical correlations between employee motivation, customer loyalty and bottom line measures. It seems a reasonable hypothesis that the capability of people also affects performance, and that the following causal relationship is true:

People capability x People motivation = Performance

The capability of people represents their value to us and provides some clues for assessing the value of people, rather than a somewhat sterile search for a financial value, which would probably not — even if we found one — take us much beyond the realm of "interesting". We said above we would come back to the statement that "people are our most important assets". This is true with two qualifications. The first is that some people are actually *liabilities* — in that (on average) they subtract value from stakeholders. The

Figure 3: Types of human resource

Cat.	Types of resource	Indicators
1	A means of production — a "machine-substitute"	Cost per unit Productivity
2	A "maintenance worker" — keeping things going	#: direct/# Cost:unit of value
3	Direct provider of value to a stakeholder	Value yield/cost
4	Creator of more/different future value	RoI over a period

second is that it is particular qualities, skills and expertise that are strategically important that comprise the real asset value. In fact, if we look at people in terms of their value creating capability we might identify four categories as in Figure 3: Types of human resource.

Traditional reporting counts all these as "headcount", and yet at one extreme people are literally a cost of production and at the other they are actually an investment in the future. In knowledge based companies, some roles (especially managerial) may combine categories 2, 3 and 4 — and the issue is how much time is spent on each.

It is the contributing factors to categories 3 and 4 that we need to identify and, in some way, measure. In so doing we want to get a statement of the value of a person to the organisation, which is demonstrable to anyone who asks. The answers to these questions will be team-specific. For some it is to find people who will fit in well and make good team members. For others, the ability to get certain kinds of results is all that matters. Typical types of factor are:

- **Capability** — the *cumulative* personal and professional skills, knowledge, experience and useful network.
- **Potential** — to grow and contribute at a higher or deeper level.
- **Achievement** — ability to get results.
- **Alignment** — to organisational values.
- **Mobility** — willingness to be flexible in location.

Some judgments about the relevant strengths of these factors on a consistent scale will help us to understand the relative value of individuals in a team, and of teams themselves.

The second part of our equation is to seek some measures of *motivation*. The most commonly used label today is "engagement" — something that is beyond satisfaction and implies a commitment to the goals of the organisation. Measures here need to be both *outcome* indicators, ie "do we have it or not and if so how much?" Such measures would be excessive attrition and absenteeism, and then by surveying the perception surveys of employees and managers. The factors that lead to high motivation will vary from group to group (indeed by individual) and need to be researched.

The work of Marcus Buckingham of Gallup in analysing a very large quantity of opinion survey data led to the word "engagement" and to an analysis of the most likely factors leading to it. He devised his "Q12" instrument — a set of 12 fundamental questions to which employees should be able to answer positively. This has also led to the concept of "pulse surveys" — much more frequent checks on how employees are feeling — and which have been used in the empirical studies mentioned above.

To meet the requirements of Figure 1, we need some form of integrating this data as a management tool. The "*People Monitor*" (Figure 4) provides one way of doing this, and — over time — of correlating specific factors with their effects on performance.

Most managers have a headcount plan and keep track of

Figure 4: The people monitor
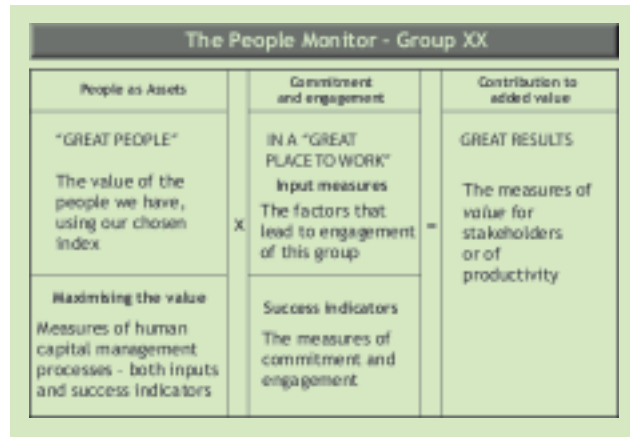
where they are on this. But a "People Plan" would be more than this and would help to focus on plans for training and development, targets for productivity and engagement, capability levels and so on.

HR functional efficiency and return on investment

The second grouping of measures in Figure 2 were those concerned with the contribution of the HR function. Dave Ulrich has long been a great champion of making HR activities measurable and closely linked to business results. In 2001 he published, together with Mark Huselid and Brian Becker, his "HR Scorecard". This lists over 50 possible measures for HR efficiency alone.

We suggest there are four areas to measure in terms of operational effectiveness, as follows:

- Measures of service delivery — quality and cost.
- Measures of HR owned processes (such as appraisal, recruitment, communication and others) — particularly focusing on the outcomes of the processes, and also measuring some indicators of process efficiency.
- Time utilisation — how much time is spent in routine activities and problem solving as opposed to "added value" activities?
- The "People Monitor" for the HR departments.

Over and above the operational work, are specific initiatives, projects and programmes which need to produce a return for the costs expended. This is complex for support functions like HR, as not all are aimed at direct financial benefit. Many are about employee motivation, or (for example) engaging with values — their outcomes can and

should be measured. At the end of the day the RoI is a judgment of whether the combination of financial and non-financial benefits was worth the cost of providing them.

The context of creating a metrics framework

Earlier we listed the reasons why progress was slow. We have devoted most of this article to the first three, and will look briefly at the others. What we have described above we believe applies equally as well to non-profit organisations.

The lack of standardisation is undoubtedly a barrier and puts the HR profession at a disadvantage. Even if a set of standard measures were agreed, the way they are calculated is likely to remain varied. Even within organisations there is a struggle for standardisation.

We do suggest very strongly that it is up to the HR profession to make their stakeholders — especially senior management — aware of the value that can be gained from a sound people metrics framework. This will work synergistically — as demand is created, so it will engender enthusiasm in the HR people. It is up to them to ensure they can rise to the challenge with suitably qualified and capable contributors.

Conclusion

This gap in the way organisations are managed is one that must be filled. It provides a great opportunity for HR professionals to change the landscape of performance measurement and position the contribution of people in its rightful place. We are often so overwhelmed with issues to be solved that taking such a strategic and difficult initiative is postponed. The longer we do this, the more we shall fail to get the right balance between the costs and value of people. The ball is in the hands of HR people to create the change.

Points to ponder
- What measures do you find most effective?
- What actions do you take as a result of the insights gained through measurement?
- What impact have those actions had on key stakeholders?

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Creating cohesive cross-cultural teams

Annette Sinclair and Gemma Robertson-Smith

The globalisation of business, continued immigration and the rising popularity of team-based management techniques mean that, increasingly, people of diverse cultures must work together.

Managed well, a culturally diverse workforce can enable superior business performance and an improved bottom line[1,2,3,4,5]. In practice, many organisations have found that bringing culturally diverse people together can be problematic. Cross-cultural teams are often associated with increased conflict, communication challenges and fragmentation and often performance is not at the level required or expected[6].

Understanding how cultural differences may impact upon effective teamwork processes and how they may be managed is now a salient management concern and the subject of new research by Roffey Park. Based on 37 in-depth interviews with organisational representatives, managers and members of cross-cultural teams, this research explores successful strategies implemented by managers and organisations in their endeavour to promote effective working across cultures and how they seek to overcome the challenges of cross-cultural team working.

Findings from this research emphasise the necessity of developing and maintaining a good team ethos if cross-cultural teams are to be successful. This article looks at some of the ways in which organisations and managers in the research were attempting to do this, from investing in beginnings, to building relationships, ensuring clarity regarding goals, rules, expectations and team processes, building proficiency in cross-cultural communications and raising cross-cultural awareness.

Invest in beginnings

Investing time at the beginning of team formation is essential for building relationships among team members and developing trust and expectations — issues that are important for any team but crucial for cross-cultural teams who are more susceptible to misunderstandings. It is particularly important where teams are not located together.

The cost of getting people together for a few days at the beginning of a big project will be saved many times over with fewer conflicts and better communication. This is an important time to develop awareness and acceptance of cultural differences through discussing different backgrounds and what each individual can bring to the team. It is also important to define and clarify group goals

and establish processes for working and communicating at an early stage.

Our research at Roffey Park also identified the value of thorough inductions for new team members. For cross-cultural teams, particularly those that involve the relocation of team members, inductions need to cover not only organisational and process issues but also "*country and customs and practical matters*" of living and working in a different country. Some organisations held inductions at the company headquarters to help new cross-cultural recruits "*get the feel of the company culture*" and meet people.

Several organisations in our research referred to the need to consider the impact of culture at an even earlier stage — when recruiting or composing teams. This requires involving HR early on when moving into new countries and talking to head-hunters to source the correct people — "*people we can fit in quite quickly*". Organisations talked about looking for not only specific competencies and behaviours but also language skills and knowledge and experience of different cultures, particularly the culture of the region where they are working. Recognising the strengths of different cultures when assigning individuals to particular roles was also seen to be important, although care is required to ensure team members are viewed as individuals and not cultural stereotypes.

> "*The German team members are more structured and organised … you can use that as an advantage and assign them to the more organisational planning jobs, which I did. Spanish and Turkish people are more excited … Last year we assigned the Turkish person as the project start up manager because of his culture … and it was very successful.*"

> "*There are differences in the way people from different countries approach engineering. So, for example, the US and UK approach it as step process, whilst Japanese and Latin American people integrate across the whole piece. We need to consider this when we mix teams together.*"

Build relationships

Building good relationships and trust needs particular attention with cross-cultural teams, given their association with increased conflict, communication challenges and fragmentation. Building trust is particularly challenging where teams are not co-located. Many of the respondents in

our research pointed to the need for some face-to-face contact to build relationships and trust. Face-to-face contact is seen to be more effective for rapport building, for facilitating more open communications and for reducing language problems. It is seen to be particularly important for certain cultures where citizens have less trust in the Internet or telephone and prefer to deal with another person face to face.

Having regular informal social gatherings (eg dinners, drinks, etc) and making the most of opportunities when team members are together is also valuable for building relationships. Relationships initiated at social gatherings could then be maintained through telecoms ("We catch up with phone calls afterwards, so it's ongoing"). Organisations can encourage social events through making budgets available.

"It doesn't have to be something big, it could just be dinner, but you get to know who is on the line, are they family people, outgoing, and is work-life-balance important? Then you know when you can schedule your telecoms, especially if they have different time-zones."

With some cross-cultural teams the practicalities and costs of arranging timely face-to-face meetings is prohibitive. Technologies such as videoconferencing are seen to be a useful "second best" alternative for communicating and building relationships. Some teams had established other processes for building relationships from the start. These included buddy systems.

"When I joined the team, someone who was my buddy in London sent an e-mail out to everyone saying xxx joins on Monday, here's her CV, please join me in welcoming her. Every member of the team then sent me an e-mail of welcome, telling me who they were, what they were doing, where they were based. It was all done virtually… [My buddy] told me who my colleagues were and set up a telecom with each individual [in the team] to get to know them before we had any face-to-face meeting, so there was that initial touch in. We chatted about who we are, where from, the stuff you would do face to face."

Partnering up with another team member for a particular task is also helpful for building relationships.

"We take it in turns to run and organise [team meetings], always with someone from somewhere else, so we learn different influences and different styles in terms of getting to know each other."

Ensure clarity

Clear communications regarding a team's visions and goals is always essential for a team to be focused on achieving them. With cross-cultural teams, clarity regarding how the team will work together and team processes become particularly important. The shared, often implicit, assumptions that govern appropriate behaviour vary across cultures so people from different cultures will have different expectations about the team and how it will function. Attitudes to timekeeping are a frequently cited example. Punctuality is expected in some cultures but not in others.

"Someone will say 'Come on, take it easy', and the other will say 'You don't respect me' [if people turn up late to a meeting]." "In Mexico, you can say 7.00pm but nobody will come before 8.30pm."

Other assumptions regarding appropriate behaviour are more subtle. In some cultures considerable subordination to managers is the norm with the effect that people are reluctant to act on their own initiative.

"They would rather see things going wrong than go against an order or act on their own initiative. This behaviour obviously needs to be eradicated. To do this I often state that if you don't know who is in charge of some process then you are. If you can see no one in charge, do something. I tell them you won't be punished for mistakes but for inactivity. If you act on your initiative and make a mistake that is better than doing nothing."

Managers need to recognise both how they themselves and their team members like to work and where discrepancies lie. Being explicit in the beginning regarding rules and expectations about how the team will work and ensuring shared understanding can help reduce misunderstandings and avoid potential conflicts. Involving team members in establishing rules and expectations can help identify what they expect from others, themselves and from the manager regarding how they are to work together. These discussions will help highlight cultural differences and expectations and increase understanding. Since attitudes to rules also vary

across cultures, involving team members in developing rules and expectations is critical if they are to be effective and adhered to.

Build proficiency in cross-cultural communications

Clarity and checks against understanding are similarly required with cross-cultural communications. Even among speakers of the same language, the meaning attached to words can be quite different. Rose (p.3)[7] recalls how their UK business was perceived by the US never to meet commitments. "This simple misunderstanding stemmed from our commitment to complete a task in a fortnight, a term not used in the US and assumed to mean four nights."

Similar examples were found in our research.

"In some cultures, 'maybe' means 'Yes. I will do it, I just don't want to promise because I'm not sure', and in other counties it means 'forget about it, I just don't want to say no to your face'. In Latin American cultures they say 'maybe' and this means 'no'. In Scandinavia or Germany if they say 'maybe', this already means a high level of commitment."

Other communications issues arise due to cultural differences in the expectations of managers. One manager reported different instances where a team member had misinformed him about a particular situation "because he wanted to please me, to give the right answer". This manager consequently tried to avoid such situations by:
"*Making clear what precisely you want, why and what you will do with the information*". Also by sharing whether "*there has been any confusion when asking for that information before. Any muddles or mistakes*".

Language training and finding a shared working language can help ease some of the communication difficulties experienced by people working cross-culturally; however, patience and constantly checking assumptions and understanding are essential. Verbal directions and the like and non-verbal actions can be interpreted quite differently according to culture and a shared understanding of what is meant should not be assumed. Care must be taken to communicate clearly, unambiguously, avoiding colloquialisms and frequently checking understanding of what is being said. Our research also suggests that finding communication *methods* that are appropriate can be equally important.

Raise cross-cultural awareness

Awareness of cultural differences is a first step towards promoting mutual understanding. It can promote effective communications, reduce conflict and misunderstandings and consequently enhance team performance. Working on real problems and issues in a multicultural setting can itself greatly enhance cross-cultural awareness but there are also various methods that can assist through developing knowledge about cultural differences and their impact.

Training events: These can focus specifically on enhancing cross-cultural understanding and may include cultural awareness training, intercultural competence programmes, workshops, presentations and language skills. Ensuring that general training programmes include participants from different cultures can also build cross-cultural awareness through exposing participants to different points of view. They can add value through promoting integration, cross-cultural interaction, knowledge sharing and networking.

International assignments: Exposing people to different cultures through overseas assignments and secondments can be a powerful way of enhancing cross-cultural awareness. Short business trips can also be useful learning experiences with the right preparation.

> *"When someone is to go to another country we have a local to brief him or her on customs and practices."*

Social events: Encouraging social activity between different cultures helps develop relationships and mutual understanding. Some organisations hold events such as an "International week" combining formal and informal networking and run international cooking courses. Informal occasions such as team dinners could be just as useful.

> *"If you go to dinners then you start to talk about families, food, traditions. Then, as soon as you understand that he is not only a business person but he is also a human being, his family lives in different traditions, then you start to be more tolerant."*

An active focus on cultural diversity and communications: Actively identifying and focusing on cultural differences can improve awareness and enable differences to be leveraged to maximise performance. Our research found examples of how an active focus on diversity at both the organisational and team level helped promote more effective relationships.

One organisation had informal champions to promote cross-cultural awareness. These champions "tend to move from one country to another [in their roles…] are very interested in the topic and they talk to each other, and try to work things out and show what's going on."

Another organisation promoted effective cross-cultural communications through highlighting differences in preferred communication styles across cultures.

> *"[In our company] there is a big cultural divide between the Dutch, and British. To be very stereotypical the Dutch are very outspoken and call a spade a spade. They use no pleasantries in e-mails, it's always 'do this', whereas the Brits are all 'please' and 'thank you' and 'could you possibly maybe'. [Our diversity and inclusiveness practice] sent an e-mail round to the Dutch team saying, 'please remember when you're dealing with the UK to add in some pleases and thank yous.' There are also some slides on translating Dutch English into English English such as what do we mean by 'interesting', or 'a good job'. Some of it is tongue in cheek and some of it is to stimulate thought."*

Cultural and other interpersonal differences were also discussed at a team level and in training programmes, sometimes using tools such as the Myers Briggs Type Indicator[8] as a starting point. Not all teams would focus the discussion on cross-cultural differences explicitly but rather "debrief on the way we worked together and talk about how we would work together."

Mentoring: Mentoring was also reported to be an effective way of developing cultural awareness.

> " *When someone is to go to another country we have a local to brief him or her on customs and practices.*"

"I mentor a young Azeri woman … I'm learning a lot about what it's like to be a bright young Azeri working in this company."

Conclusions

People from different cultures may not think, act or communicate in the same way and they often have different expectations of how team members and their manager will operate. This often gives rise to tensions and poor performance in cross-cultural teams. Efforts to develop a good team ethos through building rapport and trust, ensuring clarity regarding how the team will work together, building proficiency in cross-cultural communications and raising awareness of cultural differences and their impact can help minimise some of the potential challenges associated with cross-cultural working and maximise the benefits of the diversity they bring.

Further information

The full report of the findings, covering additional topics (including how to deal with conflict, motivate, manage performance, communicate and encourage active participation and team learning) and highlighting practical strategies for the effective management of cross-cultural teams, is available from Roffey Park. An experiential workshop covering key research findings will be held at Roffey Park on 7 July 2008. For further information contact Roffey Park (*www.roffeypark.com* or tel: 01293 851644).

Points to ponder

- What forms of team-building have you found to be most effective for cross-cultural team-building, and why?
- What do you consider the greatest challenges and opportunities your organisation faces in getting the best out of a cross-cultural workforce?

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