HOW TO IMPROVE EFFICIENCY IN YOUR HR CAPITAL:

In a global downturn, managing people across cultures is more urgent than ever.

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Executive summary

In times like these it is more important than ever to get the most out of our investment in HR Capital. Taking different cultural backgrounds into account will increase motivation, reduce turnover, and help keep your best people.

Managers can be more effective in coping with the global economic crisis if they simplify the way they manage their staff, taking into account the different cultural backgrounds of their team members and the different cultures in which their business operates. Global practices need to be adapted to local cultural values to increase efficiency.

Managers all over the world are in for a tough time during the global economy's first truly global downturn. Managing in a global marketplace is already quite a challenge, managing during a global downturn even more so. For the first time we are experiencing the true interdependence of markets all over the world, in every sense. The crisis in the financial markets spread out globally in a matter of days. It spilled into the consumer markets, the labour markets, the production cycles of just about every industry you can think of, and is affecting everyone from Arkansas to Abu Dhabi.

Operating in global interdependent markets means operating in a series of hugely diverse landscapes. (see Cummings, Tom & Keen, Jim: "Leadership Landscapes", Palgrave, 2007). Globalization does not equal standardization, but rather selling to and managing very different people. As Peter Drucker said, *"what managers do worldwide is about the same, but how they do it is different from culture to culture."* (Drucker, Peter: "The Essential Drucker", Harper Business, 2003).

What does that mean for Human Resources Management, and how is it different in tough economic times? When all costs are scrutinized over and over again, how do we improve efficiency in the biggest and most important cost of all, our Human Resource capital? Naturally we can claim that people will be an abundant resource in times of high unemployment, but we know better. Good people are scarce. Period.

Finding, recruiting, inspiring, coaching and keeping great people is an art. And now this is more important than ever. We can no longer afford to roll out head office rules and habits across all markets where we do business and expect to have the greatest contribution from employees everywhere. No doubt we do adjust to local customs in a superficial way. But do we really make the best impact with all our different employees? Do we manage and motivate on their terms, in their beliefs of what is right and wrong? We can gain hugely from the contribution we get from our Human Resources. By managing and motivating differently from culture to culture.

Let us look at how we can manage very different people, from different cultures, all over the world, and get the global economy going again by being more effective and more efficient.

MANAGING PEOPLE IS NOT EASY, BUT IT'S SIMPLE

Many things in life are difficult to do, but they are actually simple to figure out. We have a tendency to over-complicate things. It makes us feel proud when we can solve an apparently complex issue. So we tend to take simple issues and describe them in a complicated way. By doing this, we can pose as "experts" when we solve seemingly unsolvable problems. Thus lies the challenge of keeping simple things simple. We must avoid the temptation to complicate them.

Managing people is actually about carrying out several steps in a process and repeating them over and over again, as John Humble set forth in his seminal work "Managing By Objectives" (Management Publications Ltd, 1972) Hopefully, getting better at it each time you repeat the sequence. We learn from experience, we adapt and improve continuously. In this article we refer to the five steps, gathered in an acronym: **R-STAR**.

These are the "R-STAR" steps in the cycle of managing people:

1. **Recruiting** can be subdivided into many interlinked aspects, highly sophisticated when talking about a multinational organization operating in 20 countries or more. But it boils down to "getting the people I need" in order to get the job done.
2. **Setting targets** can be dressed up as sophisticated processes such as Strategic Planning, and it can be as simple as setting short-term goals. It all boils down to "does everybody know what they're supposed to do?", "does everybody know what is expected of them?"
3. **Training** implies that you need to teach somebody how to do what needs to be done. If the people already know how to do it, you can skip it and go to the next step. In a typical modern organization, people prefer to talk about "Learning", and "Career Development", and other "buzz" words.
4. **Appraising** involves correcting direction, by providing feedback in order to improve performance. A common mistake made by organizations is to think of appraisal as a way of judging people as "good" or "bad". That is not the purpose of performance appraisal. The purpose of any appraisal scheme is essentially to improve performance. . It can be dressed

up, or it can be as simple as having an informal conversation. The more often it can be done, the better.

5. **Rewarding** is about providing consequences, good or bad, to reinforce desired behaviour and avoid repetition of undesired behaviour. It can be done in financial terms, such as merit increases, bonuses, incentive schemes, profit sharing, and it can be non-financial recognition, such as “employee of the month”, “deal of the year” contests, “President’s Award”, or just being praised (in public or in private). It also involves negative consequences to avoid repetition of undesired behaviour, including written warnings, suspensions, admonishments, demotions, transfers to a less rewarding role, or firing. The important thing here, so often overlooked, is that people will do what they are rewarded for, and not necessarily what they are asked to do. It’s amazing how often companies ask people to do one thing (such as cooperate with colleagues and cross-sell) and yet reward them for something different (such as selling their own products and managing the costs of their own unit). When ”Reward” is not aligned with the other components of the cycle or does not fit with the “whole picture”, it can lead to the failure of the organization.

All this is easier said then done. Especially when we get into applying the R-STAR cycle across different cultures.

THE CULTURE THING- the R-STAR cycle from a cultural perspective

Managing people is difficult enough (albeit simple) when everybody shares a common culture. With this we mean: everyone shares a common general understanding of what is “right” and what is “wrong”, what is “accepted behaviour” and what is considered “inappropriate” or “unacceptable”. When people in the team have different cultural backgrounds, or the manager’s background differs from the team’s, that is when serious misunderstandings can arise. By the way, managing across cultures and dealing with diversity is not something applicable to big companies only. Every company, no matter how small, may be a multinational, simply because its customers and its current and future employees are multi national.

Before we start discussing this diversity issue into detail, let’s go back to the need to reduce complexity.

Is diversity endless? And how do I know what elements of diversity are superficial or circumstantial? Happily, extensive research has been done by Geert Hofstede and others comparing cultures. (Hofstede, Geert: ”Culture’s Consequences”, Sage, 2003) In his research he found 5 fundamental value dimensions that are used in order to explain the cultural diversity in the world. The ”5 Dimensional” model is the most validated by research, perhaps the only model based on rigorous culture research (rather than on somebody’s opinion).

The five dimensions are:

1. Power Distance (PDI) the degree to which people accept and expect that power is distributed unevenly within a group or society

2. Individualism (IDV) the degree to which taking responsibility for yourself is more valued rather than belonging to a group, who will look after their people in exchange for loyalty

3. Masculinity (MAS) the degree to which people value performance and status deriving from it, rather than quality of life and caring for others

4. Uncertainty Avoidance (UAI) the degree to which people develop mechanisms to avoid uncertainty

5. Long-Term Orientation (LTO) the degree to which people value long-term goals and have a pragmatic approach, rather than being normative and short-term oriented.

Those who would like to go deeper into the model, and how the dimensions relate to one another in different cultures, are advised to read one of Prof. Hofstede's books or assess the consulting site www.itim.org. For the purpose of this article, we just want to point out the need to take cultural differences into account and to customize your approach to managing people according to the culture you are operating in. The 5-D model is the best way of understanding different cultures and adjusting your actions to be more effective. Ignoring cultural differences is one of the biggest mistakes a manager can make. And yet it is so easy to avoid making that mistake, by using the 5-D model.

Once again, what is simple is also difficult. For some reason, many managers prefer highly sophisticated models, rather than the simple 5-D Model. And many managers prefer to pretend that culture is not that relevant. They think that managing people is done (or should be) the same way all over the world. For such managers, recovery from business downturns is likely to take much longer.

It starts already in **Recruiting**. What defines "a good candidate"? In Individualistic societies, good candidates are people who are outspoken and express strong opinions. In Collectivist societies, good candidates are people who are relatively modest and who demonstrate they are "well connected". In Masculine societies, people who express self-confidence and a "can-do" attitude. In a Feminine society, people who are modest, who avoid "standing out" and who ask intelligent questions without appearing too critical.

You can quickly see that if the recruiter comes from a different background than the candidate is coming from, big mistakes can be made by foregoing excellent candidates who do not match the culturally biased expectations of the recruiter. To position yourself as an employer in the US (high on the Masculinity dimension) is done very differently than in the

Netherlands and the Scandinavian countries (low on Masculinity). You need to understand the impact of culture, both on the recruiters and on the candidates you are considering.

Setting targets can be a very different exercise in the Netherlands and in Belgium, two bordering countries which share very little besides a mutual border. Failure to recognize such significant cultural differences between neighbouring countries has led to many acquisition failures, most notably and recently the take-over of ABN AMRO by Fortis, which resulted in the virtual bankruptcy of Fortis and the nationalization of both by the Dutch and Belgian governments.

In low power distance cultures like the USA, the UK, the Netherlands , Scandinavia and Germany, targets are negotiated, rather than set by senior managers like in Belgium, France and Italy (high power distance cultures). But in the Netherlands and in Scandinavia the targets have a tendency to be re-negotiated and adjusted due to “increasing insight”. In Masculine societies like the UK and the US this is seen as unacceptable. Targets are supposed to be operationalised and challenging to be overcome by motivated staff. In Belgium and France negotiating targets is de-motivating. In Scandinavia and the Netherlands, targets set by senior managers are perceived to be an abuse of authority (and therefore, de-motivating). Setting targets or delegating in countries other than your own needs to be adapted to the culture in question, otherwise this quickly becomes a mess.

Let’s consider **Training** (and all its derived formulations, as previously mentioned). In societies with a high Power Distance, learning happens very much centred on the instructor. Pupils tend to participate less in debate, avoid challenging the instructor, and expect the instructor to tell them how to do things. In societies with low Power Distance, on the other hand, learning experiences should be more interactive and learner-centric, with stimulating debates and case studies.

The expectations around Career Development and Talent Management are very different in Anglo-American companies when compared to Latin-American firms. In collectivist (Latin-American) cultures people expect in exchange for their loyalty a boss behaving like the father (or mother) in the family: taking care of them. So what happens when an American company tries to implement its global Talent Management program in Guatemala, exactly the same way as it was done in Chicago? It won’t happen as smoothly, to say the least… It might actually backfire and cause a lot of people to leave the company, having the exact opposite effect from what was originally intended. This does not mean that you should not have Talent Management programs in Guatemala. It means that they need to be adapted and positioned in a customized way, in order to be effective. Otherwise, they are counter-productive. For instance: development opportunities should be offered to all staff, and identified talent (according to clear criteria) should be offered ”special” development programs.

Appraisal is another clear example of how the extension of Anglo-Saxon models to different cultures can go completely wrong. Most of the existing management literature is actually written in the US and in the UK, a product of the cultures of these two countries. As a result of their low Power Distance and in combination with high individualism they promote the idea of providing frank, direct feedback, as "the right way" of improving performance anywhere on the planet. This notion fails to acknowledge that in Collectivistic cultures with high Power Distance (which are present in much more countries in the world) such procedures are seen as disgraceful and disrespectful. Providing feedback without being perceived as shamefully rude and insensitive and at the same time being able to engage people to improve performance, needs a different approach in different countries.

Another example of the difficulty in appraisal is that in Anglo-Saxon cultures appraisal is done by checking if employees reached their fixed targets. The focus is therefore on output. In Scandinavia and in The Netherlands, on the other hand, not output but outcome tends to be measured. It is much more common that the manager takes into account what has been achieved and not necessarily what has been set as a target beforehand. A very big international consultancy company once had the problem that they could not identify potential partners in Sweden. They discovered in the cultural analyses that they failed to recognize the "outcome" driven results of the Swedish consultants.

Another potential problem is "fit". Many brilliant people get fired, people who on paper were "real champions" or who had a good track record. But they ended up being fired because they did not "fit". Often because of a national cultural misfit, or sometimes because of an organizational culture misfit. The result is enormously costly, i.e. the time the function is open, having to get/train another person, the severance pay, the fee for the Executive Search agency, each situation can easily cost thousands of euro's. So the question is how do you make sure the fit is right from the start? It goes back to the Recruiting step in the cycle, and to putting your appraisal in perspective in terms of your own culture bias.

Reward, the component that can often ruin everything else, and often does, is totally culture-sensitive. The cash-oriented approach of individual performance-related bonuses hailed in the US and UK as the only way to get people going (pay-for-performance schemes are promoted globally from an Anglo-Saxon perspective), falls on its face when it reaches countries with a more Feminine culture, in which greater responsibility, larger span of control, wider territories, are perceived to be more relevant than cash rewards (which are considered "petty", "mercantilist", "reductionist" and "narrow-minded"). Wouldn´t it be great if we could just solve people motivation issues by throwing money at them, anywhere in the world? If it works in the US and the UK, why wouldn´t it work everywhere? Well, adaptation is required, again. Bonus plans will work in other cultures, but they need to be tied to other criteria. In some cultures, team incentives work much better than individual rewards. Managers need to find out more about the culture they will be operating in, before assuming that what works well in “Place A” has got to work equally well in “Place B”.

THE GLOBAL SOLUTION

There isn’t one. Or rather there are many, different solutions for different cultures. One can manage people by applying the R-STAR cycle anywhere in the world, but in each culture the cycle needs to be adapted. Different tools are effective in different cultures, for each step in the cycle. In order to be more effective, managers need to start by finding out more about the values of the culture (or cultures) in which they will be operating. Where do the people in the team come from? What is their cultural background? Doing research and preparing accordingly is of the essence.

A true success story involves a manager who turned around a manufacturing plant in Eastern Europe from loss making to profit, simply by applying his scarce knowledge of Hofstede’s Five Dimensions of Culture model, putting it into practice. His company thought he was a “miracle maker” and promptly transferred him to Mexico, to deal with another problem-ridden plant. Voilá! New “miracle”. The manager again applied his knowledge of the model (different culture, different approach) and suddenly the business was viable. In both cases, his predecessors were good managers, but they only knew how to operate in the environment they were coming from. This hero simply took the time to read about the culture he was coming into and adapted his approach in a way that made him understood and appreciated by the team he was leading. Everybody won.

The same can be done in any company, with any team (present and future). In times of stress, such as periods of economic downturn, people naturally turn to regression of behaviours which worked for them in the past. They “hide under the bed” because that worked for them when they were kids. They repeat whatever got them a promotion five years ago. Actually, such behaviour should be avoided. It would be counterproductive.

Rather, managers should try to look at the situation they’re facing, with fresh eyes. What is the culture background that underlies the operation? What is the manager’s own culture background? Do these things match? Does the manager understand that he/she has been taught a “right” way to manage which is completely biased by his/her own culture? There is no “right” way to manage per se, only ways that are effective in some cultures and not effective in others.

Managers will do well to begin by understanding their own culture, their own culture bias. That will make it easier to understand other cultures and other biases, and to bridge the gaps. If we all had a better understanding of each other’s cultures and of the impact this has on how business happens around the world, we might be closer to effectiveness in global markets.