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Strategic change

Julia Balogun, p 2

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Strategic change

There is no easy way to manage strategic change, and no simple formula that will work in all cases; this article simplifies a very complex subject. It is emphasised that change must be context sensitive. The culture web framework is introduced as a means of addressing the 'softer' issues, which is a critical first step, as barriers to change must be identified. The change kaleidoscope will help managers to understand the change context and plan for transition.

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Introduction

All organisations are currently undergoing some type of change. Many of these change programmes arise from management fads such as culture change, business process engineering, empowerment and total quality. Other change initiatives are driven by the need for organisations to reposition themselves in the face of changing competitive conditions.

A good example of this is the change process currently under way at Marks & Spencer. The term 'strategic change' is usually reserved for such initiatives. These often involve radical transitions within an organisation that encompass strategy, structure, systems, processes and culture.

The track record of success in bringing about strategic change within organisations is poor. Many simply fail to grasp that it is implementation (that is, actually turning plans into reality) rather than formulation that is the hard part. For strategic intent to become reality, it is necessary to change the way in which individuals within an organisation behave. This requires more than restructuring and new systems.

There are three issues that managers leading change need to address :

- Major change requires a shift in the underlying culture of the organisation and therefore the attitudes and behaviours of the employees. Many change initiatives stumble because they fail to deliver this shift by addressing the cultural and political reality of organisations. This occurs because there is a misunderstanding about
  - the nature of culture in organisations;
  - how difficult it is to change culture;
  - the wide range of interventions that are required if a cultural shift is to be achieved.
- If change implementation efforts are to be successful, they need to be designed to fit the organisational context, that is, they need to be context sensitive. All too often, because of the complex nature of change, organisations attempt to pull down off the shelf solutions or recipes which they have seen work in other contexts, but which are inappropriate to their context of operation.
- Change is about changing people, not organisations. Organisations change when the managers and employees change their way of doing business. It needs to be recognised that employees are an intrinsic part of the change process.

The article briefly addresses the following issues :

1. Various types of change, and the routes that can be taken to deliver strategic change and the link between change and culture, are discussed. A framework, the culture web, is introduced. This can be used to audit an organisation's existing culture, identify the barriers to change, and build a picture of the desired future state of the organisation.
2. A second framework, the change kaleido-scope, is then described. This can be employed to develop context sensitive approaches to change.

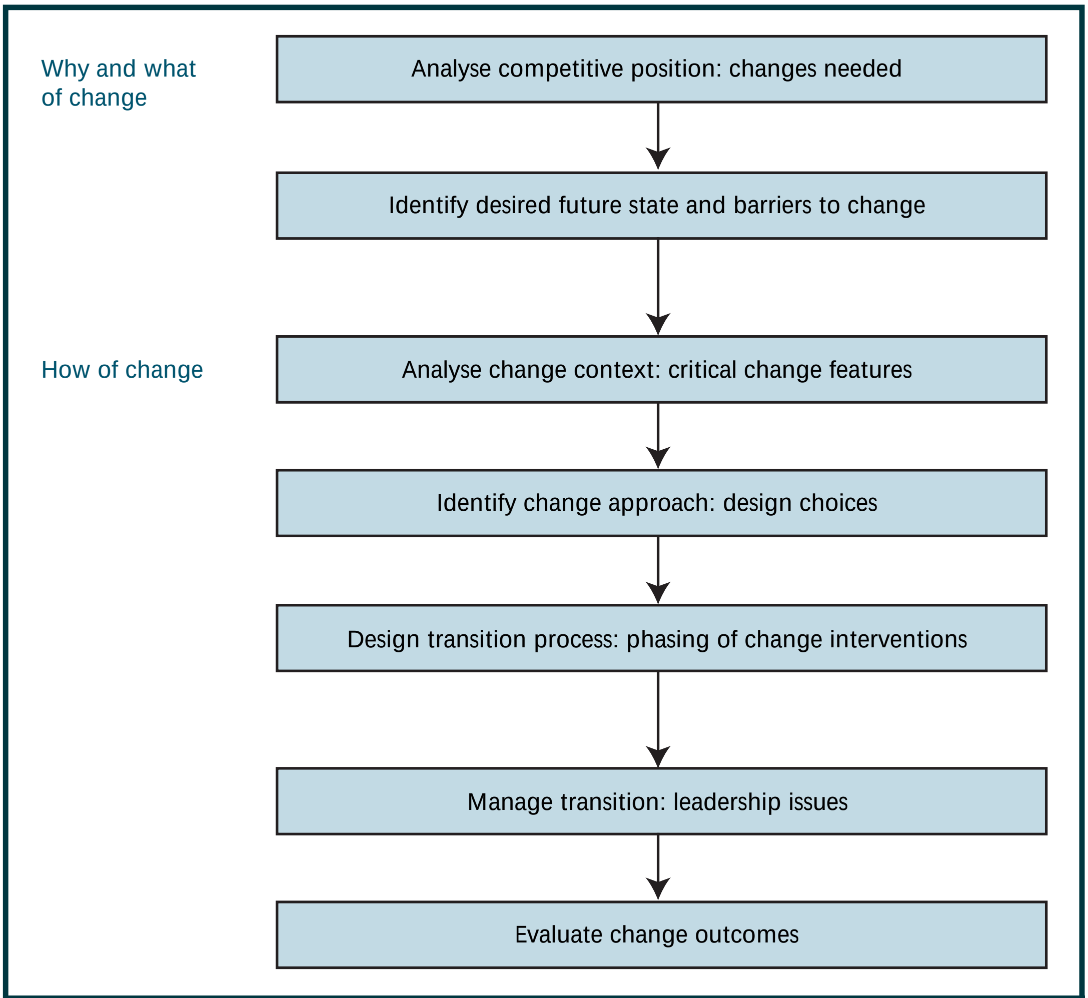

Figure 1 Implementation steps

3. Finally, some of the people related aspects of change are considered.

A flowchart of the steps that managers need to take when implementing change in an organisation is shown in *Figure* 1.

Paths of change : delivering strategic change

The four main types of change are shown in *Table* 1 (overleaf).

Change can be classified by the extent of the change required, and the speed with which the change is to be achieved :

- The speed of change is about the way that change is implemented. It ranges across a continuum from an all-at-once, big bang type of change to a step-by-step, stage-by-stage incremental kind of change.
- The extent of the change required ranges across a spectrum from transformation to realignment :
  - Transformation entails changing an organisation's culture. Culture is to do with the shared and taken-for-granted assumptions and beliefs within an organisation (the paradigm) that shape 'the way of doing things around here'. More specifically, a transformation is a fundamental change within an organisation that cannot be handled within the existing organisational paradigm. For example, the retail banks in the UK have been attempting such a shift for the last ten years. They have attempted to move from being internally focused organisations that are concerned with safe, secure lending to more customer focused retail organisations.
  - A realignment, on the other hand, does not involve a fundamental reappraisal of the central assumptions and beliefs within an organisation.

Table 1 Types of change

		Extent of change	
		Transformation	**Realignment**
Speed of change	**Incremental**	*Evolution*: Transformational change implemented gradually through interrelated initiatives; likely to be proactive change undertaken in anticipation of the need for future change	*Adaptation*: Change undertaken to realign the way in which the organisation operates, implemented in a series of steps
	Big bang	*Revolution*: Transformational change that occurs via simultaneous initiatives on many fronts; more likely to be forced and reactive because of the changing competitive conditions that the organisation is facing	*Reconstruction*: Change undertaken to realign the way in which the organisation operates, with many initiatives implemented simultaneously; often forced and reactive because of a changing competitive context

The change, for example a major restructuring, can still be substantial though.

Culture web

A good way of assessing the extent of change required is to use a framework such as the culture web (see *Figure* 2).

A culture web represents culture as an interlinked set of organisational subsystems in which the paradigm drives the visible manifestations of culture, such as the organisational symbols, routines and rituals, stories, control systems and structures.

The web can be completed for the current organisational culture, and then redrawn to represent the type of culture that is necessary if the proposed changes are to be successful. If the changes require alteration to some of the central assumptions and beliefs sitting in the paradigm, then the changes will be transformational. The use of such a framework can prevent overestimation of the extent of change required, the announcement of wholesale culture change, and subsequent disillusionment when this does not materialise because it is not necessary.

Transformational change

It is important to not be naive about the amount of effort required to implement transformational change. Organisational change requires individual change. To change the culture of an organisation, it is necessary to change the way in which individuals both behave and think about their work, and individuals take time to change.

Unless there is a very high degree of readiness for change among its employees, an organisation is unlikely to be able to deliver a revolution. If it needs to change very quickly, it may have to change its staff, that is, recruit new workers.

Organisations do sometimes do this. Midland Bank, the then owners of First Direct, the first telephone banking operation in the UK, set out to staff its new venture with non-banking people. It believed that banking staff did not have the right customer service mindset, and would take too long to change their ways.

Changing individuals requires considerable investment, for example in communication, education, training and support. That is why this article talks of paths of change. An organisation may want to deliver a transformational change in a revolutionary manner, but may be restricted in doing so because of the enormity and expense of the transition task.

An organisation in crisis is unlikely to have the time or the money to deliver a transformation. A more feasible route is to effect a turnaround by restructuring the business, cutting costs, and selling off loss-making business. Then once the business is in a more financially sound situation, it can invest in a longer term evolution. British

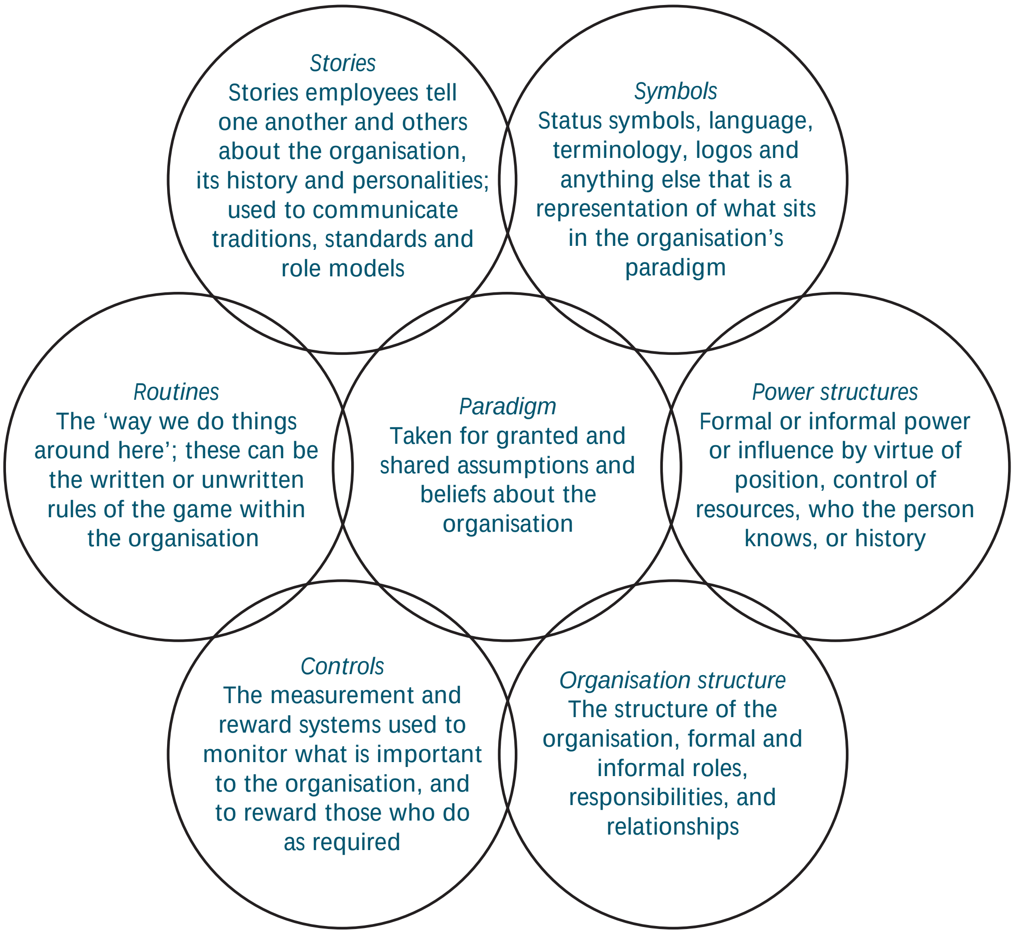

Figure 2 Culture web
[Source : Adapted from Johnson and Scholes (1998).]

Airways used this approach in the early 1980s, as did GE under the management of Jack Welch in the late 1980s and 1990s.

Alternatively, an organisation may be undertaking proactive change, but lack the capability (see below) to implement a transformation. In this case, the organisation can first effect an adaptation or reconstruction to do with building capability among its staff, and maybe raising levels of readiness for change. This can then be followed by an evolution.

Choosing the change path : devising context sensitive approaches to change

Change kaleidoscope

The change kaleidoscope (see *Figure* 3 overleaf) was created to help managers design a context sensitive approach to change within their organisation.

The kaleidoscope contains

- an outer ring that relates to the wider organisational strategic change context;
- a middle ring that represents the more specific contextual features of the change situation;
- an inner ring that correlates with the menu of design choices open to change agents when implementation of change is attempted.

The contextual features are aspects of the organisation that relate to its culture, competencies and current situation. These can be extracted from the broader strategic context.

These are the definitions of the contextual features.

- *Time* : This is the time that an organisation has to achieve change. Organisations in crisis have little time, and they need to change reactively. Those concerned with

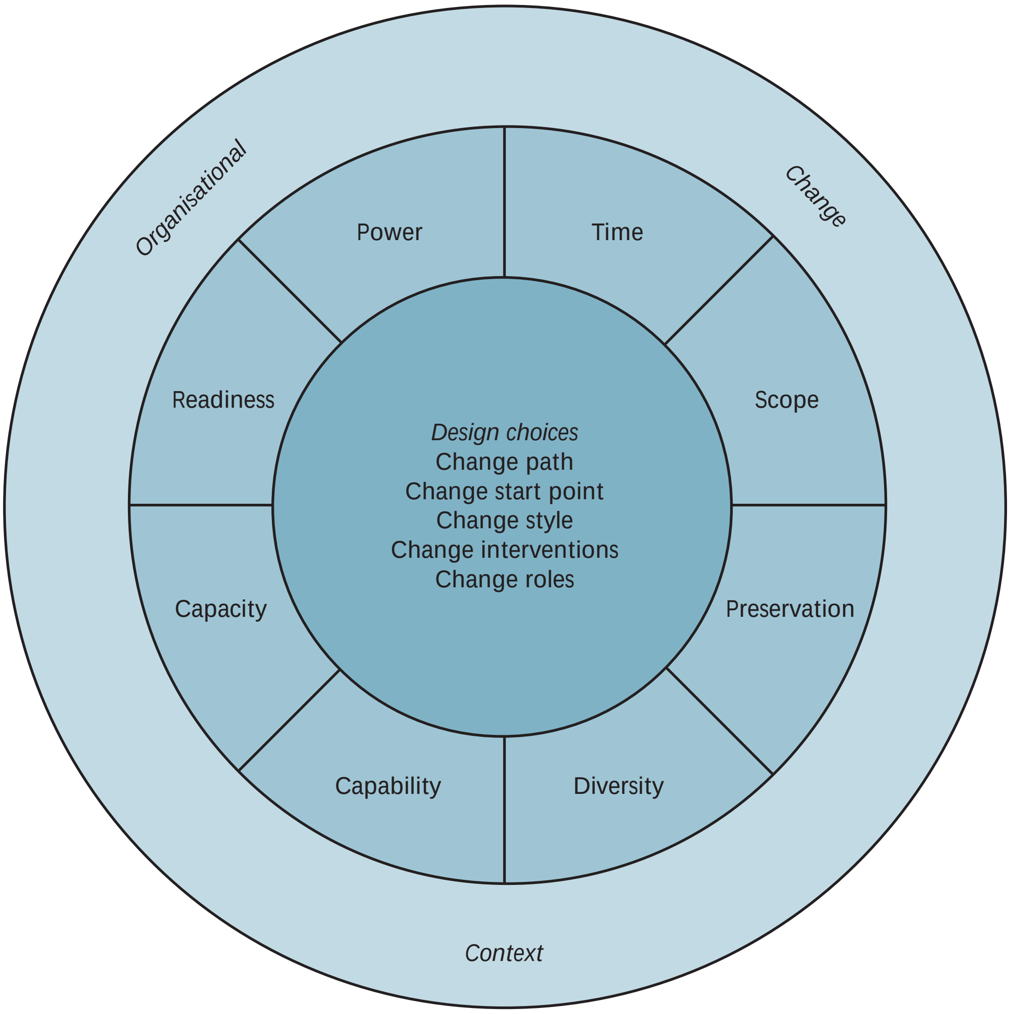

Figure 3 Change kaleidoscope
[Source : Adapted from Balogun and Hope Hailey (1999).]

longer term strategic development normally have more time to change.

- *Scope* : The scope is the degree of change required in terms of realignment or transformation. It is also necessary to consider how much of the organisation is affected. Is the change restricted to a particular division or department, or is it organisation-wide ?
- *Preservation* : Preservation relates to the extent to which it is necessary to
  - maintain certain ways of working and certain aspects of culture;
  - retain particular groups of staff;
  - preserve specific organisational competencies.
- *Diversity* : This is the degree of diversity among the staff groups who need to undertake change. Divisions and departments, for example sales and R&D, may have different subcultures. Divisional cultures may also be affected by national cultures.
- *Capability* : There are three levels of capability :
  - *individual* : the abilities of individuals to cope with the transition that they will have to undertake;
  - *managerial* : the ability of managers to help their staff through the transition process;
  - *organisational* : the existence of organisational resources with the knowledge and ability to manage change of the type(s) required.
- *Capacity* : This relates to the resources that are available for investment in the proposed change. There are three types :
  - the amount of money that is available for investment;

- the time that managers have to devote to the change process;
- the number of people with an adequate change capability.

- *Readiness* : This is the extent to which staff are
  - aware of the need for change;
  - committed to making the personal changes required of them.
- *Power* : This is the amount of power, or autonomy, that the key change agents have to implement change as they wish.

These features should be considered before a change approach is selected from the menu of design choices.

These are the definitions of the design choices :

- *Change path* : This consists of the types of change, in terms of the extent of change and the speed of change, that need to be undertaken for the required change outcome to be delivered.
- *Change start point* : This is where the change is initiated and developed. For example a change can be top-down or bottom-up, or some combination of the two. Other choices include pilot sites and pockets of good practice.
- *Change style* : This is the management style of the implementation. There is a continuum of styles, from highly collaborative to participative, directive, and then coercive. There are no prescriptions. Top-down change can still be collaborative or participative.
- *Change interventions* : These are the levers and mechanisms to be deployed. They include
  - technical interventions (structures and systems);
  - political interventions;
  - cultural interventions (symbols, stories, rituals, routines);
  - interpersonal interventions (education, communication, training, personal development).
- *Change roles* : These determine who is to take responsibility for leading and implementing the changes. These roles, which are not mutually exclusive, include
  - leadership (responsibility resides with an individual such as the MD or CEO);
  - outside facilitation from consultants;
  - the involvement of a change action team;
  - delegation to a functional head.

The kaleidoscope does not give contextual configurations that can in turn be used to prescribe formulaic design choices for particular contexts. Just as a real kaleidoscope continuously rearranges the same pieces of coloured glass to produce different images, the eight contextual features are constantly reconfigured to produce different pictures for each organisational change situation. As a result, the change designs also vary.

There are a number of frameworks that can be used to help assess the contextual features for an organisation.

- The scope of change maps directly onto the choice of change path, and so it can be assessed using a framework such as the culture web. However, the spread of change within the organisation, for example in terms of whether the changes are organisation-wide or restricted to one division such as sales or R&D, also needs to be considered.
- With respect to diversity, the web can be used to help identify cultural features that should be preserved and various organisational subcultures.
- When considering preservation, one must decide whether certain organisational competencies must be retained, or if there are particular groups of staff that the organisation cannot afford to lose. These can be identified through the use of, for example, a resource audit, which is an assessment of the physical, human, financial and intangible resources within an organisation that underpin its competitive position.
- Diversity may be affected not only by different organisational, national, regional, divisional and departmental subcultures, but also by professional cultures. One example is the different professional cultures of clinicians, nurses and managers in hospitals.
- Power issues can be assessed by using frameworks such as stakeholder analysis, in which the various organisational stakeholders are plotted on a grid on the basis of their attitude to change and their degree of influence. This enables the relative power position of the change agent to be established. Not all change agents wield position power. In many partnership organisations undergoing change, the partner leading the initiative may formally have a position equivalent to that of managing director. However,

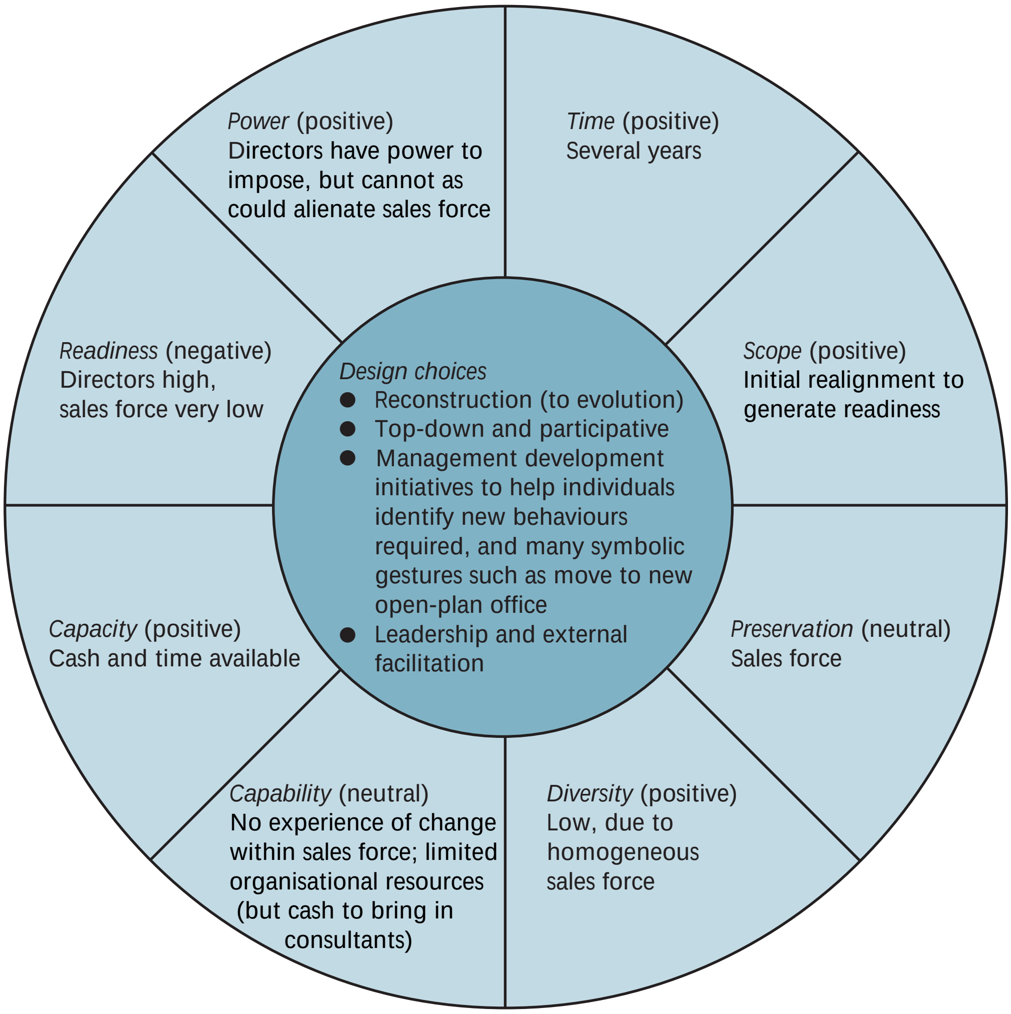

Figure 4 Key contextual features of Glaxo
**[Positive features facilitate change. Negative features hinder change.
Source : Adapted from Balogun and Hope Hailey (1999).]**

because of the decision making structure in a partnership, in which all partners have some say in what happens, he or she will not be in a position to impose change and change decisions. The reaction of external stakeholders can also restrict the decision making power of organisations. In 1995, Shell wanted to dump its Brent Spar oil platform in the Atlantic Ocean. Greenpeace, the environmental lobbyists, campaigned to prevent this. The campaign led to a consumer boycott of Shell in Europe. As some European governments also opposed Shell's proposal, Shell was forced to abandon its plans.

- The degree of readiness for change can be gauged through attitude surveys and interviews.
- There are no particular frameworks for assessing change capacity and capability.

Change capacity may be affected by wider organisational stakeholders. An organisation may be a subsidiary of a parent organisation that is reluctant to allow it to spend money on its chosen change programme, perhaps because of the financial situation of the parent holding company. Change capability is also affected by the sophistication of the organisation's performance management and human resources systems. Rewards (formal and informal, financial and other), appraisal criteria, promotion criteria, types of people recruited, performance measures and so on can be used to encourage staff to adopt new ways of behaving. Organisations that already have such systems and mechanisms in place have a higher change capability, as these systems act like strings running through the organisation that can be used to help achieve the desired changes.

Contextual features and design choices

What matters is not the individual impact of each contextual feature on the design choices, but the impact of all of them together.

Figure 4 shows the contextual features and design choices for a change process undertaken by Glaxo Pharmaceuticals in 1988 prior to its merger with Wellcome in the early 1990s.

Glaxo was undertaking a proactive change initiative with *time* on its side. The initial *scope* was only realignment, as the aim was to generate *readiness* in its complacent sales division for the transformational changes that were to come to match the changing customer requirements of the National Health Service and the reduced income that would result from one of Glaxo's major drugs coming off patent in the mid1990s.

Glaxo's main advantage was that it was currently very profitable, and had the *capacity* to invest in the change process. However, it wanted to ensure that the change process did not antagonise its sales force and cause them to leave and join competitors.

The timescales and the two phases of the scope allowed it to follow a path of reconstruction to generate the required levels of readiness, followed by a longer term evolution. Its capacity and time enabled it to invest in participative personal development initiatives and other symbolic interventions as part of the reconstruction, which would have been out of reach for a less profitable organisation.

Change interventions

Which change interventions to use is an important consideration. Change ultimately entails the deployment of a range of levers covering all the organisational subsystems shown in the culture web. Given the interdependency of these subsystems, it is difficult to change one part in isolation. Transformational change initiatives in particular, which require a change in the shared assumptions and beliefs of an organisation, are more likely to fail if those leading change focus on changing just structures and systems, paying little attention to softer levers and mechanisms such as symbols, rituals and routines. The web can be used to identify which change levers to use.

Interventions need to be designed to remove the barriers to change in the existing web, and to create the new structures, systems, routines, rituals, symbols, and stories shown in the new web. Communication, education, training and personal development initiatives will also be required to help individuals undertake the changes required of them. The greater the extent of change, the more such initiatives will be required.

Realignments may still require a change in the nature of the work that people do and the outcomes they achieve, such as levels of productivity and sales or customer response. An organisation can change rewards and performance measures to focus employees on the achievement of different outcomes, and/or it can put in place interventions that are to do with changing individual roles and responsibilities to alter the way people work.

Such interventions may need to be supported by training and measures to assess the degree of change occurring. However, mutually supportive changes may still be needed in other areas to ensure that no contradictory messages are sent to staff. If managers talk of innovation, quality and teamwork, but continue to focus on blaming people for mistakes, cutting costs and rewarding individual performance, this behaviour will undermine the rhetoric of change.

Change and individuals : the transition process

To comprehend how individuals experience change, it is necessary to understand the transition curve (see *Figure* 5 overleaf).

The transition curve shows that change is a gradual process in which recipients experience self-doubt about their ability to cope, which results in decreases in confidence and performance. Change can be likened to bereavement; it usually involves a loss of the familiar, uncertainty and ambiguity.

Different individuals pass through the curve at different speeds, and employees have to be helped through the process by their managers. It is easy to forget that the purpose of employing the selected range of levers and mechanisms discussed above is to help individuals to change. It is necessary to deploy a range of interventions to do with communication, education and training, coaching and counselling, and also to use a

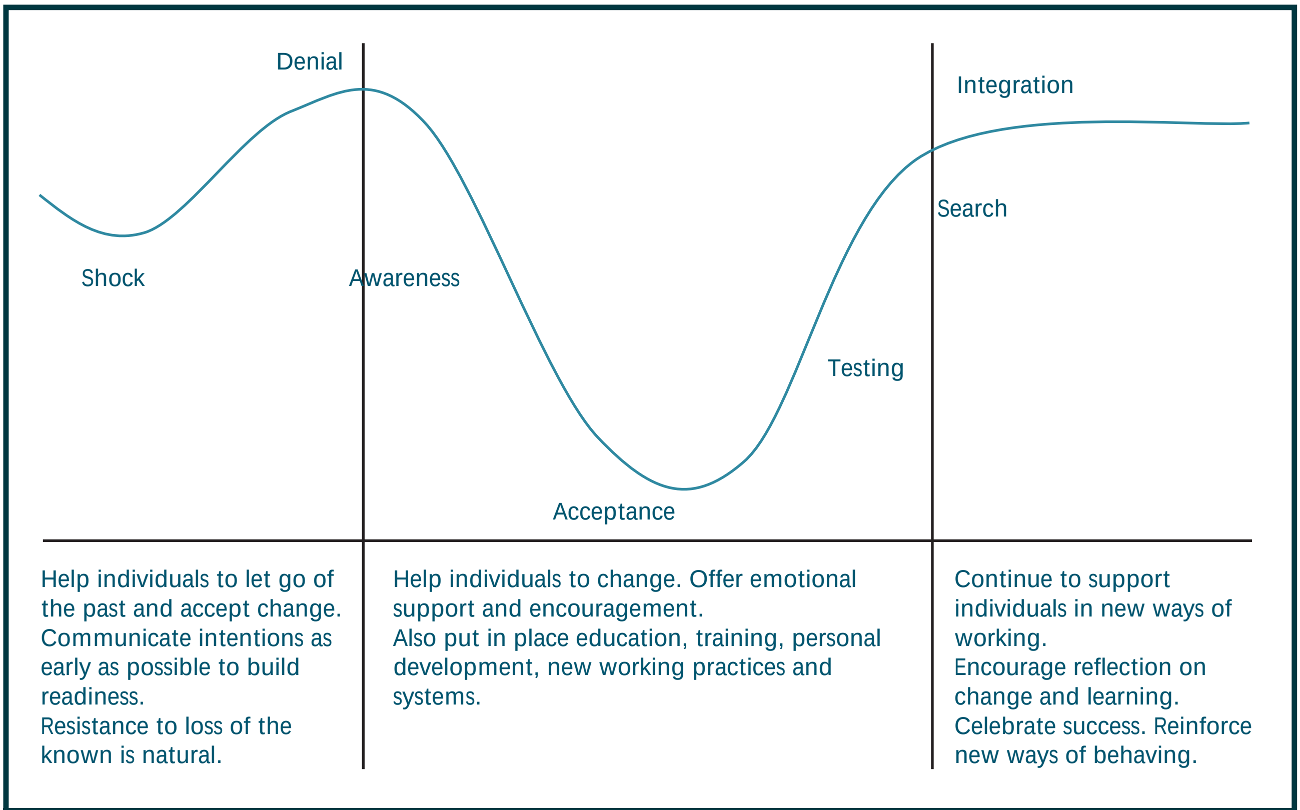

Figure 5 Transition curve

number of symbolic gestures and new systems and processes as appropriate to help people

- let go of the past;
- come to an understanding of what is expected of them in the future;
- take on board their new roles, responsibilities and relationships.

Middle managers

The transition process can create many problems for middle managers. Although these people are often accused of resisting change and derailing the change efforts of their seniors, the middle managers also fulfil a very important role. They are the linking pin between the senior management team and the rest of the organisation. They have responsibility for helping their staff through the change process while simultaneously undertaking change themselves.

They have four roles to perform. They need to

- undertake personal change;
- help their teams through change;
- implement the necessary changes in their parts of the business;
- keep the business going in the interim.

Most middle managers have already experienced an intensification of their workloads because of the downsizing of the 1990s. Change creates an additional workload.

Middle managers can help themselves by forming peer support groups and networks within which they can

- exchange ideas and learning about the change process that they are experiencing;
- share ideas on how to progress change within their areas and overcome the obstacles they are encountering.

Organisations also need to support middle managers by providing them with training in change management and the interpersonal skills that they will need to facilitate change within their teams.

Summary

The one thing that is certain in the organisations of today is that there will be more, not less, change. All managers need to have an ability to manage such change.

The solution for managers does not lie in learning a series of change recipes or formulas. They need to have

- analysis skills so that they can understand their context of operation;
- judgement skills so that they can use this knowledge to determine what is key about their context and the implications of this for their change design;
- influencing and interpersonal skills so that they can sell their change ideas to others.

Finally, they need to be able to put their thinking into practice.

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Further reading

- **'Creating successful organizational change'**

  Goodstein, L and Burke, W *Organisational Dynamics* No 4 Vol 19 (1991)

  Discusses the transformation of British Airways in the 1980*s.*
- **'Strategic choice'**

  Grundy, T *Management Quarterly* Part 8 (July 2000) pp 2–10

  Includes a section on stakeholder mapping.
- ***Control Your Destiny or Someone Else Will***

  Tichy, N and Sherman, S (1993) Doubleday

  An account of how Jack Welch led change at GE.

The European Union and social policy

EU legislation has a fundamental impact on business in the UK. This article explores the history and role of EU social policy, and puts it in a political context. It sets out the rationale behind the social policies which will guide future regulation and thus impact on British law. The decision making process within the EU is also explained.

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At the heart of the European Union lies a compromise or, more accurately, a tension, between

- competition and regulation;
- freedom of movement and intervention;
- economic policy stressing free trade, free markets and free competition and social policy stressing social inclusion;
- common standards and democratic participation at work.

There is a clear logic behind this compromise : unless there is some type of social policy that is aimed at harmonising employment costs in the EU, market forces will lead to

- mass redundancies in better-off countries as companies move in search of cheaper wage costs;
- mass migration from poorer to wealthier areas as workers make use of their rights to free movement.

The role of social policy, through the setting of minimum standards and through training, education and infrastructural investment, is to

- create a 'level playing field' for competition to prevent social dumping;
- encourage companies to compete through quality and innovation rather than simply by depressing wage costs.

However, this line of argument is, of course, far from neutral. It is rooted in the historical and political traditions of 'welfare capitalism' in countries such as Belgium, France, Germany and the Netherlands. It reflects particular ideological views on the role of state intervention and it has been hotly contested by those who favour a more minimalist approach to economic policy.

Whatever its ideological basis, the majority of employment legislation introduced in the UK in the last decade has its origins in one way or another in the European Union. Hence it pays to be aware of developments.

There is another reason for paying attention to EU social policy. The debates that lie at the heart of the European Union are an indication of the cultural, social and economic diversity that characterises the European Union. To be successful in the Single European Market and to be able to benefit from access to the buying and producing power of its 380 million inhabitants, organisations need to be aware of the different labour market and industrial relations histories that have shaped it.

EU social policy constitutes an interesting case study in how to regulate and influence across borders.

The history of social policy in the EU

Social policy played only a minor role in the first few years of the existence of the European Union (then called the European Economic Community).

Even though the motivation behind the foundation of the European Union was an intensely political one, that is, to prevent the reoccurrence of the type of economic and social upheaval that had led to the Second World War earlier in the 20th century, the means by which this was to be achieved were mainly economic. It was believed that economic integration would lead to greater productivity and hence ensure greater prosperity and social progress for the citizens of the EU.

This began to change by the end of the 1960s, when social democratic politicians such as Willy Brandt began to push for more of a human face for the European Community (Teague (1994) and Teague (1995)). This resulted in the first social action programme in 1974, and a spate of directives (see below) on sex discrimination and employee rights in the cases of redundancies, insolvency and takeovers (see Appendix A). These were all very topical issues at the time.

Few new legislative initiatives were added in the 1980s, mainly because these were successfully blocked by the UK government of Prime Minister Margaret Thatcher. The decision to go one step further with European integration and embark on the ambitious project of forming the Single European Market added a new impetus to the social policy dimension.

Frustrated by the deadlock over social policy in the 1980s, European Commission policy makers looked for ways of preventing politicians such as Margaret Thatcher from blocking developments in the whole of the EU.

The *Social Chapter* of the 1991 *Maastricht Treaty* broadened the scope of policies that could be passed at European level. Until then, all new legislation had to be directly based on the original 1957 *Treaty of Rome*. This contained only a limited number of references to employee rights, mainly in relation to health and safety and equal pay, and some provisions for information and consultation with workers.

The 1991 *Maastricht Treaty* also introduced important changes in the ways in which new policies could be introduced. Until then, the creation of EU social policy legislation required unanimous support from all the member governments. The new treaty introduced what is called ‘qualified majority voting’ (QMV) for many areas of social policy. The voting is called ‘qualified’ because, instead of there being straight voting, countries are allocated different numbers of votes that reflect their different population sizes.

These developments initially did not affect the UK, as it had ‘opted out’ of signing the *Social Chapter* of the 1991 *Maastricht Treaty* because of the Conservative Government’s opposition to the social dimension of the Single European Market. However, the signing of the *Social Chapter* was one of the first acts of the next Labour government, so that now all EU member states are covered by its provision.

The social dimension of the Single European Market

The social policy dimension of the Single European Market is based on the following conviction : given social costs and living standards in Europe, the European economy can only compete on the basis of quality. Quality output requires a quality workforce, and this in return requires quality working conditions.

At the same time, companies have to be encouraged to compete through quality and innovation rather than through wage costs by the introduction of basic minimum standards which prevent social dumping. This approach was expressed in the *Social Charter*.

The *Social Charter* is best understood as a statement of intent to be followed up by individual legislation and policy initiatives. It covered 47 proposals, of which 20 required new legislation. Many of the initiatives, such as the mutual recognition of professional qualifications (and here the European Commission started with A for architects and worked through to Z for zoologists) to the new *Working Time Directive* and the requirements of European MNCs to set up works councils, have already been implemented.

Importantly, the 1991 *Maastricht Treaty* also specified some areas relating to social policy where the European Union is explicitly prohibited from creating policy, and where national regulations have automatic primacy :

- pay levels;
- rights of association;
- strikes;
- lock-outs.

During the 1990s, there has also been significant movement in the direction of joint labour market policy. The 1996 *Amsterdam Treaty* included for the first time an obligation on member states to pursue active and coordinated labour market policies. There are four key pillars to the Employment Strategy, and member states have to prepare National Annual Action Plans, which are scrutinised by the European Commission and the European Council.

The European Union decision making process

The decision making process in the European Union is somewhat obscure, partly because it is an amalgam of different legal and administrative traditions.

There are four levels of policy making in the EU :

- *Regulations* are directly binding on all member states. There are no regulations in the social policy area.
- *Directives* are binding on member states. There is discretion in terms of the way in which they are implemented in national legislation.
- *Decisions* are binding on member states. They are the outcome of the European Commission's role as enforcer of European Union legislation.
- *Recommendations or opinions* are not binding. They present the European Commission's view of best practice, and they are broadly designed to encourage harmonisation.

The most important tool in relation to social policy is the directive.

Directives

Directives set out general principles and there is a deadline, usually two to three years away, by which legislation has to be implemented nationally. This process thus leaves some scope for national variations, although not too much, as was painfully shown in the case of the UK implementation of the *Transfer of Undertakings Protection Directive*.

The initial UK implementation of this directive in the early 1980s was limited to private sector organisations, to provide more scope for competition in the provision of public services. A European Commission decision judged that this was unlawful. UK legislation had to be amended, and many public sector organisations are now faced with potential retrospective claims from people who lost their jobs or had their terms and conditions reduced as part of the competitive tendering process in local government.

Many directives (see Appendix A) literally just provide basic minimum rights. They tend to look more ominous from the point of view of UK employers because these employers are often the only ones not already covered by the provisions. Thus the introduction of the right to three weeks paid annual leave in the *Working Time Directive* made little difference in most EU member states because existing rights were already for at least as much. Other directives make more fundamental changes.

There are basically three routes for introducing new directives. In each case, the European Commission, the executive of the European Union, initiates the policy.

In the parliamentary and council routes (see *Table* 1), the directive then goes out for simultaneous consultation to the European Parliament, the Council of Ministers (which consists of the relevant ministers in member states), the Employment and Social Committee (which consists of some 200 representatives of employees, employers and consumer rights groups), and the Social Partners (the European level employers associations and Trade Union Federation).

The European Commission then revises the proposal. Depending on whether it covers a policy area that requires the unanimous decision of all the member states or is subject to QMV, it either just goes back the Council of Ministers, or is resubmitted to the European Parliament before being seen again by the Council of Ministers for a final decision before implementation by the member states.

There is thus some scope for influencing the decision making process, for example through the social partners. However, in the final instance, the national governments of the member states are keeping a firm reign on decision making.

There is now a third route to the introduction of new legislation : social dialogue. 'Management and labour at Community level' (this is left conveniently vague in the relevant document because who has the right to represent whom is a hotly disputed issue at the European level (Hollinshead and Leat (1995)) can initiate new legislation. If they successfully negotiate an agreement, the agreement is either submitted to the Council of Ministers for a binding decision or implemented by

Table 1 Routes for introducing new directives : parliamentary and council routes

<table>
<tr><td colspan="2">European Commission
proposes</td></tr>
<tr><td colspan="2">European Parliament, Council of Ministers, EcoSoc and Social Partners
comment</td></tr>
<tr><td colspan="2">European Commission
revises</td></tr>
<tr><td>Route 1: Unanimous voting</td><td>Route 2: Qualified majority voting</td></tr>
<tr><td>Council of Ministers
passes unanimously</td><td>Council of Ministers
adopts common position based on qualified majority voting</td></tr>
<tr><td rowspan="3"></td><td>European Parliament
comments and amends</td></tr>
<tr><td>European Commission
revises common position</td></tr>
<tr><td>European Commission
adopts revised position based on qualified majority voting or overrules revisions unanimously</td></tr>
<tr><td>Member states
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collective agreement at national level. (In several member states, national collective agreements have the force of law.) This process has, for example, taken place in the case of the recent *Fixed-Term Workers Directive*.

European Court of Justice

One more European institution must be mentioned in relation to social policy : the European Court of Justice (ECJ). The European Court of Justice deals with queries on European law put to it by national courts. Importantly, though, it also hears cases from individual European citizens.

The 1957 *Treaty of Rome* provides direct rights to individuals, which have primacy over national legislation. During the 1980s, when new social policy initiatives were effectively blocked by the UK government, employment rights, particularly in the field of equal pay and non-discrimination, were enhanced by several European Court of Justice decisions. The equalisation of the retirement ages for men and women in the UK, introduced after a European Court of Justice ruling that differential retirement ages discriminated against men, was an example of the power of this court.

Does harmonisation work ?

The aim of EU social policy is to improve and harmonise working conditions and living standards across the EU (see Appendix B). How realistic is such a goal in the context of the labour markets in Europe ?

The answer depends to some extent on your outlook. If you look at change and basic trends, indicators almost everywhere point in the same direction : women's participation in the labour market is increasing, and so is part-time working. More and more people are on non-permanent employment contracts; self-employment is increasing rapidly. There is a growing problem with the dependency rate between retired people and the population of working age.

However, a look at the underlying figures indicates that there are vast differences between member states.

Unemployment ranges from 3% in the Netherlands to over 15% in Spain (see *Figure* 1 overleaf). Part-time employment ranges from less than 8% of the workforce in Italy to almost 40% of the workforce in the

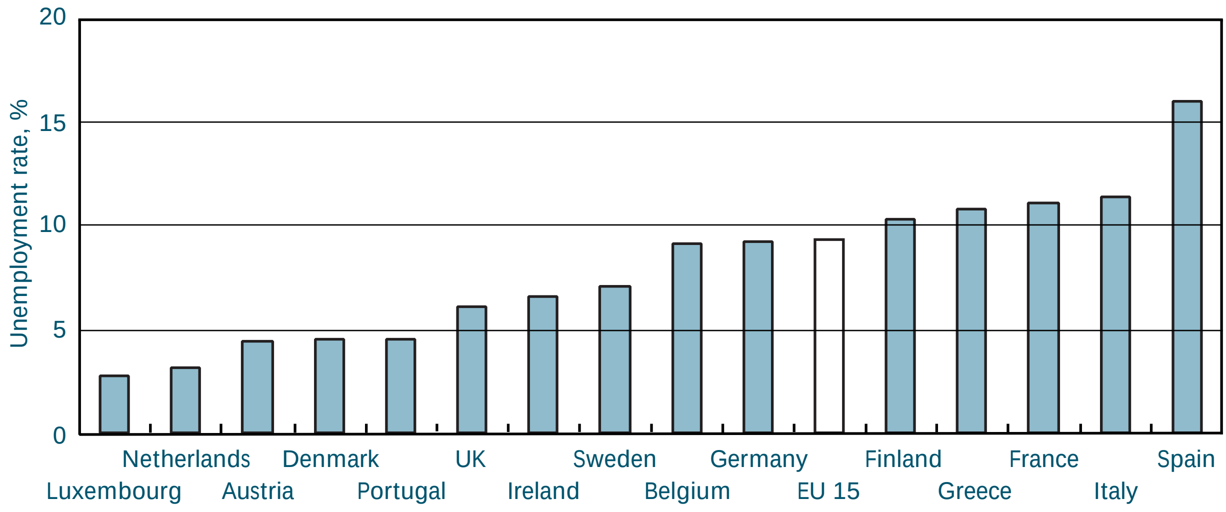

Figure 1 Unemployment in the EU in 1999
[Source: Eurostats 2000 (4).]

Netherlands. While unions and employers actively promoted part-time employment in the Netherlands for years, unions in neighbouring Belgium were categorically opposed to anything less than full-time employment until the late 1980s. Fixed-term employment is less than 5% in Luxembourg and over 30% in Spain.

Almost every other indicator, for example

- the proportion of people with higher education (and here it is the UK that lags behind);
- trade union membership;
- the proportion of people earning performance-related pay;

show similarly diverse patterns across the European Union. These patterns reflect the different historical, cultural and political traditions of the member states. According to one global study of cultural differences, Europe displays the greatest diversity of attitudes and values given the size of the geographical region (Hofstede (1991)).

In other words, while there are clearly common problems in the EU (and these become more common in comparison with the other major markets with which Europe competes), solutions, and particularly their acceptability, will differ.

So far, there is only limited evidence (except perhaps for sex discrimination legislation) that EU social policy has led to convergence of employment practices to any significant degree. However, perhaps it is too early to expect significant convergence. Employment practices take a long time to develop, and are unlikely to change dramatically in the space of only a few years.

The approach to European social policy has changed with this recognition. During the 1970s, policy was clearly designed to centralise and create uniformity. Now there is much more scope for local variation, as long as common principles are upheld. The social policy regime now provides a more sophisticated mix of carrots and sticks, and insistence on basic principles with devolution on the detail. At the same time, though, the ambitious goals for harmonisation have not been left behind.

Appendix A

European Union social policy directives

Sex discrimination

- 1975 *Equal Pay Directive* : equal pay for work of equal value;
- 1976 *Equal Treatment Directive* : non-discrimination in recruitment, training and promotion;
- 1978 and 1986 *Social Security Directives* : non-discrimination in social security benefits;

Workers' rights

- 1978 *Collective Redundancies Directive* : obligation to give 30 days notice before collective redundancies;

- 1978 *Transfer of Undertakings Directive* : protection of employee rights in the situation of mergers and takeovers;
- 1980 *Insolvency Directive* : obligation of member states to set up institutions to ensure that workers are paid outstanding wages in the case of insolvency of an employer;
- 1994 *European Works Council Directive* : obligation of multinationals with more than 1000 employees in the EU and subsidiaries of more than 100 employees in two EU countries to set up European Works Councils;
- 1996 *Posting of Foreign Workers Directive* : directive that workers sent to carry out work in another EU country cannot be paid less than legal/collectively negotiated minima in the host country;

Protection for atypical workers

- 1991 *Atypical Workers and Health and Safety Directive* : directive that agency and non-permanent workers must be informed about dangerous jobs and given adequate training to perform them;
- 1991 *Contract of Employment Directive* : obligation of employers to provide written terms and conditions within one month of employment;
- 1997 *Part Time Workers Directive* : directive that it is illegal for employers to treat part-time workers less well than comparable full-time employees (with respect, for example, to benefits, pension schemes, and access to training);
- 1999 *Fixed Term Workers Directive* : directive that employers must not treat fixed-term employees differently from permanent workers, and introduction of rules in the case of renewal or non-renewal of a contract;

Health and safety and working time

- 1992 *Protection of Pregnant Women Directive* : protection against dismissal, and right to 14 weeks leave and safe working conditions;
- 1993 *Organisation of Working Time Directive* : directive that sets minimum rest periods, limits on overtime and daily, weekly or quarterly working time, and right to paid annual leave, among other things;
- 1996 *Parental Leave Directive* : provision of enhanced rights to maternity and paternity leave;
- *rights* : rights to information, consultation and participation.

Appendix B

The European Community *Charter of Fundamental Social Rights for Workers* (Europa (2000)) 'establishes the major principles on which the European labour law model is based and, more generally, the role of work in society' :

- freedom of movement;
- employment and remuneration (fairness)(but not actual pay levels);
- improvements in living and working conditions;
- social protection;
- freedom of association and collective bargaining (but not the detailed rights to strike or lock workers out, which are governed by national legislation);
- vocational training;
- equal treatment for men and women;
- information, consultation and participation of workers;
- health protection and safety at the workplace;
- protection of children and adolescents;
- elderly persons;
- disabled persons.

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  Brewster, C *et al*. (2000) FT Management

  Provides an overview of diversity in human resource management practices in the European Union.

- **'Employment in Europe'**

  Commission of the European Union

  The best and most easily accessible source for basic labour market data on the European Union; a new report is issued annually, and this also contains discussions on common labour market issues in the EU.

- **'Europa'**

  (2000) http ://www.europa.eu.int (accessed 10 December 2000)

  A European Commission website that provides accessible summaries of various directives, policy initiatives and summit decisions.

- **European Management Guides**

  Chartered Institute for Personnel and Development

  A set of guides that provide an overview of the statutory and contractual framework governing recruitment, training, remunerations, rewards and industrial relations in each of the EU member states.

Managing the marketing mix 2

The marketing mix provides a way to position a business competitively in its markets. The traditional components of the mix, the 4 Ps, were examined in the first part of this article. Here the Ps are extended to include customer service, people and processes. Each of these is explained as a way of differentiating the company and increasing the value of its marketing activities.

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The first part of this article (see Baker (2000) in MQ9) considered in turn each of the four elements (known as the 4Ps) that comprise the classic marketing mix. As a unity, these provide a way to position a business in its markets.

This second part of the article brings the concept of the marketing mix up to date by introducing three additional elements.

Their inclusion reflects the move to marketing strategies founded on building better relationships rather than simply carrying out more transactions. Customer service, people and processes are therefore drawn in as being levers that are equally important in manoeuvring a business into a more competitive position (see *Figure* 1).

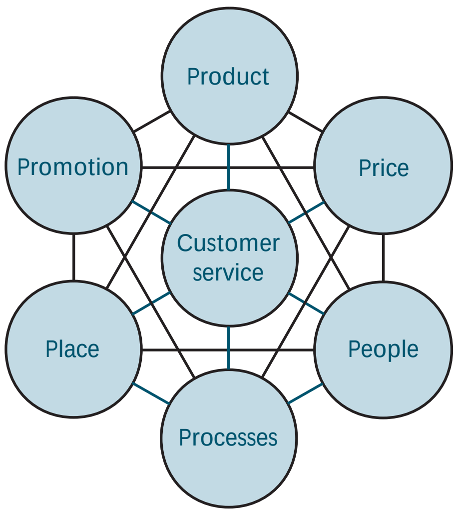

Figure 1 The expanded marketing mix

The article concludes with some key insights into managing the mix as an entity.

Customer service strategies

Companies that excel at customer service

- develop innovations and generate energies that win new customers while retaining existing business;
- manage to keep all their customers satisfied;
- do it better than their rivals.

These are companies that accept that customers are becoming increasingly sophisticated and demanding in terms of their service requirements and expectations. They realise that increases in customer satisfaction and retention can have a significant impact on company profitability and corporate success.

Despite that fact that customer service can provide companies with such obvious advantages, customer care activities generally do not match either customers' expectations or companies' aspirations. In many companies, customer care practices amount to reactive 'fire fighting', and customer service is often seen as the handling of customer complaints, rather than the management of customer relationships.

This, of course, assumes that customers complain in the first place. Studies have shown that 98% of dissatisfied customers never complain when they receive poor service, but that, as a result, 90% of them will not return to the disappointing supplier in future. Furthermore, customers who are dissatisfied are likely to tell at least ten others about their poor service experience.

The development of a customer service strategy involves four key steps, as outlined by Martin Christopher (Christopher (1992)) :

1. *Identifying a service mission* : The company should articulate its service pledge and values within its corporate mission and/ or in a separate customer service mission statement. This declaration should focus on the unique and distinctive elements of the company's offer while reflecting the company's philosophy and commitment to customer service.
2. *Setting the customer service objectives* : The company's objectives, or goals, must be clearly defined and fully understood if effective strategies are to be developed. In terms of customer service, this involves answering questions such as the following :
   - How important is customer service in comparison with the other elements of the marketing mix ?
   - With what other businesses does the company compete in the customer's mind ?
   - Which are the customer service elements that contribute most to overall customer satisfaction and market share ?
   - What dimensions of service are seen as priorities by customers when they choose suppliers ?
   - How does the business perform against its competition ?

   In considering levels of performance in setting these customer service objectives, service providers must consider the importance of service quality variables such as the following :
   - *reliability* : the ability to perform the promised service dependably, accurately and consistently over time;
   - *responsiveness* : prompt service and a willingness to help customers (speed and flexibility are essential here);
   - *assurance* : the knowledge and courtesy of the staff, and their ability to inspire trust and confidence;
   - *empathy* : caring, individualised attention to customers;
   - *tangibles* : for example physical facilities, equipment, and staff appearance.
3. *Customer service strategy* : Most markets consist of market segments that seek different combinations of benefits. As not all customers require the same level of service, segmentation can be a powerful means of creating appropriate service packages for each relevant market segment.
4. *Implementation programme* : Once the most effective service package has been developed for each segment, the service package should then become part of an integrated marketing mix.

Case study : demonstrating customer service excellence

This type of strategy was used by the Environmental Health and Trading Standards (EH&TS) department of the London Borough of Bromley. In 1999, it won the Unisys/*Management Today* Customer Service Excellence Awards overall honours. The department was commended for providing a model of innovative service provision for private and public sectors alike.

The EH&TS was created to

- ensure that standards of trading in the borough were fair;
- enhance the environment;
- protect and promote the public health of the borough's 300 000 residents and visitors.

The remit of the EH&TS covers everything from noisy neighbours to stray dogs, and demand for its services is increasing. With only 88 employees and shrinking budgets, the EH&TS has had to learn how to do more with less. The answer, says Richard Foulger, chief environmental health officer, is innovation.

Innovation describes many aspects of service provision in this organisation. Over the past eight years, Foulger and his staff have put in place the processes, procedures and measurement systems to achieve their goal of Total Quality Service. The organisation has gained Chartermark Awards, compliance with ISO 9000, and Investors in People accreditation, and it recently adopted the Business Excellence Model in a bid to ensure consistent standards of service delivery.

Having achieved that consistency, the EH&TS has turned its attention to developing new relationships with its customers and partners. The EH&TS 'customer base' includes more than 1000 traveller families, over 2000 refugees, and an above average proportion of residents aged 75 or over.

Richard Foulger sums up his ‘service secrets’ (see *Management Today* (1999)) as follows :

- develop partnerships with other agencies;
- make it easy for customers to give feedback;
- encourage a ‘just do it’ culture among employees;
- adopt flexible working practices;
- set stretching goals of service provision.

People strategies

People are increasingly becoming part of the differentiation through which companies seek to create added value and gain competitive advantage. Employees play a key role in gaining and retaining customers, by ensuring customer satisfaction and developing and sustaining long-term relationships with customers.

It is surprising, therefore, that so few companies seek to align their internal and external marketing activities. Too often, the internal market is considered to be the sole remit of the human resources department, while the external market is left to the marketing department. However, there is a compelling business case for ensuring that there is synergy across the spectrum.

The significant role played by people in the marketing of products and services has led to a greater interest in internal marketing. Internal marketing is, essentially, a way of enabling organisations to recruit, motivate and retain customer-conscious employees in order to boost employee retention and customer satisfaction levels.

Schneider and Bowen, who are leading US academics in this field, have found that when employees identify with the norms and values of an organisation that reflect a commitment to customer service, they are less inclined to leave their jobs. This reduction in employee turnover strengthens the organisation, and promotes the transmission of service values to successive generations of employees. Furthermore, customers are more likely to be pleased with the service they receive from happy, experienced employees.

Conversely, unhappy, poorly trained and inexperienced employees invariably lead to unhappy customers. Employee satisfaction in internal markets is, therefore, a prerequisite for customer satisfaction in external markets.

There are two basic rules for successful internal marketing :

1. Staff must work together across functional boundaries to ensure that the company’s mission, strategy and objectives are served in both policy and practice. Cross-functional collaboration is particularly crucial in companies that operate high levels of direct interaction with customers.
2. Every employee plays the dual role of internal supplier and internal customer. To support and promote external customer satisfaction, every individual and department within the organisation must provide fellow employees and departments with excellent internal customer service.

Case study : engaging people in delivering customer service excellence

Less than a decade ago, customer service at the Portsmouth-based operations division of Alenia Marconi Systems left almost everything to be desired. Customers who sent their equipment for repair at the company’s Broad Oak manufacturing site claimed, only half jokingly, that it would probably be obsolete by the time they got it back. Employees were disgruntled and customers despaired.

Until the mid1990s, employees at Broad Oak were viewed essentially as a cost, and the management style was autocratic. Staff turnover had reached 12% per annum. The organisation’s decision to apply for Investors in People accreditation in 1996 marked the start of a new approach to employee relations. Broad Oak adopted a 17 point employee charter that outlined what staff can expect from the organisation and what the organisation expects of its employees.

Following a series of initiatives introduced in early 1997, which included an employee suggestions scheme, employee satisfaction is at an all-time high, and staff turnover is down to 6% per annum.

Better communication between employer and employees is a feature of Broad Oak’s new, more open culture. All managers are now trained in coaching and communication skills, and each month a team briefing is given to all staff. Twice a year, the operations director holds a ‘state of the nation’ event for the workforce that addresses key issues such as people development, business excellence and company issues.

By aligning its internal and external marketing strategies, Broad Oak has managed to reduce leadtimes from 26 weeks to six weeks and improve productivity from 60% to 79%. Most importantly, 99.8% of customers' products are now returned on time.

Service secrets (see *Management Today* (1999)) are

- publicise key performance indicators widely;
- survey employee opinion to test morale;
- work in partnership with suppliers;
- ensure that staff are multiskilled, to meet unusual demand;
- train staff in complaint handling procedures.

Processes

Increasingly, companies are realising that it is not *what they do* in the marketplace that is important, given the ability of competitors to copy it, but rather the *way that they do it*.

As a consequence, best practice customer-focused organisations are moving towards the adoption of a process orientation. The process oriented company preserves its functional excellence in marketing, sales, operations, and so on, but recognises that it is the processes that deliver added value to the customer.

A business process can be defined as any discrete activity, or group of linked activities, that adds value to an input. These tend to

- cross functional boundaries;
- often be team-based;
- have strategic goals.

The first step in building a process organisation is to identify the core business process, or processes (see *Figure* 2). These are likely to be processes

- in which the company has a relative strength;
- that add significant value;
- that are regarded as fundamental to the business.

A company should be unwilling to outsource its core processes, as they can be used to

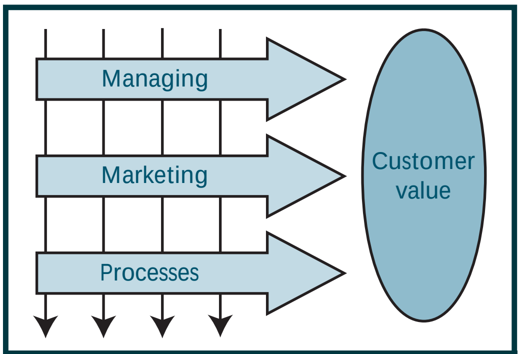

Figure 2 Managing marketing processes

provide additional customer and shareholder value.

Relatively few processes genuinely contribute to core value. Those that do include

- new product development;
- consumer development;
- customer management/key account management;
- supplier development;
- supply chain management.

Businesses that are not very complex generally have few core processes, and even relatively large companies with comparatively straightforward businesses may be focused on just one or two processes. The director of a European distribution company commented as follows. 'We have just two core processes – key account management and distribution. They drive our business. We have to get these two right; everything else flows from that.'

Process organisations identify the core business processes that deliver value to the customer, and then build their frameworks around these processes.

Marketing processes therefore become the marketing assets of the business, and in the same way that the directors of a company sign the annual report and accounts and by implication agree to safeguard the assets of the business, marketers become responsible for safeguarding these processes. It is their task to protect, nurture and evolve them so that they continue to deliver sustainable competitive advantage in the marketplace.

For those companies that are more traditionally organised around functions, managing the transition from a functional to a process orientation requires considerable agility on the part of the organisation. Experience suggests that three groups of issues are of paramount importance :

- structural issues;
- behavioural issues;
- cultural issues.

One of the first problems that an organisation encounters in attempting to achieve this change in orientation is that of how to manage the tensions between functional excellence and customer orientation. In functional structures, the individual functions may be cost centres or profit centres. In process organisations, the cross-functional customer management team usually assumes some responsibility for customer profitability. This situation clearly needs to be resolved.

Behavioural issues may arise where existing performance measures continue to reward the old ways of doing things, which may mean that people can be instructed to act in one way and find themselves encouraged to act in another. A familiar example is the sales team that is told to maximise customer profitability while being rewarded on the basis of unit sales. The team will still be tempted to offer discounts and inducements to customers, as the overriding message is ‘maximise volume, rather than profits’.

Organisational culture can act as a guide to organisational behaviour (it defines the way things get done in an organisation), and it can also act at an inhibitor to other ways of doing things. For most people, when they joined their current organisation and learned how things got done, this process probably had more to do with intangible rather than tangible elements. Examples are the stories told about the heroes and the bad guys in the organisation, the logos and symbols that carry weight, and the power structures. Understanding the importance of these intangible elements is the first step towards achieving cultural change.

Conclusions

Both the parts of this article, which has detailed the key principles of the individual elements of the extended marketing mix, make it clear that each element is a complex subject in its own right, particularly in today’s fast-moving business environment.

Unfortunately, it is not possible in practice to manage each of these as a discrete element in a linear fashion. They all impact on each other, and management of the mix is an iterative process that has to be carried out in real time. Objectives must be set, resources allocated, and plans implemented.

Nonetheless, it is possible to draw some salient conclusions about how to manage the marketing mix for successful relationship marketing. Success will depend on taking each element as the focus of an ongoing marketing process that should be embedded within the organisation. The strategy for each element must be kept under constant review on the basis of frequent evaluations of efficiency, effectiveness and sustainability.

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Strategic issues in acquisitions

Acquisitions consume many corporate resources, and often fail to create value for shareholders. This article discusses the strategic reasons for making acquisitions, and how acquisitions, mergers and strategic alliances differ. It considers various methods of payment, and circumstances in which each may be appropriate. Reasons for failure are also examined, and some methods are suggested for improving the chances of success.

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Open the financial pages on any day, and there will be news of a potential corporate acquisition or merger. Then turn to the academic journals, and read about how most acquisitions fail, or, at least do not achieve their original objectives.

This article examines why it might be appropriate for a business to make an acquisition, and reviews the issues to be considered in determining whether it will indeed add value.

The focus is mainly at the strategic level rather than on the tactics of how to under-take the transaction. (Other publications from the ICAEW Faculty of Finance and Management deal with the latter; see the further reading.)

Why make an acquisition ?

Companies buy other businesses for many reasons. Perhaps a strategic gap has been identified, in markets, or technology, or the client base. Maybe there is a need to expand capacity, and buying is the most efficient way to proceed. Sometimes the purpose is to generate growth far in excess of that achievable organically.

Occasionally, it has to be said, acquisitions are made for less noble reasons, for example the manipulation of financial results, or the fact that buying companies is a far more exciting thing for management to do than run them !

If we ignore those deals that take place for reasons of what we might call ‘managerial utility’, then a gap analysis can be used to determine where to seek targets, as the examples in *Table* 1 illustrate.

Although strategic reasons should dominate, acquisitions may come about through chance, for example when another business comes into play, and management realises that it could add value as part of their own business. Alternatively, perhaps the acquisition is more of a ‘spoiling tactic’ (‘if we don’t buy it, a competitor will, and that would damage our competitive position’).

Table 1 Potential acquisition targets

Acquirer's situation	**Possible targets**
Unexciting growth prospects in a mature market	Companies in younger, related markets that can bring related growth
Incomplete product range marketed	Companies making complementary products
Lack of technology to advance	Companies with appropriate skills and technology
Flotation approaching, but larger size needed	Companies in the same or complementary business, which will add mass and enhance profits

As a more subtle consideration, even if we do not actually win the target company, contesting a competitor's bid will increase the price it has to pay, damaging its future prospects.

Valuing the target

Company valuation was discussed in detail in MQ7 (see Bender (2000)). This article therefore merely highlights key points.

An acquisition is like any other capital investment; it should only be made if it can be seen to add value, as generally determined by the generation of a positive net present value (NPV).

The NPV is determined by the preparation of a cash flow analysis for the target business under its new ownership, and by the resulting cash flows being discounted at an appropriate risk-adjusted cost of capital. This NPV gives the value of operations, to which must be added the value of non-operating assets to arrive at the *enterprise value*. Deducting the target's debt from the enterprise value gives a value for the target company's equity.

It is important to note that the value so determined represents the maximum that should be paid for the target, and that if such an amount is paid out in full, the transaction will not generate any further value for the acquirer. This is illustrated in *Figure* 1.

If the acquirer does not see more value in the business than does the vendor, a deal cannot be done. The reason why the acquirer might see more value relates to the synergies created by the acquisition. Synergy is a much abused term in acquisitions, often used to justify poor transactions.

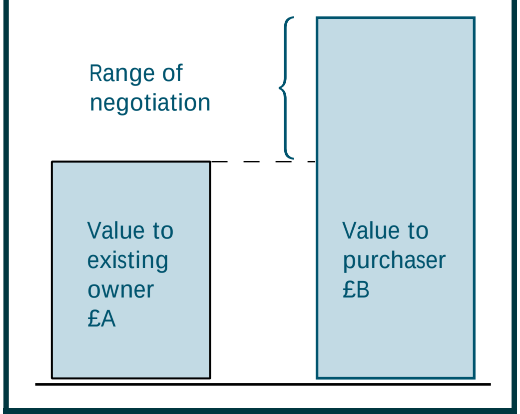

Figure 1 Value to whom ?

The articles on shareholder value and valuation in MQ6 and MQ7 (see Minchington and Francis (2000) and Bender (2000)) pointed out that value is driven by seven factors :

- increased growth in sales;
- increased operating profit margin;
- decrease in the cash tax rate;
- decrease in the amount of working capital needed;
- decrease in the level of fixed assets needed;
- decrease in the cost of capital;
- increase in the period over which the business has a competitive advantage.

If the claimed synergies cannot be linked closely to one or more of these factors, and preferably quantified, then they may be illusory.

An acquirer who has done her homework will identify the value of the target business as it is now, in its current ownership, and will estimate the value to be added by each level of synergies, setting out a plan for how to achieve these increases. Without such planning, value creation may be a matter more of luck than judgement.

Pay in shares or in cash ?

An unquoted company making an acquisition will almost certainly have to pay out the target shareholders in cash; shares in someone else's private business hold little attraction.

However, for a quoted company, there are two main methods of payment :

- cash (which in this context includes loan notes, which may be preferred for capital gains tax purposes);
- shares in the acquirer.

Each of these has its own advantages and disadvantages in different circumstances.

An advantage of cash for the vendor share-holders is that they can be certain of what they are receiving; its value is not in doubt. However, if they believe that the combined group, post acquisition, will have good prospects, they may wish to participate in these by taking shares instead.

From the acquirer's point of view, the issue of shares has several advantages. It avoids the need to pay out cash, thus preserving the company's resources for other transactions. Also, if the acquirer has a higher P/E rating than the target, the 'bootstrapping' effect will mean that the acquisition will automatically enhance earnings per share. This may not add shareholder value, but it does generally sweeten the City towards a deal.

Key issues when considering a share-based transaction are as follows :

- Is the acquirer fairly valued ? If its shares are trading at too low a value, the deal is a poor one for its own shareholders, as it will be too dilutive.
- Is the deal for a fixed number of shares (in which case the vendor shareholders will take the risk that the acquirer's share price will fall during the process), or for a fixed value of shares (in which case a price fall will put the acquirer's shareholders at risk of severe dilution) ?
- If the deal is successful, the acquirer shareholders will effectively have to share the success with the vendor shareholders, who will now own part of their equity. However, the flipside to this is that the vendor shareholders will be taking part of the risk of the deal being unsuccessful.
- From the point of view of the vendor shareholders, they are not selling their company, but using it as a currency to buy a minority stake in another company. They should consider carefully the prospects of the acquirer.

Earn-outs

Deals are occasionally structured as earn-outs. A common form of this involves the outgoing shareholder–directors staying with the business for an agreed period of time. They will (in their capacity as vendor shareholders) receive an up-front payment for their shares, which may be increased if the business meets certain financial targets over the period.

Earn-outs have certain advantages in deal structuring :

- The acquirer pays only for value created.
- Payment is deferred, with potential cash flow advantages.
- If the deal is for shares, an earn-out delays the dilution of shareholder control until the final tranche is paid.
- If the deal is for shares and the acquirer is growing, the eventual number of shares issued will be lower, and dilution of earnings will be deferred and reduced.

However, there is a downside to earn-outs :

- An earn-out could just represent poor negotiation, and delay contentious arguments until a few years down the line.
- During the earn-out period, the target's management may have different objectives from the new shareholders. Furthermore, they may not allow the acquirer to 'interfere' in how the business is run, thus losing the chance to achieve synergies. Whatever happens, if targets are not met, there is potential for disputes as to whose fault this is.
- In a deal for shares, if the acquirer's share price falls before the last tranche is due, the dilution can be substantial.

What can go wrong ?

In a ICAEW Faculty of Finance and Management lecture in March 1996, Jeff Harris, Chairman of Unichem, the acquisitive pharmaceutical company, stated succinctly what can go wrong :

- Buy the wrong company.
- Pay too much.
- Mess up the integration.

Research shows that acquisitions are more likely to fail if the targets are large in comparison with the acquiring company, and also if the targets are in industries unrelated to the acquirer's. However, if buying a small, related company is not going to meet your strategic objectives, what can you do to improve your chances of success ? Some suggestions are listed below.

- Have clear financial and non-financial objectives for the acquisition that are understood by all parties.
- Carry out due diligence on all aspects of the target business, not just the financials. Use this to eliminate surprises, and to prepare the integration plan. (See the box on RJB Mining's acquisition of the English coal industry.)
- Understand the culture of the target, and how it relates to the acquirer. Culture clash is a common reason for failure of acquisitions.

Table 2 Characteristics of acquisition and alliances

Acquisitions	**Alliances**
Ownership is transferred	Ownership is not transferred
Full control is obtained	Control is shared
A bid premium probably has to be paid	A bid premium is less likely because of the nature of the transaction
Limited information is available before the acquisition	A considerable amount of information is shared before completion of the transaction
The acquisition may be hostile	The acquisition is not hostile

- Have a fully briefed integration team that is familiar with change management (see Balogun (2001)).
- Implement new performance measures in the target company, once acquired, as a clear indication of what behaviour is expected.

RJB Mining's acquisition of the English coal industry

In 1995, when RJB acquired the English coal industry on its privatisation, BZW, the company's financial advisors, commented that the due diligence on this transaction had represented over seven man–years of time. This had been used, *inter alia*, to work out an operating plan for each site and each coal face, so that no time was lost after the acquisition, and the teams 'hit the ground running'.

Acquire or ally ?

Acquisitions are not the only form of corporate bonding, but merely the most extreme. Companies can also join forces through mergers, or through strategic alliances such as joint ventures or consortia. Strategic alliances were discussed by Faulkner (1996). *Table* 2 sets out some of the key differences between acquisitions and alliances.

The decision as to whether to acquire or ally will be based on the strategic reasoning behind the transaction, tax and accounting reasons, and, inevitably, the personalities of the protagonists.

In conclusion, it has to be remembered that acquisitions are a way of achieving strategic goals and accelerating growth, and are often fun. However, it is important to understand that the ultimate intention should be to create value for the acquirer's shareholders, and that selecting the target, valuing it, paying for it and then integrating it into the acquirer's business should all be done with this in mind.

References

- **'Valuation of companies'**

  Bender, R *Management Quarterly* Part 7 (2000) pp 24–30
- **'Strategic change'**

  Balogun, J *Management Quarterly* Part 10 (2001) pp 2–11
- **'Valuing partner contributions in strategic alliances'**

  Faulkner, D, Good Practice Guideline, Issue 13 (1996) Faculty of Finance and Management, Institute of Chartered Accountants in England & Wales
- **'Shareholder value'**

  Minchington, C and Francis, G *Management Quarterly* Part 6 (2000) pp 23–31

Further reading

- **'Making an acquisition'**

  Hennell, A, Good Practice Guideline, Issue 32 (2000) Faculty of Finance and Management, Institute of Chartered Accountants in England & Wales
- **'Financial due diligence'**

  Preston, M, Good Practice Guideline, Issue 16 (1996) Faculty of Finance and Management, Institute of Chartered Accountants in England & Wales

  Explains how and why financial due diligence is performed; includes a checklist of matters to be considered in financial, commercial and legal due diligence.
- ***The Essence of Mergers and Acquisitions***

  Sudarsanam, S (1995) Prentice Hall

  A comprehensive overview of the concepts and techniques relating to mergers and acquisitions; useful for those involved in alliances and acquisitions, and also for students.

International teams

This article is about how to manage teams, and, in particular, the specific issues around managing international teams of people in a variety of configurations. Rather than telling 'war stories' about cultural differences and drawing superficial generalisations, the article focuses on practical management issues that need to be considered when assembling and controlling the team, including organisational matters, values, standards and norms, team selection, and training.

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Why is this an issue now ?

In the world of global economy, there are many situations that require project and management teams to be made up of personnel from many ethnic, cultural and national backgrounds. This will not only continue to be true, but the differences will increase as organisations seek associates, clients and customers in countries other than their own.

Diversity in thinking and doing business is exciting and challenging, but it also requires managers to deal with complex 'people issues' in order to maximise the value of that diversity. New knowledge and skills, as well as awareness, are needed on the part of those working in multicultural and multinational teams. The trick is that you cannot assume either similarities or differences in managing those of different cultures. All you can really do is assume that there is a potential impact of culture, national or otherwise, on workplace performance (Schneider and Barsoux (1997)).

Knowing how to get this right will help managers benefit from

- improved innovation;
- new perspectives and ideas;
- sharing of knowledge and experience;
- increased flexibility;
- reduced effort, time and expense.

Get it wrong, and their international projects may join the estimated 80% of organisation projects that never accomplish all that they set out to achieve.

What are international teams ?

The term 'international teams' can encompass

- teams mainly made up of nationals from one country, but working in one or more other countries;
- teams that are multinational and multicultural.

Examples of types of international teams are given in *Table* 1.

These teams face differing challenges, and indeed some of the challenges are more complex than others. Therefore there is a need to match the effort put into team development to the complexity of the challenges (expected or actual).

What are the main issues in any team ?

Experience tells us that effective teamworking, be it in day-to-day operations or one-off projects, has to be worked at. It does not just happen by itself.

All teams, domestic and international, need to address issues such as the following :

- having a clear and shared purpose;
- respecting and benefiting from diversity in personal styles, skills and experiences;
- working in agreed ways, particularly with respect to communication, problem solving and change management.

Table 1 Types of international teams

		Team makeup	
		From one country	**From more than one country**
Deployment	**Within one country**	Domestic teams	Personnel brought in for specific problems or to give them experience in a particular country (example: IT projects)
	Into another country	Expatriate teams, can be short-term or long-term (example: technical teams sent by oil firms to Third World countries)	Multinational teams working on one project in multiple settings (example: drug development)

Every team is different, but common challenges include differing conscious and unconscious standards, 'norms' or values in relation to such issues as

- what is important;
- how decisions are made;
- what leaders should and should not do (that is, acceptable behaviour);
- unclear or conflicting loyalties and relationships;
- differing ways of working, for example different methods or ways of communicating;
- practical difficulties caused by differing time zones, virtual teamworking and technology.

International teams also share these challenges, but often experience them in a more extreme way.

Getting the balance right : local versus central versus global

Organisations that have a presence in various countries are always faced with the question of whether the ways of working will

- come from the central location, that is, be 'head-office determined';
- be based on local practices;
- be imbued with 'global values' that override the bias of either;
- find a rich balance.

If the balance is tipped in favour of head office, then the cultural working practices and values of the country in which the head office is located (and usually from where the organisation has originated) will be superimposed on the offices in the various other countries in which the organisation operates.

If the balance is towards the local office, then there may be problems in integrating with the larger organisation, as well as difficulties with 'perceived fairness' within the organisation. This requires there to be a balance between 'keeping true' to the vision and values of the parent organisation, and how those can be 'made manifest' in the local context.

Client-facing issues

These issues very much depend on the business you are in, and, above all, on the demands of the clients. The following are examples :

- Consulting firms need common standards/ways of working with international clients.
- Pharmaceutical companies need common standards for clinical trials to meet regulatory approval requirements in target markets, for example if a clinical trial in Spain provides evidence for drug licensing in the USA.

Internal/organisational issues

Internal and organisational issues involve personal and political concerns :

- *Pay* : This can be different from that in the host country (for example in US organisations based in Moscow), leading to a 'brain drain' within a country with possible resulting resentment.
- *Rewards* : For example, expatriate personnel often receive lucrative benefits packages while domestic personnel do not.

- *Promotion/recruitment* : Personnel from countries other than that of the parent organisation may not be promoted into the upper executive levels (for example German personnel may not be promoted in an Italian company), resulting in the potential loss to the organisation of ambitious, high quality managers.
- *Values* : The values of the same organisation in various locations may differ because of local laws and attitudes, for example in relation to equal opportunities.

Choosing who should work in international teams

The choice of who should work in international teams is an extremely inexact science that is too complex to explore in any depth in this article. No method has yet been devised that can definitively indicate whether someone will be able to work successfully in an international team.

However, there is a significant difference in terms of the challenges to be dealt with between those who stay in their own country and participate in an international team, and those who are posted to a foreign country. As stated above, the issues in an international team are the same as those in a domestic team, except more extreme, whereas going to another country involves not only working with those of another culture, but actually living in that culture.

For example, much more time is needed to build an effective team when people cross into other countries to work, as the work behaviours and values of the new country may be very different from those in the country of origin. Also, there is also a possibility of culture shock (not being able to cope in a country with values or behaviours that are very different from one's own).

Training for managing international teams

Training for middle and senior managers who are now or who will be managing multicultural or international teams is essential.

This training is most beneficially done by using intact teams in an organisation that are made up of people from various countries, cultures, ethnic groups, religious groups and so on, or by artificially constructing such teams for the purposes of training. Multicultural team situations that managers will encounter can then be used right in the training for greater immediate learning. If an intact team is in a training course, the training is also beneficial for team building.

Two methods of training are used by the authors. One is 'action learning'. In this, a 'live' project is discussed and decided on that will provide opportunities for working through the content of the project, and processing how the team is operating. Learning opportunities arise from the work of the team and are discussed *in situ*. Specifically, learning to deal with and manage others who are different from oneself is highlighted. These time-limited, yet vital, projects provide both training opportunities and value-added 'product' for the organisations, thus achieving many goals through the same effort.

The other method of training that the authors also find valuable is closer to the idea of a more traditional 'course' in learning to manage international teams : a course with a difference. The course participants are again either drawn from one organisation or many, and there should be the same cultural mix as that described above. The course involves looking at culture using the input of the participants, including

- considering personal style (using psycho-metric instruments);
- recognising and getting past cultural and national prejudices and stereotypes;
- getting a group contract;
- planning and communicating;
- learning from experiential exercises;
- building an 'international teams checklist' to guide self-development and assessment for international teamworking;
- looking at essential theory and research about culture and international teamworking skills.

'Live issues', as raised by the activities and discussion of the participants, are used throughout the course to highlight learning points. The international teams checklist constructed by the participants is a valuable 'take away' that each manager can start using immediately in order to provide a basis for working with his/her team back in the workplace, as a point of discussion and an evaluation tool for the team.

In conclusion, learning to manage international teams is both a skill and an art.

It involves being open-minded, insightful into one's own cultural biases, and skilled at negotiation and thinking in a creative manner. More and more managers and senior executives will be required to think outside of their own 'cultural box' in order to maximise global business opportunities.

References

- ***Managing across cultures***

  Schneider, S and Barsoux, J-L (1997) Prentice Hall

Further reading

Schneider and Barsoux (1997) is the best resource we have found. The authors state that their 'intent is not to rank countries on a set of cultural dimensions nor to provide readers with handy tips for doing business in Paris or Tokyo', but to help readers 'recognize that (their) underlying, and often hidden, cultural assumptions give rise to different beliefs and values about the practice of management'. It gives a comprehensive account of the research that has been done in the field of the impact of culture on management. Other less recommended, but interesting, resources are the following.

- ***Cross-Cultural Team Building***

  Berger, M (1996) McGraw–Hill

  Includes a number of articles about multicultural team building and training, including some on specific cultures, for example US, German, Hungarian, and that in the United Nations.

- ***Cultures and Organizations***

  Hofstede, G (1994) HarperCollins

  The report of Hofstede's research at IBM's many round-the-globe locations, which looks at a number of dimensions of culture such as femininity and masculinity, power distance, individualism and collectivism, and ranks countries on these dimensions; it is interesting but not particularly helpful in team building or management.

- ***Riding the Waves of Culture***

  Trompenaars, F (1993) Nicholas Brealey Publishing

  Also uses the dimensions of culture that Hofstede employs to give advice on what do when transacting business in cultures high in one dimension or another.

NEW ...

MQOnline

In response to the very positive feedback we have received from the membership about *Management Quarterly*, the Faculty has launched a new initiative : *MQOnline*.

MQOnline is a web-based series of streamed multimedia lectures that cover and expand upon the subjects addressed in the *Management Quarterly* journal. These 20–30 minute lectures can be accessed via the Faculty website.

MQOnline has been live since September, and it commenced with a series of finance lectures covering aspects of the cost of capital and shareholder value. The next set of lectures, covering the marketing syllabus, is currently being finalised, and should be available shortly.

Please try *MQOnline* and tell us what you think. Comments should be addressed to Chris Jackson at chris.jackson@icaew.co.uk.

The Faculty of Finance and Management

The Institute of Chartered Accountants in England & Wales

OUTLINE SYLLABUS

Management Quarterly is designed to be a three-year endeavour, setting out key management techniques in core disciplines. Over that time, it is expected that the content may develop and change. However, here we set out the current anticipated syllabus for the journal.

Strategy

What is strategy ? ✔ *Part* 1, *October* 1998

What does corporate HQ do ? ✔ *Part* 2, *January* 1999

Strategic alliances ✔ *Part* 3, *April* 1999

Competitive strategy ✔ *Part* 4, *July* 1999

Strategic analysis tools – the external environment ✔ *Part* 5, *October* 1999

Strategic analysis – assessing internal resources ✔ *Part* 6, *January* 2000

Assessing internal capabilities ✔ *Part* 7, *April* 2000

Strategic choice ✔ *Part* 8, *July* 2000

Strategic decision making ✔ *Part* 9, *October* 2000

Strategic change ✔ *Part* 10, *January* 2001

International strategy

The future of strategy

Human resources management

Introduction to people management ✔ *Part* 1, *October* 1998

Changing roles and responsibilities ✔ *Part* 2, *January* 1999

Strategic HRM and the management of change ✔ *Part* 3, *April* 1999

Performance management : motivating and monitoring ✔ *Part* 5, *October* 1999

Developing the organisation ✔ *Part* 6, *January* 2000

Personal development and people management competencies ✔ *Part* 7, *April* 2000

Dealing with conflict ✔ *Part* 8, *July* 2000

The role of trade unions and collective representation ✔ *Part* 9, *October* 2000

The European Union and social policy ✔ *Part* 10, *January* 2001

International HRM

Ethics and corporate governance

Marketing

Marketing in today’s world ✔ *Part* 1, *October* 1998

Marketing planning ✔ *Part* 2, *January* 1999

Understanding customers – the consumer ✔ *Part* 3, *April* 1999

Understanding customers – the organisation ✔ *Part* 4, *July* 1999

Relationship marketing ✔ *Part* 5, *October* 1999

Market research and information technology ✔ *Part* 6, *January* 2000

Market segmentation and positioning ✔ *Part* 7, *April* 2000

Analytical tools for marketing ✔ *Part* 8, *July* 2000

Managing the marketing mix 1 ✔ *Part* 9, *October* 2000

Managing the marketing mix 2 ✔ *Part* 10, *January* 2001

Key account management

Branding and international marketing

OUTLINE SYLLABUS – *Continued*

Finance

Planning and reporting ✔ *Part* 1, *October* 1998

Operating and business systems ✔ *Part* 2, *January* 1999

Interest and discounted cash flow ✔ *Part* 3, *April* 1999

The cost of equity ✔ *Part* 4, *July* 1999

The cost of capital ✔ *Part* 5, *October* 1999

Shareholder value ✔ *Part* 6, *January* 2000

Valuation of companies ✔ *Part* 7, *April* 2000

Financial instruments ✔ *Part* 8, *July* 2000

International finance ✔ *Part* 9, *October* 2000

Strategic issues in acquisitions ✔ *Part* 10, *January* 2001

Options

Venture capital

Articles are being commissioned to cover a range of other management topics. Further material on people management that concentrates on the individual rather than the organisation is also included.

Copies of the journal articles referred to can generally be obtained through the Institute library. A charge is made for these articles, based on the number of pages to be copied.

IN THE NEXT ISSUE ...

Strategy ***International strategy***

Globalisation is becoming increasingly important. This article will deal with trends in globalisation, multinational companies, and the development of international and global strategies.

Human Resources Management ***International human resources management***

This article will examine the impact of increasing internationalisation. It will consider in particular the use of expatriates as employees as opposed to local workers, and discuss key issues in the management of expatriates. It will also examine some recent trends in international human resources management.

Marketing ***Key account management***

This contribution will discuss the role of the key account manager, and go on to explain how to select the accounts to be treated as key. It will also deal with the team-building aspects of the relationship and how it can be developed.

Finance ***Options***

Options and other derivatives will be explained, and then the article will move on to discuss what types of option are available, how and why they are used, and how they are priced.

People skills ***What's the big deal*** ?

An analysis of the context of leadership in terms of the stakeholders, this article will explain why leadership is not just about making decisions, and discuss how leaders can ‘develop wisdom’.

MANAGEMENT QUARTERLY

Management Quarterly aims to deliver the basic building blocks in core management disciplines. It is produced in association with Cranfield School of Management. Each issue will usually contain articles on strategy, human resources, marketing and finance, with other occasional subjects such as project management and knowledge management. Over a three-year period this will build up to a comprehensive overview of practical business knowledge, and modern management ideas.

Management Quarterly will provide a comprehensive grounding in the knowledge needed to operate a successful business. It will enable the reader to understand current issues and debates in these areas, and distinguish core ideas from current fads. A wide ranging programme of CPE will be provided that will be suitable for members both in business and advising businesses.

Each part of *Management Quarterly* will be self-standing and include recommended further reading. Writers are selected from Cranfield School of Management and other leading business schools. Experts in each field explain and discuss the relevance, practicality and usefulness of key new concepts and ideas, thus enabling the senior executive to keep really up to date. A message board is available on the faculty Internet site. Chartered accountants often have limited reading time. *Management Quarterly* is succinct and the writers will direct the reader to other, and often fuller, expositions on the subject. The programme is no substitute for an MBA but it will follow some of the major threads on an MBA.

Management Quarterly will act as an aide-memoire for members, provide new ideas, and encourage good practice, but the Faculty cannot accept responsibility for the accuracy or completeness of issues of *Management Quarterly*. Being general in nature, the points made in *Management Quarterly* may or may not be relevant to specific circumstances. Responses from the membership will be a very important part of the successful development of the series. Comments please, to Chris Jackson on 020 7920 8486 (or by e-mail to chris.jackson@icaew.co.uk).

Management Quarterly is compiled and edited by Ruth Bender, who joined Cranfield School of Management as a lecturer in 1994, having completed her MBA there. Prior to this, she was a corporate finance partner in Grant Thornton. Ruth is a member of the Faculty committee. The executive editor is Chris Jackson.

Feedback

Comments and suggestions should be addressed to Chris Jackson BA FCA, Head of Faculty, telephone 020 7920 8486, e-mail chris.jackson@icaew.co.uk, or write to the Faculty at the address below.

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Faculty members

Each member of the Faculty in the year of publication will receive one copy of every *Management Quarterly* published by the Faculty free of charge. Copies are not available to non-Faculty members.

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Part 2 :	January 1999	Part 8 :	July 2000
Part 3 :	April 1999	Part 9:	October 2000
Part 4 :	July 1999	Part 10:	January 2001
Part 5 :	October 1999		
Part 6 :	January 2000		

Any members who have not received the above should contact Chris Jackson at the Faculty using the contact details set out below.

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