Management Focus
The Magazine of Cranfield School of Management

Cranfield UNIVERSITY
School of Management

The Asian Tech Boom

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Issue 39 // Autumn/Winter 2015

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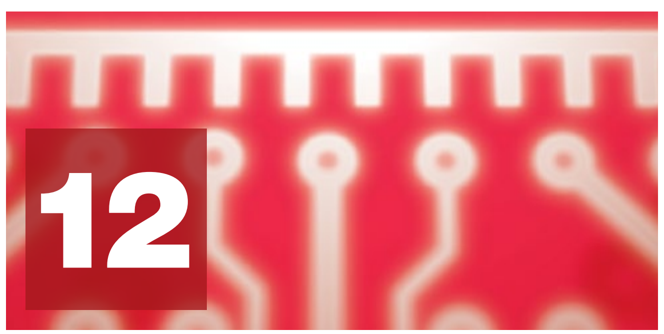

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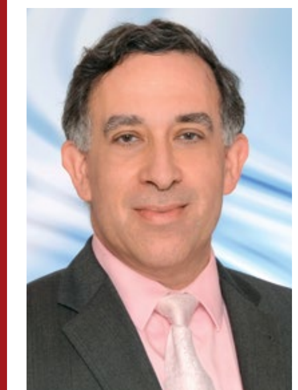
ISSN 1474-1199

Editorial



"Change is the law of life," John F. Kennedy said in the summer of 1963, "and those who look only to the past or present are certain to miss the future."

Cranfield School of Management was born a few short years later, with its mission to develop and apply new insights to improve the practice of management, and, indeed, the world of enterprise. The unflagging forces of change prevalent at that time have continued, and Cranfield has alternately driven and, inevitably, been driven by them.

I began teaching and writing about change nearly 25 years ago because I believe change can be a strong force for good if we manage it well.

During my first six months at Cranfield we have seen a great deal of progressive change, which is taking us in an overwhelmingly positive direction. This is evident in the level of innovation you will see in our work - from environmental technology to customer insights, from employment models to manufacturing processes, from reverse supply chains to raising the effectiveness of boards.

The articles in this issue will give you a taste of just some of the many issues affecting organisations and individuals today on which Cranfield faculty are working.

The lead article by Dr Shailendra Vyakarnam, who recently returned to Cranfield to head up our Bettany Centre for Entrepreneurship, looks at the current boom in tech start-ups that is taking place across Asia and offers advice to those entrepreneurs who are in it for the long haul.

Dr John Glen, one of our leading economists and the new Director of our Centre for Customised Executive Development, also takes a look at the Asia region and gives his forecast on what impact the changing economy in China will have on the rest of the world.

Change can of course be unsettling, particularly for those who find themselves in the middle of it. That is why at Cranfield, we have put in place a life-long approach to learning and offer development opportunities to suit the career stage in which you find yourself.

We recognise that there is both an organisational and an individual side to change, and are committed to serving both of these. For our organisational learning partners, making change happen often means not only getting the strategy right, but also altering the culture—always a much bigger challenge. For our individual learners, the skills, knowledge, and especially the experience they bring define how they see the world and thus how change affects them. For all of us, our culture, skills, knowledge and experience help to shape our careers and, ultimately, the kind of future we enact.

Professor Maury Peiperl
Pro-Vice-Chancellor and Director of Cranfield School of Management

"...those who look only to the past or present are certain to miss the future.

Follow Cranfield:

School News

MBA ranked sixth in the world

Cranfield has been ranked the sixth best business school in the world (outside the United States) and second in the UK by *Forbes* magazine for its one-year MBA programme.

The results of the *Forbes* ranking are based on the return on investment achieved by the class of 2010. Dr Stephanie Hussels, Director of the full-time MBA programme at Cranfield, said: "It is most pleasing when our programme is placed so highly in an influential ranking such as this. The team behind the MBA at Cranfield work tirelessly to make sure that our programme remains current and impactful but most of all that it enables our students to achieve their goals once they have completed the programme."

Cranfield has also retained its position as the 13th best international business school, and fourth in the UK, in the 2015 *Bloomberg Businessweek* ranking of full-time MBA programmes. There were 29 international schools ranked this year, with Cranfield having the added honour of being ranked number one for student experience.

Number one for supply chain

Employers have highlighted Cranfield as the leading university outside of the US – and top 10 worldwide – for supply chain management graduate talent.

An annual report from SCM World, the leading global community of senior supply chain professionals, which surveyed hundreds of its executives from around the world ranked Cranfield eighth worldwide and first among non-US institutions.

Michael Bourlakis, Professor in Logistics and Supply Chain Management at Cranfield, said: "It's fantastic news; our Logistics and Supply Chain Management programme is one of the leading programmes in the world.

"We take a practical approach to our learning and teaching, and we have closer ties than other universities to industry where a lot of innovation is happening. We also run many executive development programmes at Cranfield which support current managers in dealing with future supply chain challenges."

Professor Michael Bourlakis

Siemens crowned Britain's best factory

Siemens Magnet Technology, a world leader in the design and manufacture of magnets for MRI body scanners, was named Britain's best factory at the 2015 Best Factory Awards (BFA). The awards ceremony, hosted by Cranfield in partnership with *Works Management* magazine, brought together some of the UK's leading manufacturers to celebrate British manufacturing at its best.

As well as winning the accolade of Factory of the Year, Siemens also picked up two further awards: Best Engineering Plant Award and People and Skills Development Award.

Marek Szwejczewski, Director of the Best Factory Awards and Professor of Operations Strategy at Cranfield, said: "We read a lot about the poor performance of UK manufacturing and especially the productivity gap that exists between us and other major manufacturing nations. However a visit to any of this year's award winners quickly erases this misconception."

Now in their 24th year, the BFA Awards recognise and honour those UK manufacturers who are leading the way when it comes to continuous improvement and delivering superior results for their customers. You can read more about the future of manufacturing in Marek's article on page 28.

Cranfield to deliver programme for the Cabinet Office

The School has been selected by the Cabinet Office to run a Project Leadership Programme (PLP) in collaboration with PA Consulting Group and The Project Academy for senior civil servants responsible for major Government projects.

Cranfield will work closely with PA Consulting Group and The Project Academy to deliver a customised programme to over 300 Government staff each year for the next five years.

The programme will combine expert academic theory with practical hands-on learning and will build the skills and capacity of senior project leaders across Government to deliver large and complex projects on time and on budget.

Mike Bourne, Professor of Business Performance at Cranfield who will lead the programme, commented: "Project management and leadership development are part of our core offering at Cranfield. We have worked with organisations across the world to help them improve their capability to lead on important and high-profile projects.

"Major public sector projects are large and complex by nature due to their scale and complexity. We look forward to working with our Government to ensure future projects have world-class leadership."

New Director for CCED

We are pleased to announce that Dr John Glen has been named as the new Director of Cranfield's Centre for Customised Executive Development (CCED).

John, who took up his new post in October, brings with him a wealth of experience after designing and delivering executive programmes for dozens of clients across the globe.

Commenting on the appointment, John said: "CCED has developed a world-class reputation for delivering executive education which impacts and enhances the performance of our clients. I look forward to growing our business in the UK and internationally and providing innovative solutions to our clients' leadership development needs".

Professor Maury Peiperl, Pro-Vice-Chancellor and Director of Cranfield School of Management, said: "John's outstanding record in teaching, programme direction, and the development of client relationships, as well as his high-profile presence in the media, make him well qualified to bring our customised offering to the next level." Maury went on to say: "I would like to thank Bill Shedden, previous Director of CCED, for his outstanding contributions over many years."

Dr John Glen

Two MBA alumni enter the Den

Sarah Willingham and Nick Jenkins became the stars of the latest series of the BBC's *Dragons' Den*. Sarah and Nick joined Peter Jones, Deborah Meaden and Touker Suleyman on the panel of Dragons that budding entrepreneurs pitch to in the hope of gaining investment.

Sarah, who completed the Cranfield MBA in 2003, bought The Bombay Bicycle Club soon after graduating and turned it into the largest and most successful Indian restaurant chain in the UK. Sarah now combines running letssavesomemoney.com, the consumer personal finance website, with a portfolio of business investments.

Sarah Willingham

Nick Jenkins

Commenting on her new role as a Dragon Sarah, said: "I'm a new breed of Dragon. I'm different to anyone that's gone before me because I am a working mum. I hope other mums see this and realise they could do it too."

Nick completed the Cranfield MBA in 1999 and went on to set up the online greeting card website Moonpig.com in 2000. The business was acquired by Photobox in 2011 and is now the world's largest personalised greetings card company with operations in Australia and the US as well as the UK.

Dr Stephanie Hussels, Director of the Cranfield MBA, said: "We are very proud to have two of our distinguished MBA alumni on the panel of *Dragons' Den*. Both Nick and Sarah wrote their business plans while doing their MBA at Cranfield and we are extremely proud of what they have achieved."

Research

New target for women on boards

Cranfield's International Centre for Women leaders worked with Lord Davies on his closing 'women on boards' report that reviewed the progress his steering committee had made since its launch in 2011.

The report, which was launched to an audience of business leaders and journalists (in October 2015), proposed a series of recommendations including a new target of all FTSE 350 boards having 33 per cent female representation by 2020 and a review of the female executive pipeline.

The report also celebrated the UK's FTSE 100 reaching the milestone of 25 per cent of board positions being filled by women in 2015 - a target set by Lord Davies in 2011. The figure now stands at 26 per cent (up from 12 per cent in 2011). There are now more women on FTSE 350 boards than ever before.

Susan Vinnicombe CBE, Professor of Women and Leadership who has led Cranfield's Female FTSE research, said: "Cranfield has been measuring the number of women on boards for 16 years, so we are of course delighted to see such progress, especially in the last few years. We do, however, remain acutely aware that the big challenge ahead is to tackle why there are still so few women at executive level – 9.6% is just not acceptable.

"Our research shows that the pool of new talent available for board positions is expanding and the women have plenty of relevant board experience. We must now turn our focus to opening up executive level positions to these very capable and credible women."

Susan who was a member of the Lord Davies steering group, has been appointed to the 2020 Forum aimed at increasing ethnicity on the FTSE 100 companies which is chaired by Sir John Parker.

Professor Vinnicombe (second left) with Lord Davies; Denise Wilson (left) and Amanda Mackenzie (right) from Lord Davies' steering group.

Director co-authors HBR article on how leaders learn

Professor Maury Peiperl, Pro-Vice-Chancellor and Director of Cranfield School of Management, has co-authored an article that was published in the *Harvard Business Review (HBR)* earlier this year.

The article, 'CEOs need mentors too', is focused on a two-year study conducted into how new chief executives in large organisations accelerate their learning by engaging the services of high-profile veteran leaders from outside their companies. The research involved interviewing 15 chairman mentors and 25 'protégés' and was undertaken with Professor Suzanne de Janasz from Seattle University's Albers School of Business and Economics.

Maury and Suzanne concluded: "We're convinced that more CEOs should connect with mentors rather than assume that theirs is a burden to be shouldered alone. However, special considerations must go into making a match between mentor and mentee, structuring their sessions to deliver the intended benefits, and prioritising the process so that it isn't crowded out by other demands."

Professor Maury Peiperl

Organisations not prepared for the departure of senior leaders

Research from Cranfield School of Management and Halogen Software (TSX: HGN) reveals that many organisations across the UK, Australia and New Zealand lack a cohesive talent management strategy, especially when it comes to the departure of senior leaders.

Titled *Strategic Talent Management Survey Results*, the report presents key findings about the current investment priorities, policies and practices for managing talent in organisations across the UK, Australia and New Zealand. The study also shows that many organisations are not making the most effective use of HR technology investments to support their talent programmes.

Commenting on the research, Dr Emma Parry, a Reader in Human Resource Management at Cranfield said: "The research shows the critical issue of succession planning and the development of a pipeline of talent for key roles is still taking a back seat - this is why so many organisations are not prepared for the departure of senior leaders. Key employees such as leaders and those with specialist skills can leave at any time, with potentially devastating results if a succession plan is not in place.

"The results suggest that rather than taking a long-term, strategic approach to managing talent, employers are still being reactive and not developing joined-up strategies to ensure that they have the skills and competencies that their organisation needs."

Dr Emma Parry

Are male middle managers the key to equality in the workplace?

A new report by Elisabeth Kelan, Professor of Leadership at Cranfield, explores the pivotal role men in middle management positions can play in creating fair and equal workplaces. Elisabeth's research explores how men, who represent 70 per cent of managers and leaders in organisations, can bring about the changes needed to the embedded systems and structures that can obstruct the progress of women.

Drawing on job shadowing and interviews with middle managers from a number of different organisations, the report documents the everyday practices that often go unnoticed that are key to unlocking equality in organisations. Elisabeth commented: "The high numbers of men in middle management positions have a major role to play to ensure that gender parity becomes a reality in organisations. It has been well documented that CEOs recognise equality as a strategic priority, but the responsibility of male middle managers as gender inclusive leaders has so far largely been ignored." The report reveals four practices that these managers must engage in for change to happen in their organisations. Read more about Elisabeth's research on page 10.

Professor Elisabeth Kelan

Follow our Faculty on Twitter

As well as the School's official Twitter account @cranfieldmngmt, there are a number of Faculty tweeting about their specialist areas of expertise including:

Dr Ruth Bender @Ruth999
Corporate governance, executive pay, bonuses

Professor David Denyer @DavidDenyer
Leadership, change, resilience

Dr Monica Franco-Santos @MonicaFranco_S
Rewards and performance management

Professor David Grayson CBE @DoughtyDavidG
Responsible business, corporate sustainability

Professor Mark Jenkins @F1professor
High performing teams, business of F1

Dr Denyse Julien @DenyseJulien
Food supply chains, quality management

Professor Elisabeth Kelan @EKelan
Women and leadership, diversity and inclusion

Dr Emma Macdonald @DrEmmaMacdonald
Customer engagement and customer experience

Dr Emma Parry @DrEmmaParry
HRM, talent management, age diversity

Dr Tazeeb Rajwani @Tazeeb
Lobbying, business strategy, business models

Dr Muhammad Azam Roomi @MARoomi
Entrepreneurship, business growth, family businesses

Professor Richard Wilding OBE @Supplychainprof
Supply chain management

Dr Andrey Pavlov @DrAndreyPavlov
Business performance management and strategic change

Why firms are calling time on the performance review

by **Mike Bourne**, Professor of Business Performance

Earlier this year the professional services firm Accenture announced it was dropping its performance appraisal system. So what is going on? And why did it take this extreme course of action?

Performance appraisal has been standard HR practice for the past 50 years. It's so ingrained, even Al-Qaeda carries out management reviews. When the US military overran an enemy position in Iraq, they found copies of individual performance reviews of commanders in the field. Like any blue chip company, they needed to know how they were managing their resources.

We all know how the system works. A manager will agree an employee's targets at the beginning of the year and at the end sees whether they've been met. An individual's contribution is graded into categories such as performing to standard, above standard, and excellent. This is used to determine salary or promotion.

So why has Accenture decided to drop it? As many businesses know, the process represents poor value for money. It is costly both in terms of time and management resources. Most importantly, it's not motivating. All anyone who is undergoing an appraisal wants to know is what grade they got. After that no one cares.

Performance appraisal is fine so long as strategy, resources and business environment remain constant. But companies are operating in turbulent times and often have to cope with great uncertainty. A price cut from a competitor, a currency fluctuation, even the weather can knock targets off course.

So if you set your targets high and you meet them then you may just have been lucky but you will put it down to your skill and hard work. But if you miss your targets then it can't have been your fault, you were just unlucky! Of course you were. The environment changed and there were forces outside your control. This is where appraisal stops being motivating.

The Cranfield Centre for Business Performance worked some years ago with Investors in People to look at HR practices that made a difference. We were finding that in a lot of companies, good line managers were managing around the process.

> “...people hide information and keep some of that performance target back because their bonus depends on it.

But we also saw organisations like the 'big four' high street banks treating performance appraisal as part of a normative process. To them, talent management is a bell curve where there is always going to be 10 per cent excellent and 10 per cent in need of firing, with the other 80 per cent in between. As one Vice President put it to me, "I couldn't tell a guy what grade they were until I'd had a conversation with the rest of the company!" This places stress on the individual and on the manager.

If you pay bonuses based on these discussions you are into the next level of time and effort-absorbing behaviour with forced ranking of individuals across the whole organisation. And that risks the complete breakdown of the relationship between the manager and their staff.

Let me give a real-life example of how lack of honesty and transparency is helping undermine businesses. It concerns a pharmaceutical company based in the UK and a lady director who had told her bosses she was going to increase sales by 50 per cent. What happened was she raised sales by 45 per cent and as a result she missed her target and therefore wasn't awarded a bonus. She was seen as having failed. So next year she set lower targets, exceeded them and was duly rewarded.

When organisations behave like this, then people hide information and keep some of that performance target back because their bonus depends on it. Now, what does holding something back just to get a good review do for the aspirations of the business? Yet most businesses do it. We all know the game.

So, is there a better way?

Good companies are moving to informal one-to-one appraisals that can be carried out over the space of the year. Grading people is a waste of time and just gets in the way of discussing real performance. Also, you don't need a formal appraisal to establish that someone isn't performing, an effective manager can easily spot the signs.

We need to separate the different elements of the performance review such as a discussion about performance, pay and talent management. There is nothing wrong in establishing goals and ambition. Inappropriately linking them to salary and promotion is wrong. MF

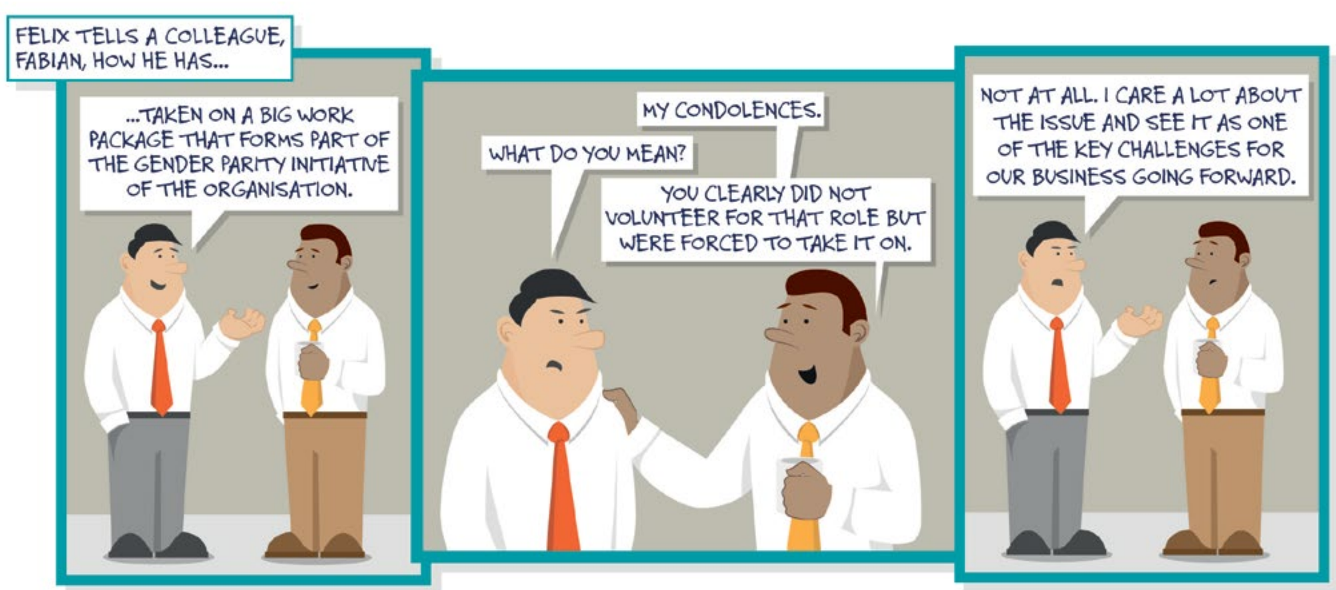
Why male middle managers are the key to **equality in the workplace**

by **Elisabeth Kelan**, Professor of Leadership and Director of the Cranfield International Centre for Women Leaders

In recent decades, diversity and inclusion and specifically gender parity have become a central feature of the business agenda with organisations putting systems and structures in place to improve gender equality.

My previous research shows CEOs understand the importance of gender parity, however women's progress in organisations continues to be extremely slow. Which leads us to the question - what role should the 70 per cent of men in middle management positions play in creating fair and equal workplaces? Given the high numbers of men in management it is pivotal that they understand how important they are in making the changes that are needed to create and sustain gender equality.

My study, Linchpin – Men Middle Managers and Gender Inclusive Leadership, looks at how men can become gender inclusive leaders. Very often male middle managers are not even aware that they may be holding women back. I often hear women say that they experience a level of discomfort, commonly expressed as "not fitting in", being ignored in meetings or not being offered responsibilities that will stretch them.



At the Cranfield International Centre for Women Leaders, we understand that in order to gather research evidence on women, we need to take into account men. Studying gender parity purely as a women's issue, whether it is a lack of women role models or gender specific behaviours, is missing the point. We need to understand how men and women interact and those practices are often deep rooted and unconscious.

It is the everyday experiences of women in the workplace that is chiselling away at their self-confidence and their motivation. This ranges from not being given the credit for their contribution, to being sidelined at meetings. Male middle managers have a big role to play in encouraging women to take on assignments that can advance their careers.

As part of my study I shadowed three male middle managers who were singled out as being gender inclusive leaders. It was actually a significant challenge to find men who do gender inclusion well and many organisations struggled to find any gender inclusive middle managers. The three managers selected were based in Austria, England and Germany and worked in different sectors. The study was a classic ethnographic one where I was with them from the moment they arrived at work until they left at the end of the day.

Even though these managers were good at gender inclusion, I was surprised that even over a short period of time, gender discrimination began to creep in, such as, in one instance, with a woman not being given the floor at a meeting. What was of interest to me was to explore what happened next with one of the managers noticing that a woman has been overlooked in a meeting situation and making sure that she got to speak.

> "…good leaders are receptive to others. They don't presume to know everything.

So what lessons can we take away from this study? I believe we need more male role models for gender inclusive leadership. The managers I observed were very good at putting themselves in other people's shoes. They had the ability to empathise with others and they were able to reflect on their own practice.

The men in my study were very mindful and they had the ability to consider the consequences of their actions and reflect on what they would do differently, which is an important part of inclusive leadership.

I believe that men in management positions can and must start incorporating gender inclusive practices into their daily work. Many men are keen to do so, not only because many organisations incorporate such practices into personal appraisals, but also because they are insecure when it comes to women. They raise questions like "how can I network with or offer advice to women without this being seen as inappropriate?" By using real examples in the form of stories my report provides guidance on how men can be gender inclusive leaders.

It is about empowering men to think about what they are doing and to do things differently. I've learned from my observations, good leaders are receptive to others. They don't presume to know everything. MF

The Asian TECH BOOM

What happens if the bubble bursts?

by **Dr Shailendra Vyakarnam**
Director of the Bettany Centre for Entrepreneurship at Cranfield

The turbulence seen on its stock market this August has focused minds on whether the precarious state of China's economy will impact Asia's fast growing technology and IT sector.

Asia, in particular India and China, has become a new playground for investors looking to find the next big start-up. In the past year, more than $30 billion (£19 billion) has been pumped into this sector, a jump of 45 per cent on the previous year, according to a report by the auditing group KPMG.

There are many regional success stories to whet investors' appetite. Headquartered in Hangzhou, China, Jack Ma's Alibaba Group is now one of the biggest internet companies in the world. Generating annual profits of around $3 billion, the group's businesses include the business to business trading platform Alibaba, the shopping site Taobao and online payments channel Alipay. In India, online retailer Flipkart has seen off the global giant Amazon to secure a large slice of the market. Flipkart has become so successful that Amazon is having to invest $1 billion just to maintain a foothold in India.

> Smart VCs are looking at the longer term and the next wave of growth.

The driver behind the boom in IT and internet shopping is the emergence of an Asian middle class – 340 million in China out of a total population of 1.3 billion and in India 250 million are middle class out of a population of 1.2 billion. The growth in consumerism has led to an explosion in IT start-ups. Responding to a strong demand for online shopping and services, we see the internet applied to online restaurant and hotel bookings, taxi hire, as well as match-making and matrimonial websites. There is a lot of money out there and consumer spending is increasing, underpinned by the emergence of credit cards.

Internet entrepreneurship is taking off across the region because of the explosive growth of smartphones, fuelled in part by frugal innovation and low-cost manufacturing. For example one can get smartphones for as little as £60 as opposed to around £400 to 500 for an Apple iPhone or similar competing product.

Underpinning this growth is the global oil price crash. Dependent on imported oil, India, is saving huge amounts of foreign exchange which it can put into infrastructure spending – road and rail. Engineering and technology companies are most likely to benefit from this boom in investment.

Asia's tech and IT sectors are interconnected with supply chains stretching right across the region. As a manufacturer of microchips and microprocessors, China supplies India's developing mobile phone industry. The popular Micromax smartphones, for example, are designed in India and made in China. There is a large amount of trade between the two countries.

So what impact will the Chinese stock market wobble have and what are the long-term prospects for entrepreneurs who are in it for the long haul?

> The potential market for new start-ups is vast

Firstly, stock market falls will almost certainly lead to a decrease in the number of technology companies exiting through IPOs. Confidence has been undermined. If the stock market falls, it is not a good time to raise venture capital or sell a business. Venture capitalists are not making the returns they need to cover their investment. As the crash only took place in August, evidence so far is anecdotal. There are too few deals taking place to compare with previous quarters.

Smart VCs are looking at the longer term and the next wave of growth. This will come from what the late management guru C.K. Prahalad refers to as "the bottom of the pyramid" – a great mass of people on low incomes and at the bottom of the rung in terms of the class structure. People working in service sector jobs such as housemaids or security guards.

This vast market is largely untapped but as their income slowly increases so do their aspirations. There exists potential demand for basic versions of the smart technology now available to the middle classes.

In China and in India there is a massive new marketplace to go after and we will start seeing standardised products manufactured in huge volume at a low price that more people can afford. Reduced profit margins will be more than offset by returns on the huge numbers sold.

I can think of many new products that would catch on. A good idea could be an "Uber" taxi cab mobile phone app for ordering rickshaws. Why not? That's what entrepreneurship is all about.

As for raising the capital in this market this is not dependent on risk averse venture capitalists. Much of the investment in "bottom of the pyramid" start-ups is coming from a mix of personal savings and boot strapping. There are government business start-up grants available that entrepreneurs can tap into. And some businesses are using family funds or crowd funding based on local business networks of small investors. Barriers to entry are very low.

Asia's technology boom will outlast the present stock market downturn. The potential market for new start-ups is vast on account of the huge unmet domestic need. In Asia we are at the very early stages of a product life-cycle. For technology entrepreneurs, life is going to be very good for the next 20 years.

Going forward, investors should not be scared of stock market fluctuations. The questions investors who are in it for the long term should be asking are:

- Is this product an economically viable proposition?
- Is it a scaleable model?
- Does it bring added value? MF

Managing your team **in a global environment**

by **Michael Dickmann**,
Professor of International Human Resource Management

Increasingly, the role of expatriate managers sent on international assignments is being replaced by ‘frequent business flyers’ who travel several times a month to have face-to-face meetings but normally remain living in the country where their organisation has its head office or a regional hub.

At Cranfield we have a long history of exploring international work and the organisational strategies, policies and practices to make it successful for both individuals and their employers. We have written much about more traditional forms of expatriation but I will concentrate here on how to run virtual teams.

Many senior managers within multinational organisations have regional responsibilities with titles such as Head of EMEA – Europe, Middle East and Africa – for example in marketing. Their role is to co-ordinate and standardise business practice across borders, transfer skills and knowledge and create a cadre of global talent.

One of the main areas of my work is to help these managers build efficient virtual teams. The challenges are obvious: differences in geography, time, language, diversity, culture, size and technology. Building on the research of Govindarajan and Gupta’ (2001), the six key activities for leaders of global virtual teams can be identified as:

Diminish and overcome communication barriers - Managing within the constraints of virtual communication such as e-mail, and Skype, managers need to ensure they use personal contact time to ensure people have understood the message. English is the common business language but not everyone can use it to the same standard. Mother tongue speakers often use unconscious or implied meanings in their choice of words or phrases. It is important for non-native speakers to read between the lines. When an English person says, “That’s interesting”, for example, they might mean, “I doubt if your idea will work.”

To avoid ambiguity, managers should use clear, direct language when communicating. And if organising a meeting, they should circulate the agenda as early as possible so that people can look up any words they are unsure about and can prepare in advance.

Know your team and build trust among all members - Global team members need to have the chance to meet professionally and personally in order to get to know one another before the start of a project. Managers can then initiate team-building processes. These activities help identify and bring into the open any misunderstandings and will enable the team leader to set standards or norms which must be adhered to.

Establishing trust between members of the virtual team is vital. As a leader you can structure work in a certain way so that people can see trust develop through small stages when shared goals are met.

Create clarity of team objectives and align individual goals - Problems arise when local and global objectives are not aligned. For example, I came across a German bank whose policy of reducing staff turnover clashed with its London office which said it wanted a high turnover and new blood to keep people on their toes. In addition, it is important to set personal and professional goals for each team member. Look out for people who show a lack of commitment such as not attending meetings or not being punctual.

> “To avoid ambiguity, managers should use clear, direct language when communicating.

Build appropriate team composition and interaction - In a globalised world, diversity is the key to innovation. Work towards a team that has a balance of interpersonal styles and interests. To get the input of a diverse range of people, guide them towards interaction that is friendly and learning oriented.

Show strong leadership to reduce ambiguity - A loosely based multinational team needs appropriate guidance. Nobody likes ambiguity. Leaders of global virtual teams need to define roles more clearly than those in teams which can co-ordinate more easily. Charisma and vision is appreciated in all cultures.

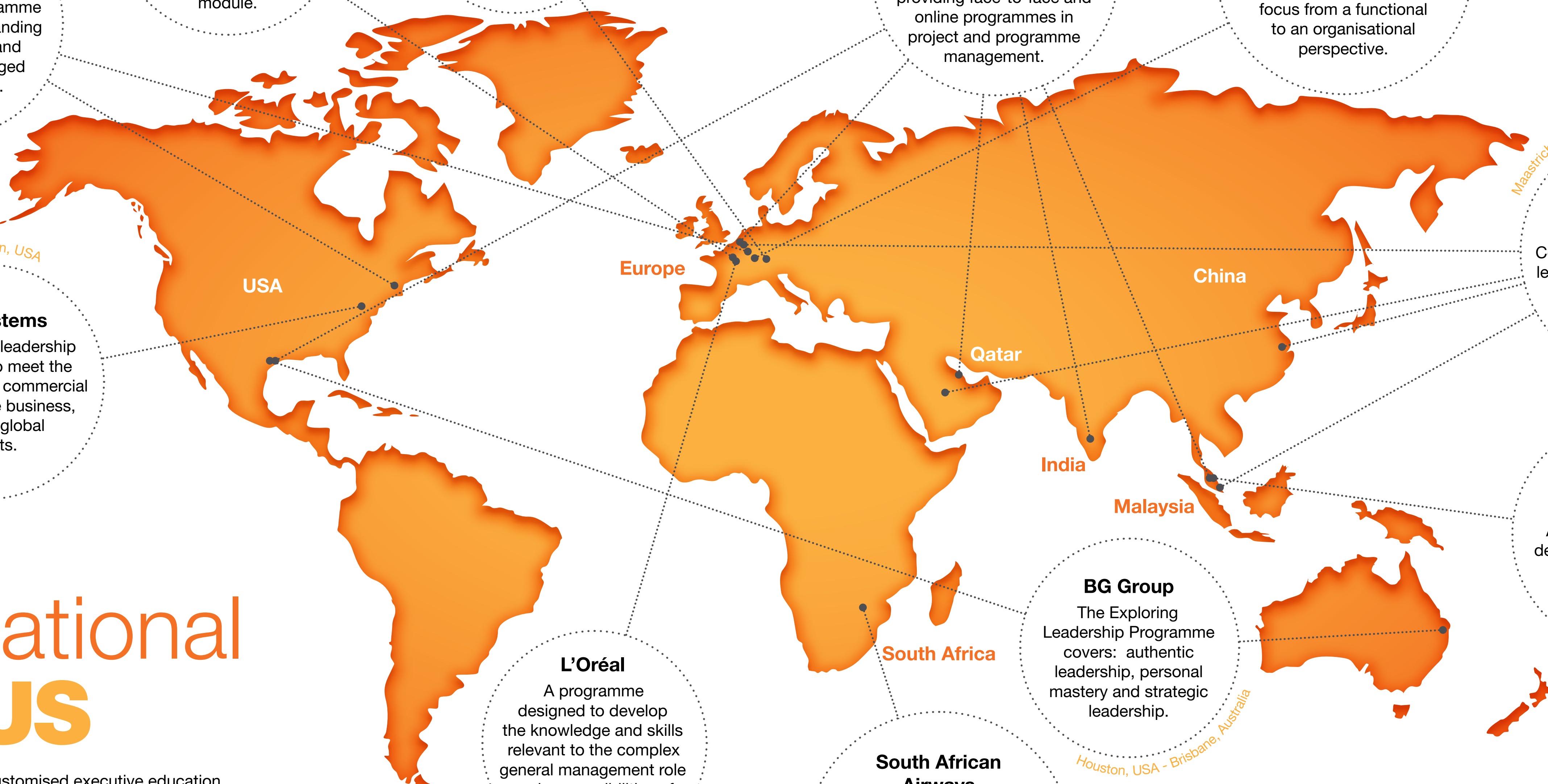
Watch your health and work-life balance - Leaders of global teams are often frequent business travellers and there is enormous strain on managers who fly across continents. Many companies are not good at integrating travel time into performance appraisals. Instead they expect almost constant work.

As companies continue to expand globally, the number of people working in teams with colleagues and managers separated from them by many miles and time zones will only continue to grow so it is important they invest in getting it right. There are benefits and disadvantages to the role. On the one hand, frequent flyers can experience isolation and a loss of family life and on the other hand, many enjoy rapid careers and the perks of paid-for international travel to places they would not normally visit. MF

International **FOCUS**

Cranfield offers extensive customised executive education and professional development programmes all over the world. Last year we worked with over 60 client organisations.

Our clients include many established major international brands, younger organisations in high growth phases, and several large public sector organisations both in the UK and internationally. Here is a snapshot of some of the programmes we have run in the last six months.



Krefeld, Germany - Connecticut, USA

Henkel

An International Management programme to develop understanding of how strategy and finance are managed and interlinked.

Ecquevilly, France

TOTAL

A personal and business leadership programme for Total's high-potential senior managers blending virtual learning and an intensive residential module.

Munich, Germany

Atos

A Masterclass for senior programme managers, which blends a series of face-to-face modules with online learning.

Houston - Kuala Lumpur - Rijswijk - Doha & Bangalore

Royal Dutch Shell

Cranfield is one of four University partners in the Shell Project Academy - providing face-to-face and online programmes in project and programme management.

Stuttgart, Germany

Festo

The Managerial Growth Programme develops broader knowledge of the business, entrepreneurial thinking and shifts the focus from a functional to an organisational perspective.

Maastricht - Singapore - Shanghai - Riyadh & Jubail

SABIC

A leadership programme for Saudi Basic Industries Corporation, developing their leaders in strategy, business, continuous improvement, diversity and leadership.

Washington, USA

BAE Systems

A commercial leadership programme to meet the demands of the commercial function of the business, across all global markets.

Kuala Lumpur, Malaysia

TM (Telekom Malaysia)

A bespoke leadership development programme for their senior talent population.

BG Group

The Exploring Leadership Programme covers: authentic leadership, personal mastery and strategic leadership.

Houston, USA - Brisbane, Australia

L'Oréal

A programme designed to develop the knowledge and skills relevant to the complex general management role and responsibilities of Country Managers.

Paris, France

South African Airways

A customised masters that enables individuals to apply learning immediately in their organisational role. Delivered by experts from the School of Management and the Air Transport Department.

Johannesburg, South Africa

Why small businesses may struggle to get credit

by **Dr Andrea Moro**
Senior Lecturer in Finance

Employment legislation, which protects working hours and job security, is one of the great achievements of the European Union. But my latest research shows that a highly regulated labour market can affect small businesses' ability to access credit.

By reducing productivity and growth rate, employment legislation can impact negatively on a firm's performance, which in turn affects the willingness of banks to lend money.

There is a lot of economic research on how market regulation impacts on a country's GDP and the creation of new businesses. Typically, stronger regulated markets reduce the ability of firms to adapt to economic change. It becomes harder for them to expand or contract as the need arises.

You can see this by comparing the lightly regulated UK and my native Italy. The logic in the UK runs that if your business needs two employees for two months then you might offer them temporary zero hours contracts until you find out whether there is demand for your product.

In Italy, things are exactly the opposite. It is incredibly hard to fire someone once they've been taken on.

Despite previous research that looks at the economic impact on firms of the labour market regulation, no one has studied its effects on banks' willingness to lend money to firms.

As part of a joint research project between Cranfield School of Management and the University of Linz, Austria, my work is based on a survey of SMEs conducted by the European Central Bank. The ECB's Survey of Access to Finance (SAFE) collected data from 44,652 micro, small and medium sized firms in 11 European countries between 2009 and 2011. Of this total, 11,135 observations were from firms that applied for a bank loan. The UK was not one of the countries studied because the data focused only on countries within the Eurozone.

We discovered differences between countries in the way employment legislation worked. EU rules were only part of the overall picture. More significant was the way each country had developed their labour regulations over time.

We looked at the link between employment protection legislation and credit access difficulties by investigating two different categories of credit constraint. We looked at "rejected borrowers", firms that were rejected when they applied for a loan and "discouraged borrowers", firms that were put off applying for a bank loan because they feared rejection.

> Banks consider firms who use their labour more efficiently as less risky investments.

We saw that more flexibility in the hiring process increases the credit availability from banks. In addition, we found that if businesses spread their working pattern over six days instead of five they are more likely to be successful in loan application. This happens because banks consider firms who use their labour more efficiently as less risky investments.

Labour regulation around redundancies and unionisation affected banks' decision to grant credit. When it came to firms laying staff off, banks were concerned about the involvement of unions. More interestingly, firms that gave a longer notice period to staff were more likely to be granted credit.

Actually, the fact that employees cannot leave immediately gives reassurance to the banks that the knowledge and insight acquired within the company is not lost but can be transferred. Banks regarded firms who follow this practice as less risky.

The logic of the EU is that firms, products and people circulate throughout Europe. Our point is that if it is easy for people to move from one country to another, then small firms can also relocate in search of better credit facilities. A lot of firms in my region of Italy - on the border with Austria and Slovenia – relocate to Austria because it is easier for them to obtain credit because the bureaucracy is less complex.

In conclusion, we can argue that labour market regulation affects credit access for SMEs and the more flexible the labour market, the easier the access to credit. This has changed dramatically our understanding of the lending strategy of banks. We now know labour market regulations are a more important factor behind access to credit than had been thought previously. MF

Why China's slowdown is no cause for alarm

by **Dr John Glen**, Senior Lecturer in Economics

From 2003 to 2013, China's surging economy was easily outperforming the West. As annual growth rates regularly hit 9 – 10 per cent, China became the engine of world economic growth. So when growth slowed, Western stock markets were spooked.

Along with falling production, contagion has spread to China's stock market and its over-valued property market both of which have seen collapses in value as speculative major city developments are halted. China's government has reacted with a 15 per cent devaluation of the Renminbi making exports more competitive.

What happens in China clearly matters. But talk of economic meltdown is much exaggerated. With output still running at a respectable seven per cent a year, China's slowdown is more suggestive of a modest and overdue market correction than the start of a new world recession.

So how is China's economy impacting on world markets?

Countries that supply China with raw materials are feeling the pinch. A major exporter of iron ore to China, Australia, for example, has had to absorb a catastrophic fall in commodity prices. The effect is enormous. A price reduction of $10 per tonne in the price of iron ore, costs Australia $3.6 billion with a corresponding loss of tax to the treasury. As prices fall still further, the Australian economy is estimated to lose $7 billion between April 2015 and March 2016. This will mean companies laying off miners, and government cutbacks in spending.

The effect on the US and the UK is less clear. The slowdown in China is likely to mean interest rates in the US and the UK stay lower for longer, helping boost consumer spending and keeping property markets buoyant. In fact, China's economic woes are likely to have a positive effect on prices at the high end of the UK property market in London as wealthy Chinese hit by their country's equity and property price bubble collapse start looking for a safe haven for their funds.

But there is a trade imbalance between China and the West. The UK's exports to China make up less than five per cent of its overall international trade. UK exporters have gained a notable success in the automotive sector where luxury cars particularly Jaguar Land Rover models should continue to sell where low value items would stall.

> "...is China going to be the next big cause of a global financial crisis?

At the same time China is the UK's second biggest source of imports, second only to the US. A devalued Chinese currency and consequently lower exchange rate is set to ensure that China's exports to the world continue to flow.

So what are the consequences of the changing structure of China's economy? And why are changes taking place?

China's economic slowdown from 10 per cent to single figures is simple arithmetic. If you start growing your economy from a low base then exponential year-on-year growth eventually slows. China is moving from a reliance on the mass production of cheap unsophisticated goods, which can be sold, to the rest of the world towards a diverse and developed economy.

Ten years ago, over half of China's working population earned less than $2 a day. Today, earnings are many times that. As an increasing proportion of China's 1.3 billion population become more skilled and more highly paid, so demand for higher value products grows. Approaching 400 million Chinese make up an emerging middle class; they are now part of their country's sophisticated modern economy.

The growth of its domestic market and a growth in consumerism is rebalancing China's economy away from exports and towards the service sector – education, training, travel, hospitality, financial services and so on. At the end of the second quarter in 2015 China's industrial sector grew by 6.1 per cent, eclipsed by the 8.4 per cent growth in the service sector. This is part of a natural process of economic development, which all maturing economies experience.

Mounting pressure to improve the standard of living of the remaining population, will underpin China's economic growth for years to come. That said, the Chinese are learning the hard way that they cannot control a capitalist economy by command and control style party politics. There are few levers of power that can reverse a property or an equity bubble and we have seen excessive confidence resulting in boom and bust.

So is China going to be the next big cause of a global financial crisis?

The challenge for China is how to manage the capitalist system that has mushroomed in the spirit of ever increasing growth and business optimism. Checks and balances need to be introduced to its property market, its stock market and its under-developed banking system to prevent price and equity bubbles.

> “China has gone from full-blown communism to a relatively advanced capitalist system in just 25 years.

Danger lies in the trade imbalance where China exports to the West far more than it imports, thereby stockpiling currency reserves, which could be invested through bi-lateral trade. Instead most private wealth stays in China.

With about 70 per cent of their money tied up in the value of their housing - often speculative city centre developments where apartments are bought unfurnished and off-plan – most of the remaining private wealth is kept as bank deposits with only two per cent invested on the stock exchange.

China itself is not immune from banking sector problems. The Chinese learned hard lessons from the world financial crash of 2008 when their $2 trillion of assets in US banks were threatened by the potential collapse of the US banking system.

However, overall I am optimistic. China has gone from full-blown communism to a relatively advanced capitalist system in just 25 years. It is a major achievement to transform a vast country in which prices didn't mean anything, where interest rates were arbitrary and where there was no formal banking system.

It has been prepared to learn and has made rapid progress. The signs are that China is reforming its financial institutions. While its progress towards a diverse capitalist economy looks set to continue.

Chinese state-owned banks are part of the regulated banking sector. There are currently concerns that these banks have been 'mispricing risk' and making bad loans. In the past the Peoples Bank has injected funds into the regulated state banks to 're-capitalise' them when the level of non-performing loans has become too high. There have been signs in recent months that the Peoples Bank may not be inclined to bale the state banks out in the future.

But it is the informal, non-regulated, sector of the Chinese banking system, often referred to as the 'shadow banking system' that is of more concern. In the last 15 years the informal banking system has been a key provider of funding to the SME sector of Chinese business. However, within this broad category of informal banks, there is a range of competence, from what we would call challenger banks in the UK. That is, those banks which are fit for purpose and ready to become part of the formal regulated banking system as opposed to Ponzi schemes.

There will therefore undoubtedly be a 'stakeout' period during which the well capitalised and transparent banks survive and the others do not.

Faculty Focus:
CLARE KELLIHER

Professor of Work and Organisation

What are you working on at the moment?

My current research is in two main areas - the implementation of flexible working in organisations and employee engagement. Essentially I am interested in what happens inside organisations when changes are made to the way in which people work and what this means for their relationship with their employer.

What does 'flexible working' actually mean?

The term flexible working has been used in many different ways. I see two broad approaches – those that are driven by employers to help them use staff more effectively and those that are designed to give employees more control over their working arrangements to gain a better work-life balance.

What are the biggest challenges for organisations?

The way in which flexible working policies are implemented throughout an organisation is key. There is considerable evidence that there are real benefits to be gained by employers, but this is not automatic. Companies need to consider carefully what else needs to change when people have different work patterns.

What is your advice to organisations?

My advice is for companies to focus on what they are trying to achieve, which could be: a better match between staffing patterns and business needs; a focus on employee well-being by helping employees achieve a better work-life balance; a way of attracting and retaining high calibre staff etc. Once this is clear an approach can be designed geared to achieving this.

What changes would you like to see?

In order for employees and employers to gain the most benefit from flexible working, different working arrangements need to be seen as normal and integrated with other management practices. Too often flexible working arrangements are seen as something special and out of the ordinary, rather than a sensible response to the changing world of work.

What would you like to research in the future?

I am convinced that there are better ways of trying to match the interests of employers and employees through flexible working and would like to spend some time exploring this. As a start I have recently been working with the Agile Futures Forum developing some case studies of companies who have identified ways of working in the 'middle ground' where employee and employer interests overlap.

The changing face of **manufacturing**

by **Marek Szwejczewski**, Professor of Operations Strategy

Our traditional heavy industries like iron and steel making may be in decline but the UK is still one of the top manufacturing nations in the world.

The UK is celebrated for its cutting edge technology and leadership practices in specialised sectors like aerospace, and pharmaceuticals, and in emerging fields such as electronics design and advanced manufacture. But we still face stiff competition from manufacturing nations like China, Germany and the US. Companies can only continue to compete by investing in design, continuous innovation and by specialising in high value products.

Cranfield's Best Factory Awards has been running for the past 24 years and is our way of celebrating manufacturing excellence. This year, the overall winner was Siemens Magnet Technology based at Eynsham in Oxfordshire which makes the super conducting magnets that go into more than 30 per cent of all MRI scanners installed in hospitals worldwide.

The magnets are almost two metres high and covered by an outer casing containing liquid helium to super-cool the conductor coils. Accuracy is critical but faults in the manufacture are normally only detected and rectified at the testing stage. Siemens have innovated and re-engineered the process so that they get it right first time, saving enormously on time and cost.

Right now, we are on the brink of the biggest change in how we make things since the Industrial Revolution. Design for manufacturing (DFM) harnesses a number of critical innovations and new technologies.

Firstly, cutting edge manufacturing will increasingly involve a greater use of digital sensors, micro-chips which can be programmed to feed information about a product's performance back to the manufacturer in real time. Putting sensors inside them will alert manufacturers when a part is wearing out and needs to be replaced. Information about a product in use can be fed back to the design department to enable continuous improvements to be made.

Sensors can also cut the costs of manufacture and improve efficiency. The shower company Kohler Mira, for example, have installed a touch sensor instead of a tap that will increase or lower the temperature of the water spray.

Scarcity and the escalating costs of raw materials have led to sustainable economic models such as the circular economy where regenerative design leads to greater reuse and recycling of products, ensuring as little waste as possible is sent to landfill.

In terms of the manufacturing process itself, advances in robotics are phenomenal as the cost of automation has fallen. Robots are becoming smaller, cheaper and more adaptable which means that automated manufacture can be applied to much lower value products so long as the volume of sales justifies it.

> We are on the brink of the biggest change in how we make things since the Industrial Revolution.

Design for manufacturing can now create products which can be assembled entirely by robot. No longer just used to replace heavy manual operations, small robots enhanced by vision systems which are almost as sensitive as the human eye can pick, place and assemble, differentiating between parts and able to tell whether glue has been applied to a surface.

This process also incorporates 3D printing or additive manufacturing. Until recently, 3D printing was used to make prototypes to show the client or the designer what a product might look like when made. Now this process is moving into the area of manufacturing itself particularly in the high tech electronics and aerospace industries.

Virtual reality and visualisation are also part of the technology revolution, enabling companies to create 3D visualisations of factory layouts and model new production lines and automation so that problems can be ironed out in advance.

Meanwhile, cloud computing looks set to empower the worker on the shop floor. Some of the best ideas for improvements come from the shop floor and a new generation of highly skilled operatives will be able to draw down assembly diagrams and access detailed knowledge.

When you talk about world-class manufacturing you are talking about companies that keep investing and improving their processes year after year. The danger exists that the Chinese will get quicker at this.

At Cranfield we find that the best most innovative companies are those which invest heavily in research and development and which have development centres based within their factory so that innovation can feed directly through to manufacture. MF

From **CFO** to **CEO...**

Alumni interview:

Colin Day

Chief Executive Officer of Essentra (MBA 1980)

by Stephen Hoare

Colin Day's CV charts a steady rise to the board of publicly listed companies, changing sectors but – until his latest appointment – always remaining in a financial role. His career amply fulfils the promise demonstrated when he gained a certified accountancy qualification and an MBA, both by the time he was 25.

CEO of leading global essential components and solutions provider, Essentra plc for the past four years, Colin has earned his position. Reflecting on his career, Colin believes there is no blueprint for success other than hard work, and a willingness to learn. "There is no automatic rite of passage - you have to be able to read a balance sheet and be prepared to put in a good shift. Being the chief financial officer of one company, doesn't automatically lead on to being a CEO in another. In every new job, you have to justify your position and start again," says Colin.

Since Colin joined as Chief Executive in 2011, and having re-branded in 2013, Essentra has doubled its £500 million turnover and quadrupled its market capitalisation in less than five years as a result of the successful delivery of its strategy of balanced profitable organic growth, complemented by value-adding acquisitions. This consistent performance has seen the company rise from 300th in the FTSE to 150th.

> "There is no blueprint for success other than hard work, and a willingness to learn.

While numbers come easily to Colin, accountancy was never his ambition. "I left school at 18 and applied to Kodak to be a sales rep because the idea of a company car appealed. Kodak asked me to do a psychometric test and advised me to join their accounts department. I was disappointed at the time."

Subsequently, Colin was recruited by British Gas who spotted his potential, sponsored his ACCA professional exams and sent him to Cranfield to study for a one year full-time MBA, joining the class of 1979-1980. "I chose Cranfield because I thought an MBA would help me make the transition from accountancy to general management," says Colin.

One of the youngest in his intake, Colin soon moved beyond finance and into the realms of mergers and acquisitions and business strategy. "When I arrived at Cranfield I was a bit of an introvert with a tunnel vision about accountancy. By the end of the programme I had learned how to work with non-financial people and had become more self-confident. It made me realise that there was a lot more to life than numbers."

Colin's first break came when he landed a job with security printers De La Rue who promptly posted him to a management team set up to turn round an ailing subsidiary, Crosfield Electronics, a manufacturer of scanners and colour printers. "When I joined Crosfield in 1981 we were making hardly any profit. By the time I left seven years later, the company was making healthy returns on turnover of £240-250 million, thanks to the collective efforts of the team in terms of implementing a good product strategy and innovation, complemented by the intelligent acquisition of related companies."

It was here that Colin established a pattern of working that has been repeated throughout his career: he has always built a close working relationship with the CEO and wider management team of whichever company he is working for. "I'm still in touch with the people at Crosfield. They were a great team and passionate about the business. I am very proud of my time there," he says.

From Crosfield, Colin moved in 1988 as CFO to industrial manufacturer ABB Kent plc, a firm making water meters and control valves. It was here that a close management partnership with CEO John Notley paid dividends. "John was tough and very focused. He stayed for six years, during which time the firm was taken back into full ownership by its Swiss-based parent company", says Colin.

Changing sector, Colin was headhunted to join media group Aegis plc, once again in the CFO role. It was a challenging time as the share price had collapsed to 20 pence. It was here that Colin was able to demonstrate the skills that have taken him to the top through working closely with CEO Crispin Davis who subsequently went on to run Reed Elsevier. "I don't classify myself as a traditional "finance person" and at Aegis I actually became more of a chief operating officer. I was getting involved with strategy, driving performance, identifying weaknesses and building the business through mergers and acquisitions. At Aegis we collectively stabilised the company and completed a large number of deals in five years."

Following his success at Aegis, Colin moved to Reckitt Benckiser as CFO, where his ten-year management partnership with CEO Bart Becht initiated a confident repositioning of the business through a string of high profile transactions.

Starting with the merger of FMCG businesses Reckitt & Colman and Benckiser, the acquisitions of Boots Healthcare and SSL International followed on and the share price rose from £5 to £36 over a decade.

> I get a buzz from growing a business and seeing it perform.

As with many CEOs, Colin's abiding passion is business performance. This extends to taking on non-executive director roles, and he is currently on the boards of Amec Foster Wheeler and Meggitt – as well as US mutual FM Global – having in the past served on the boards of easyJet, Imperial Tobacco, Cadbury and WPP. The real benefit, says Colin, is "to discover different ways of looking at running companies."

Colin's other passion is flying, having trained and qualified as a pilot. "Flying takes me over completely. It keeps me mentally agile; I find it therapeutic and relaxing, so I try to fly as often as I can," he says.

So has he any unfulfilled ambition still to realise? Staying with the companies where he has worked for five to seven years on average has allowed sufficient time for changes to become embedded, and for a company's results to be reflected in its share price. This is the measure of Colin's commitment. "I get a buzz from growing a business and seeing it perform."

The next milestone is to become chairman of a FTSE 100 company. "I'm sure I'm not the only Chief Executive that would relish the opportunity of taking on a chairman role. I'm under no illusion it will be easy"w, says Colin. But with such a track record, this is surely a realisable ambition and a realistic appraisal of his talent. MF

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